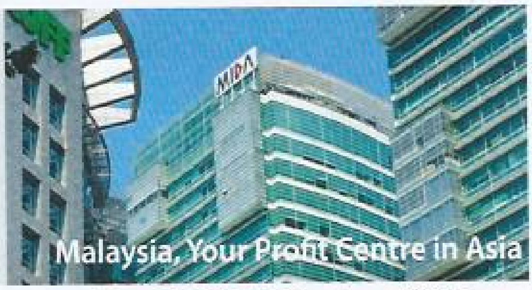
MIDA MALAYSIAN INVESTMENT DEVELOPMENT AUTHORITY

Newsletter



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HIGHLIGHTS

TPPA in a Nutshell: Malaysia's Perspective

The Trans-Pacific Partnership Agreement (TPPA) started as Trans-Pacific Strategic Economic Partnership agreement between Brunei, Chile, Singapore and New Zealand that came into force on May 1, 2006. In 2008, the United States expressed interest in entering into talks with the four countries to liberalise trade in financial services and soon, Australia, Vietnam and Peru followed suit. Malaysia joined in 2010, while Canada and Mexico joined in 2012. Japan was the last to join the talks in 2013, making it the 12th country to enter into the TPP discussions. Notably, four (4) of the twelve (12) TPP countries are ASEAN members.

Malaysia has signed free trade agreements (FTAs) with many countries and trade blocs, including TPP members i.e. Japan, New Zealand and Australia. However, these FTAs are usually limited to agreements between countries to lower their tariffs for certain goods and services. The TPP has 29 chapters and covers issues that are beyond most FTAs. The new rules that are negotiated will determine how TPP member countries approach competition, labour, environment, Government procurement and intellectual property rights. Many of these rules have been discussed in the World Trade Organisation (WTO) but consensus among its 159 members has been elusive.

According to a Credit Suisse report, Malaysia's economy could be further expanded up to 5.5% by 2025 as the manufacturing sector sets to gain as a result of a shift in foreign direct investment. Currently, Malaysia is the third largest recipient of foreign direct investment (FDI) in ASEAN and TPPA provides Malaysia a competitive edge among ASEAN countries to spur further investment.

Together, the 12 TPPA members make up 40% of global GDP and approximately a third of world trade. With the TPP, Malaysia will theoretically gain access to a market of 800 million people with a combined GDP of US$27.5 trillion. The Peterson Institute of Economics says Malaysia stands to gain over US$41.7 billion (RM133.9 billion) increase in exports and US$26.3 billion in income gains by 2025 if it stays on the TPP track.

As Malaysia is an open economy that is heavily reliant on international trade, the Malaysian Government believes that the TPP will open doors to many markets including the US - after the Malaysia-US FTA talks fell through. By reducing trade barriers, TPPA will provide Malaysian-owned businesses wider access to international markets and it will strengthen the country's economic growth. The TPPA will provide local businesses with the first ever FTAs between Malaysia and the US, Canada, Mexico and Peru, in addition to enhancing access to eight other markets.

Implicit in the TPPA is the need to maintain exchange rate stability among members such that it does not allow any of its members to intentionally devalue its currency to gain an unfair trading advantage. In this respect, the TPPA acts as an in-built stabiliser for the ringgit.

Some of the sectors that will benefit quickly in Malaysia are the textiles, apparel, commodities and electronics industries. Enhanced protection for patents will strengthen Malaysia's appeal as a destination for high-tech manufacturing, drive foreign investment and create jobs. The intellectual property rights (IPR) chapter calls for a level of protection on design, trademarks and patents across geographical boundaries, which in turn encourages Malaysian companies to embark on further research and development. This promotes an environment that recognises the societal benefit of innovation.

Pharmaceutical research and development leads to the discovery of future life-changing and life-saving medicines. After patents expire, generic versions of innovative drugs continue to be widely used for decades, generating enormous health benefits for consumers. Malaysia stands to benefit through increased investment from multinational companies in the areas of research and development and clinical trials, potentially helping to build a local industrial base, and encourage the entry of more innovative products to the domestic market.

According to the HSBC Small Business Confidence Monitor Survey, 42% of Malaysian small and medium-sized enterprises (SMEs) are involved in cross-border and international trade. Most SMEs establish themselves within the domestic market and then seek opportunities to expand their footprint across the region. With TPPA, growth opportunities for Malaysian SMEs will further accelerate as the multilateral trade agreement will enable improved uniformity for selected regulations and harmonised standards in several areas.

Malaysian-owned businesses will also have opportunities to participate in Government procurement in TPPA member countries. This promotes competitive neutrality and a level playing field among TPPA members.

Malaysia has established strong foundations in technology, e-commerce and financial services. With the removal of digital customs duties, localisation barriers and forced technology transfers, these benefits of TPPA will boost Malaysia's vision of becoming an e-commerce and high-tech hub within the region. These steps will catalyse the efforts of Malaysian SMEs to better participate in the global marketplace. Likewise, easing of limitations on foreign firms' participation in the financial sector empower Malaysian banks in TPPA markets as they expand and seek opportunities in the region and beyond.

Malaysia's Minister of International Trade and Industry, Datuk Seri Mustapa Mohamed said that Malaysia will miss out on the opportunity to write the rules for future trade in the TPP if it backs out, particularly at this stage of the negotiations. For example, Malaysia may face significantly higher tariffs for some of its products that are exported to Canada as it graduated from the Canadian Generalised System of Preferences (GSP) programme in January 2015. Under the GSP, developed countries grant preferential treatment to eligible products imported from developing countries so that the products would be competitive in the developed markets.

The TPP may open up new market opportunities and horizons for Malaysians. With the increasingly fierce competition in the world now, it is timely for Malaysia to go on the offensive and take advantage of the international market place. The TPP will provide an attractive opportunity to a seamless market with preferential access, far beyond our population.

While acknowledging these benefits, the Government will ensure that the cost to the Government will not outweigh the benefits. The Government will continue to strongly protect Malaysia's interest in this important negotiation. The rights of the Government to continue to chart our own course in pursuit of economic growth, socio-economic restructuring and developed nation status will not be sacrificed.

A Snapshot: Orthopaedic Medical Devices in Malaysia

By 2020, the proportion of the Malaysian population over the age of 60 will reach 11%, up from 8.3% in 2012, as forecast by the Ministry of Health (MOH). Besides stating the fact that there will be a lot of older people in the near future, these statistics more importantly signals a growing need for aged care services, including orthopaedics treatment.

So it is little wonder that the medical devices industry's orthopaedics sub-sector is an ever-growing market. Not only is it an important feature in aged care services, its components are also widely used in the surgical treatment of musculoskeletal disorders resulting from trauma, disease, injuries or deformities.

Malaysia's medical devices industry is shifting its focus from conventional products to higher value-added products whereby orthopaedics is a prime example. Recognising its importance, the Government has identified Malaysia's medical devices industry as one of the important elements in the healthcare sector, which is among the 12 National Key Economic Areas (NKEAs). The Healthcare NKEA includes eight medical devices Entry Point Projects (EPPs) and is expected to create RM11.4 billion gross national income (GNI) and generate 86,000 jobs by 2020. Medical devices are promoted under the Promotion Investment Act, 1986 and can be considered for tax incentives. It is also identified as one of the industries with high growth potential under the 11th Malaysia Plan which will drive the growth of the manufacturing sector.

Malaysian Investment Development Authority (MIDA) as the principal investment promotion agency works closely with key stakeholders in the medical devices industry namely the Medical Devices Authority (MDA), Association of Malaysian Medical Industries (AMMI) and Malaysia Medical Device Association (MMDA) as well as the private sector to better promote the medical devices industry. To date, a total of RM8.1 billion investment was recorded for the implemented medical devices projects which will provide employment opportunities to Malaysians at various levels. In 2014 alone, a total of 42 projects with total investments of RM2.2 billion were approved and is expected to generate employment opportunities for 7,300 people.

In line with the Government's efforts to intensify the contract manufacturing of orthopaedic components, Straits Orthopaedics (Mfg) and Abio Orthopaedics are poised to take leading roles in the development of the orthopaedics sub-sectors by introducing state of the art technology of advanced machining, titanium anodising, forging, coating and casting. These Malaysian companies are set to catalyse the growth of the domestic orthopaedics sub-sector, priming Malaysia as a one-stop hub for a comprehensive range of orthopaedics devices for multinational companies (MNCs). This also enables 'the Malaysia brand' to make its mark on a global scale.

The promising outlook for orthopaedics in Malaysia is further fuelled by a recent academic collaboration between a renowned Swiss institute, AO Foundation and one of Malaysia's esteemed research university, University of Malaya. AO Foundation is a top global research and teaching organisation with the focus on improving care of patients with musculoskeletal injuries. Through its spinoff company and also a manufacturer of artificial bone models, Synbone AG, the collaboration is expected to lead to a better treatment of musculoskeletal diseases and injuries as well as better models that can be used for the teaching and training of orthopaedic surgeons. This collaboration bears testimony to the huge potential of the orthopaedics sub-sector in Malaysia.

MIDA's investment development strategy for the orthopaedics sub-sector is to promote the entire value chain of medical devices industry clusters and to strengthen the ecosystem. Therefore, there is much room for growth, and industry players are encouraged to leverage on Malaysia's excellent comparative advantage and develop expertise in all aspects including research and development (R&D), product development, commercialisation and distribution.

With the continuous development and innovation by the private sector as well as the concerted effort by the Government, orthopaedics will become one of the promising sub-sectors in the medical devices industry and is expected to spearhead the growth of this industry in Malaysia for many years to come.