ASEAN Outlook, FTAs and New Zealand

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New Zealand Business Seminar: Expanding Trade and Economic Linkage with Southeast Asia

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Messages

- Positive recovery outlook for Asia and ASEAN becoming regional hub
- Growing trade and FTA ties between NZ and ASEAN
- NZ business can gain by further integration with ASEAN
- NZ business and government working together more closely vital to realize gains

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Outline

I. ASEAN Economic Outlook

II. Progress in ASEAN Integration

III. New Zealand and ASEAN—Growing LinkageS

IV. Food for Thought

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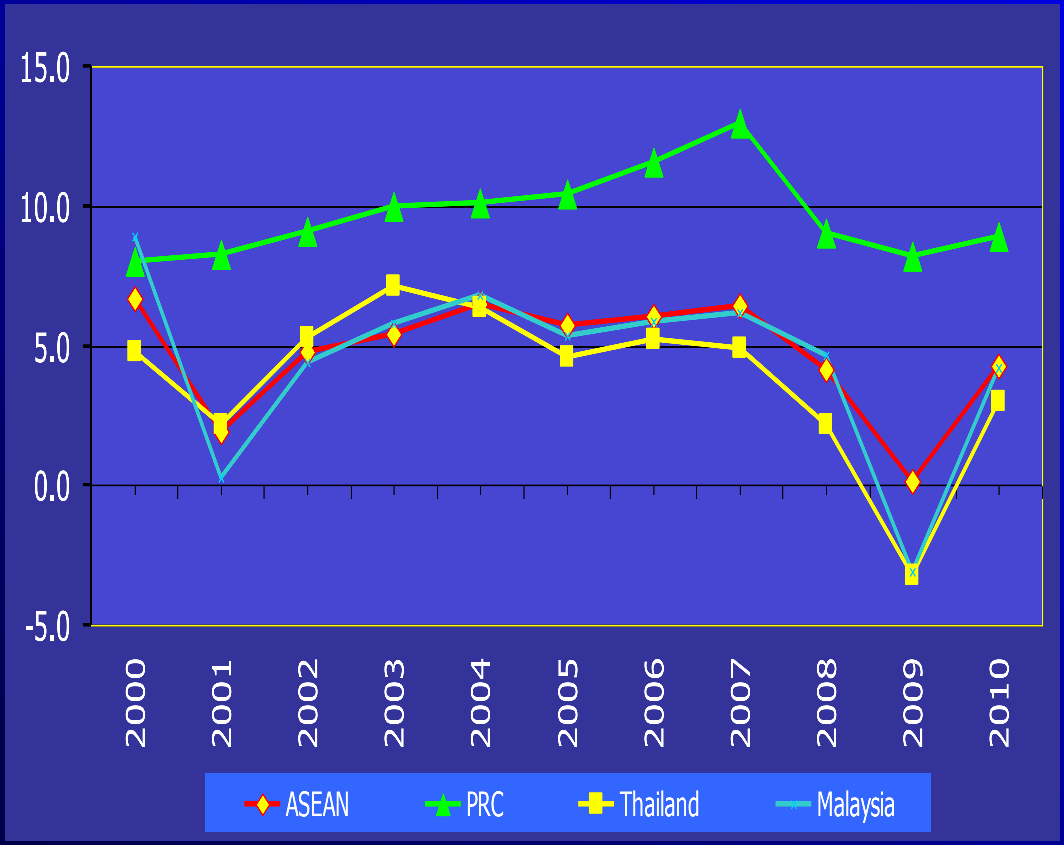
I. ASEAN Economic Outlook

Recovery in ASEAN in 2010

- Export-reliant ASEAN hardest hit by global recession
- ADB estimates 5.1% GDP growth in ASEAN in 2010 (1.2% 2009)
- All ASEAN members see gains
- Risks to positive recovery outlook – fragile world recovery, destabilizing capital flows, hasty exit policies and protectionism

ASEAN's Growth Bouncing Back; PRC Leads

GDP Growth, %, year-on-year



GDP Growth Rates, 2010	
ASEAN	**5.1**
Vietnam	6.5
Lao PDR	7.0
Indonesia	5.5
Malaysia	5.3
Singapore	6.3
Cambodia	4.5
Philippines	3.8
Thailand	4.0
Brunei	1.1
PRC	**9.6**

Source: Asian Development Outlook (ADB April 2010)

Competitive Wages in ASEAN

Monthly wages in US$, latest year available

Country	Food and Beverage	Textiles	Transport equipment	Electronics	Machinery
Indonesia	85.6	80.3	189.4	126.2	152.4
Malaysia	517.2	466.7	516.8	495.0	660.4
Thailand	194.9	165.4	273.0	207.8	265.4
Philippines	278.0	195.9	362.4	233.9	220.4
NZ	3,786 (overall manufacturing)				

Note: Malaysia - based on labor costs statistics; Indonesia, Thailand, Philippines - based on wage statistics.

Source: ILO Statistical Tables; accessed 6 April 2010.

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FDI Incentives in ASEAN

Viet Nam, next popular Asian FDI destination	Invest Malaysia	Think Asia, Invest Thailand
• preferential corporate income tax (e.g., exemption for 2-4 yrs and 50% reduction for 4-9 yrs) • import duty exemptions for equipment, materials, transport means in selected projects • land use or land rental fees (exemption/reduction within 3-15yrs depending on area) • other incentives to identified strategic sectors (R&D, agri or aquatic cultivation & processing; large employment) • investment guarantees and loss remittance transfer • privileges awarded to BOT, BTO, BT, EPZ projects • support for investment development & infrastructure	• 100% foreign equity holding is allowed for all FDIs in new/ expansion/diversification projects • pioneer status (70-100% tax exception), 60-100% investment tax allowance, reinvestment allowance (up to 60% of capital expenditure) • exemption for value of increased exports • employment of expatriates up to 10 • other incentives for high-tech industries and strategic projects and setting-up of int'l/reg'l service operations • sector-specific including: incentive for reinvestment in food processing activities; double deduction for expenses to obtain "Halal" certification & other quality standards	• 3-8yr CIT exemption, 50% CIT reduction thereafter • 10yr 2x deduction on water, transport & electricity costs • deduction from net profits of installation/construction costs not exceeding 25% of investment capital • duty free imports on machinery & equipment • special package for alternative energy, high-tech, mega projects, tourism & real estate, high-tech agro industries • additional incentive for efficiency improvement • easier work permits and visas proceedings (One Stop Visa); 100% foreign ownership, right to own land (industrial projects)

Business Climate in ASEAN

	Ease of Doing Business rank	Days to Start a Business	Time to Import (days)	Difficulty of Hiring (index 1-100)
ASEAN	**89.2**	**56.6**	**21.4**	**24**
Singapore	1	3	3	0
Thailand	12	32	13	33
Malaysia	23	11	14	0
Vietnam	93	50	21	11
Brunei	96	116	19	0
Indonesia	122	60	27	61
Philippines	144	52	16	56
Cambodia	145	85	30	44
Lao PDR	167	100	50	11
New Zealand	**2**	**1**	**9**	**11**

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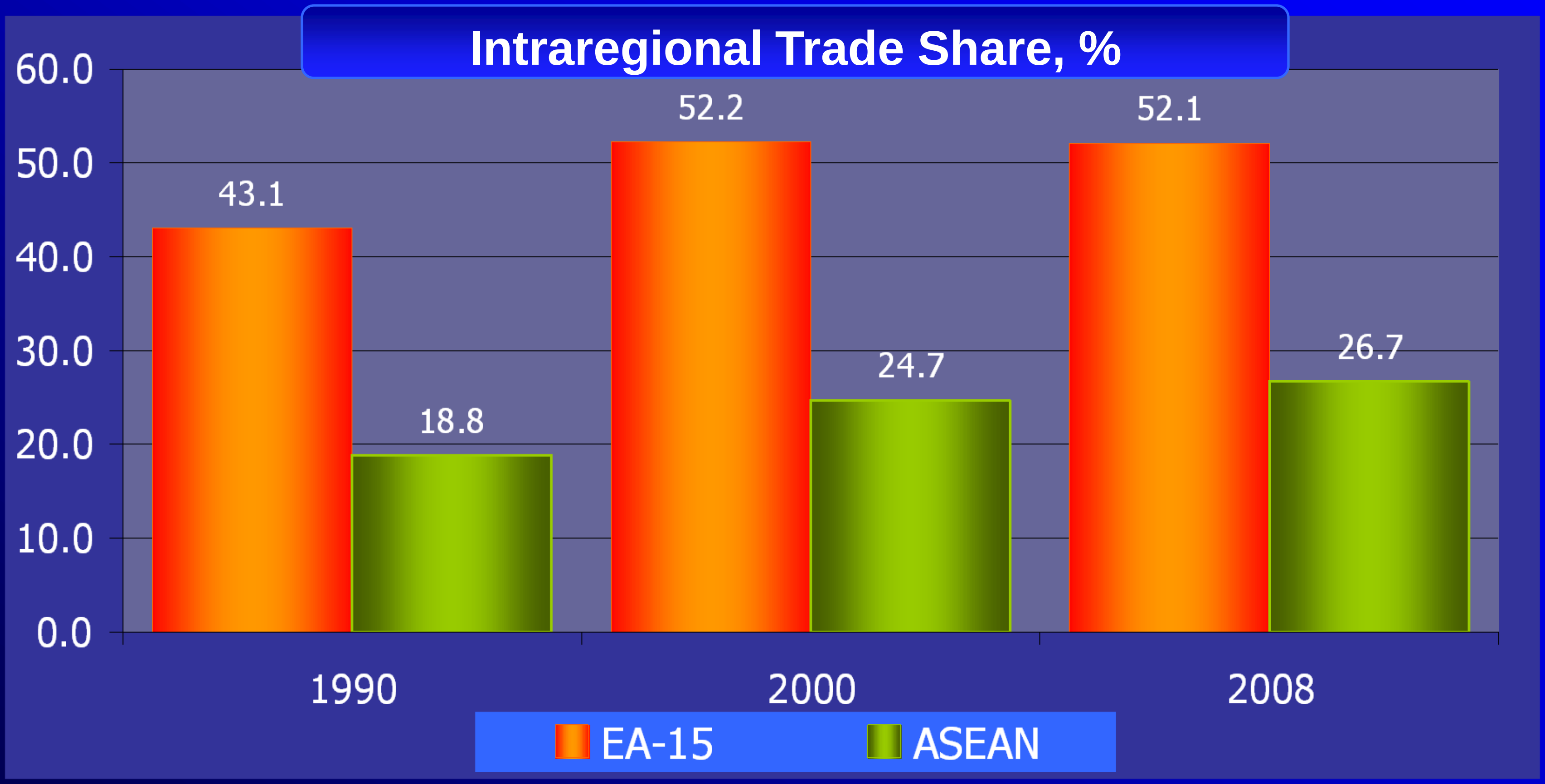
Source: Doing Business 2010 Indicators (World Bank); accessed 5 April 2010.

II. Progress in ASEAN Integration

EA, ASEAN Intra-Regional Trade Rising



Note: Intraregional trade share is the percentage of intraregional trade to total trade of the region, calculated using export data.

Source: ADB Asia Regional Integration Center (ARIC) Database (www.aric.adb.org); data as of April 2010.

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ASEAN as Production Hub of Asia's Global Factory

- Openness and export-led model created supply chains—forming a regional hub of global production networks.
- These boosted productivity and cut costs; enticing investment and technology transfer.

Source: *Emerging Asian Regionalism* (ADB 2008)

ASEAN as Hub for FTAs

FTA partner, population

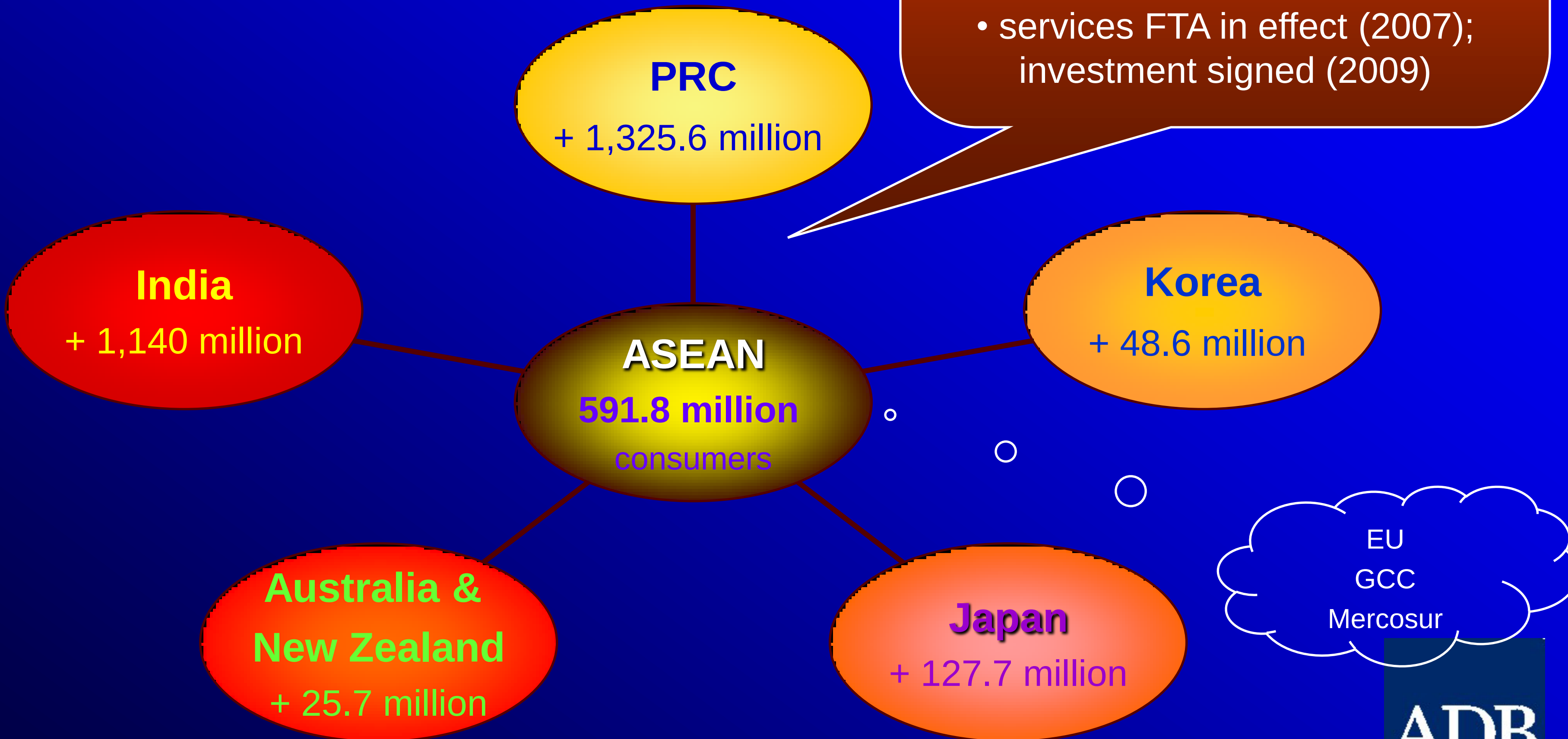
ASEAN-PRC total trade $201.6 B

• high intra-industry trade in electrical machinery & parts

• duty-free in all NL products by 2010 (2015 for CMLV)

• 0-5% duties on SL by 2018

• services FTA in effect (2007); investment signed (2009)



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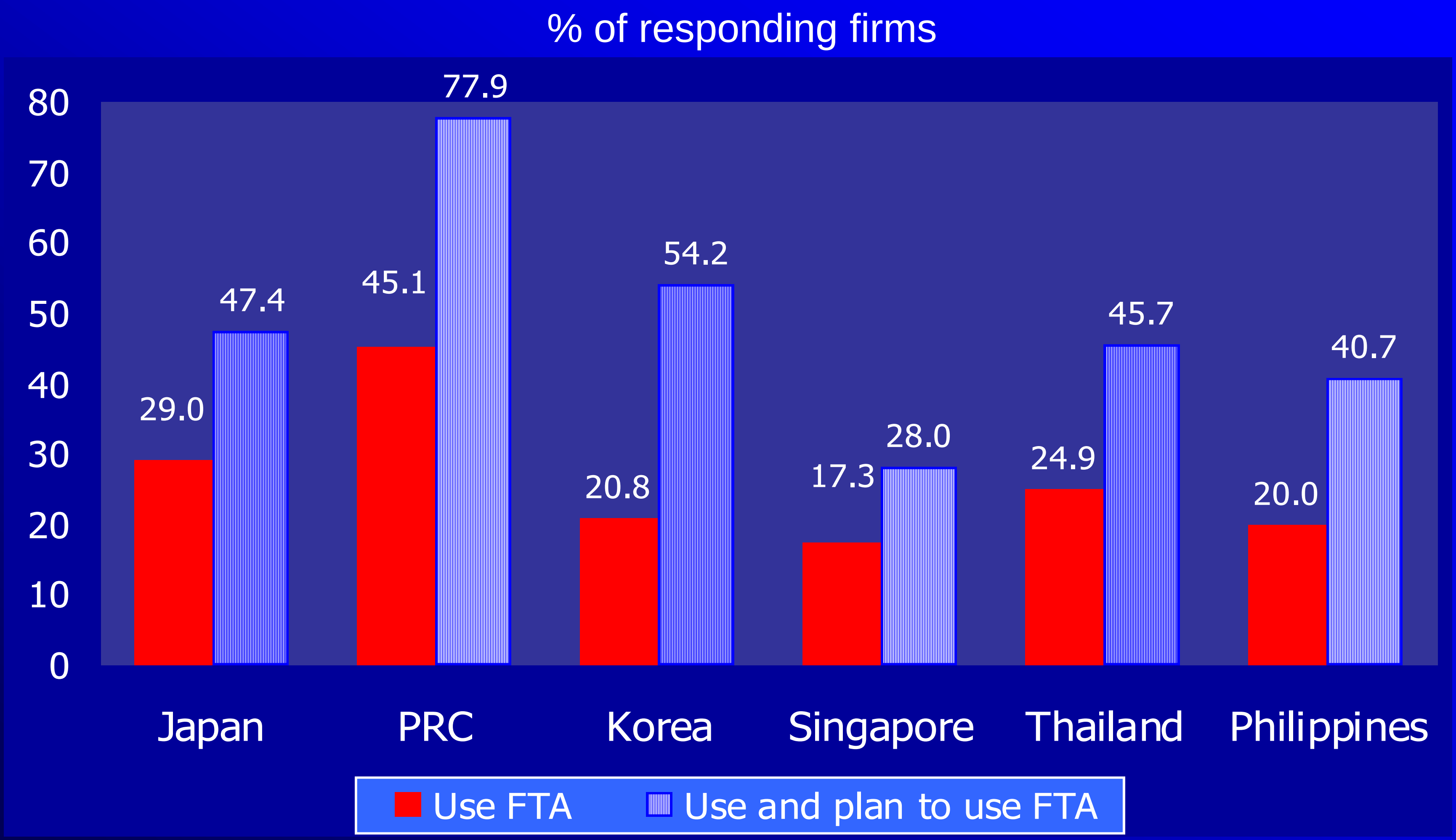
Sources: WDI Indicators Online (World Bank); ASEAN Secretariat website (accessed 5 April 2010).

FTAs are utilized in East Asia



Source: FTA impact studies available at:
http://www.adbi.org/preview/research.free.trade.agreements.asia/

Kawai and Wignaraja (forthcoming) Asia's Free Trade Agreements: How is Business Responding? **UK: Edward Elgar Press**

East Asian FTAs - Findings

- More positive than negative impacts of FTAs
- Limited Asian “noodle bowl” effect of multiple and overlapping ROO
- Barriers to FTA use - information, low preference margins, red-tape issues, NTMs
- Big demand for FTA support services

Region-wide FTA is next…

ASEAN and ASEAN-plus FTAs

Bilateral East Asian FTAs

ASEAN plus 3 (EAFTA):

Japan

China

Korea

ASEAN plus 6 (CEPEA):

Japan

China

Korea

India

Australia

New Zealand

Link with US: **FTAAP** or **TPP**?

Link with EU: **FTAAE**?

Consolidation of FTAs…

- **brings larger gains from improve market access to goods, services, skills, and technology, economies of scale, promote FDI activities and technology transfer of MNCs**
- **mitigate "noodle bowls", simplify schedule and rules**

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III. New Zealand & ASEAN—Growing Linkages

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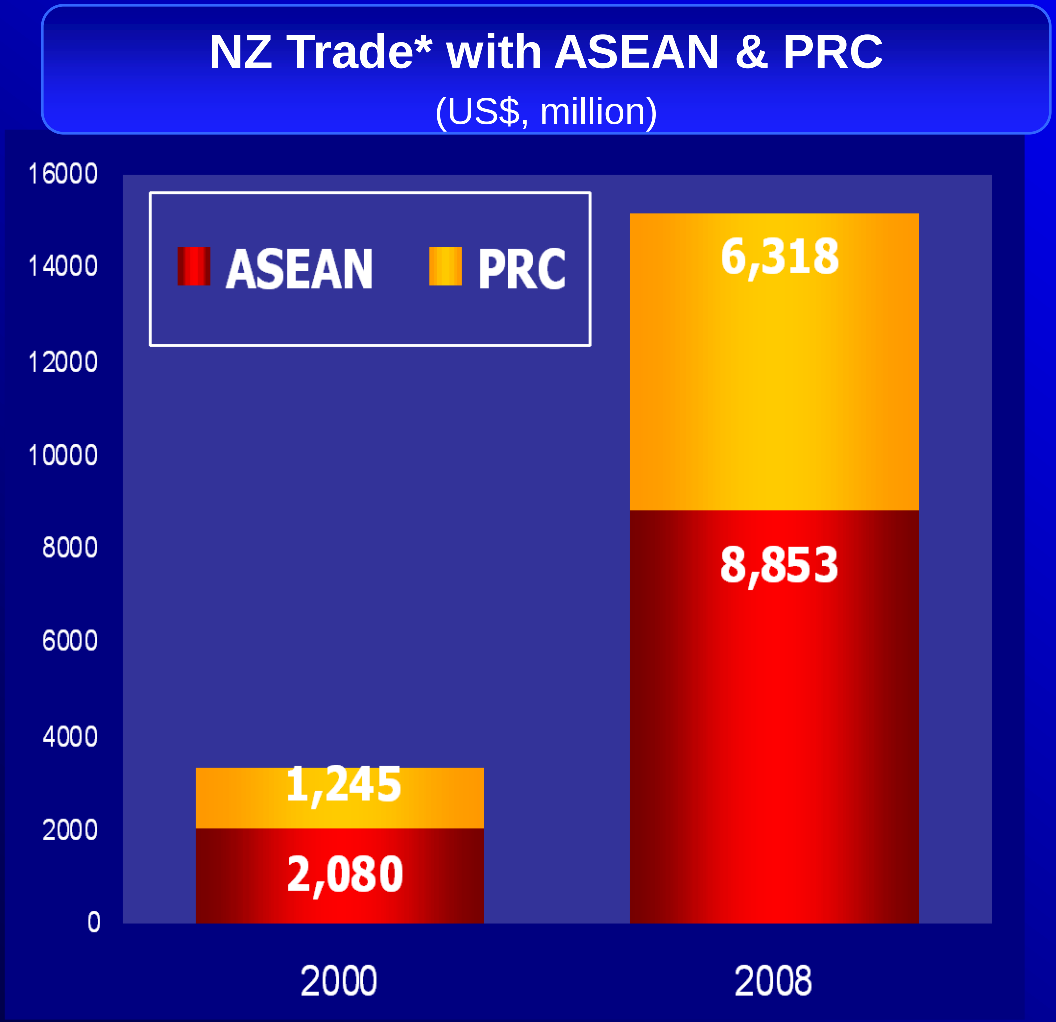
NZ-ASEAN Trade Snapshot



Top NZ Exports to ASEAN and PRC:

Dairy products, meat, seafood, hides and wool, and forestry products

Top NZ Imports from ASEAN and PRC:

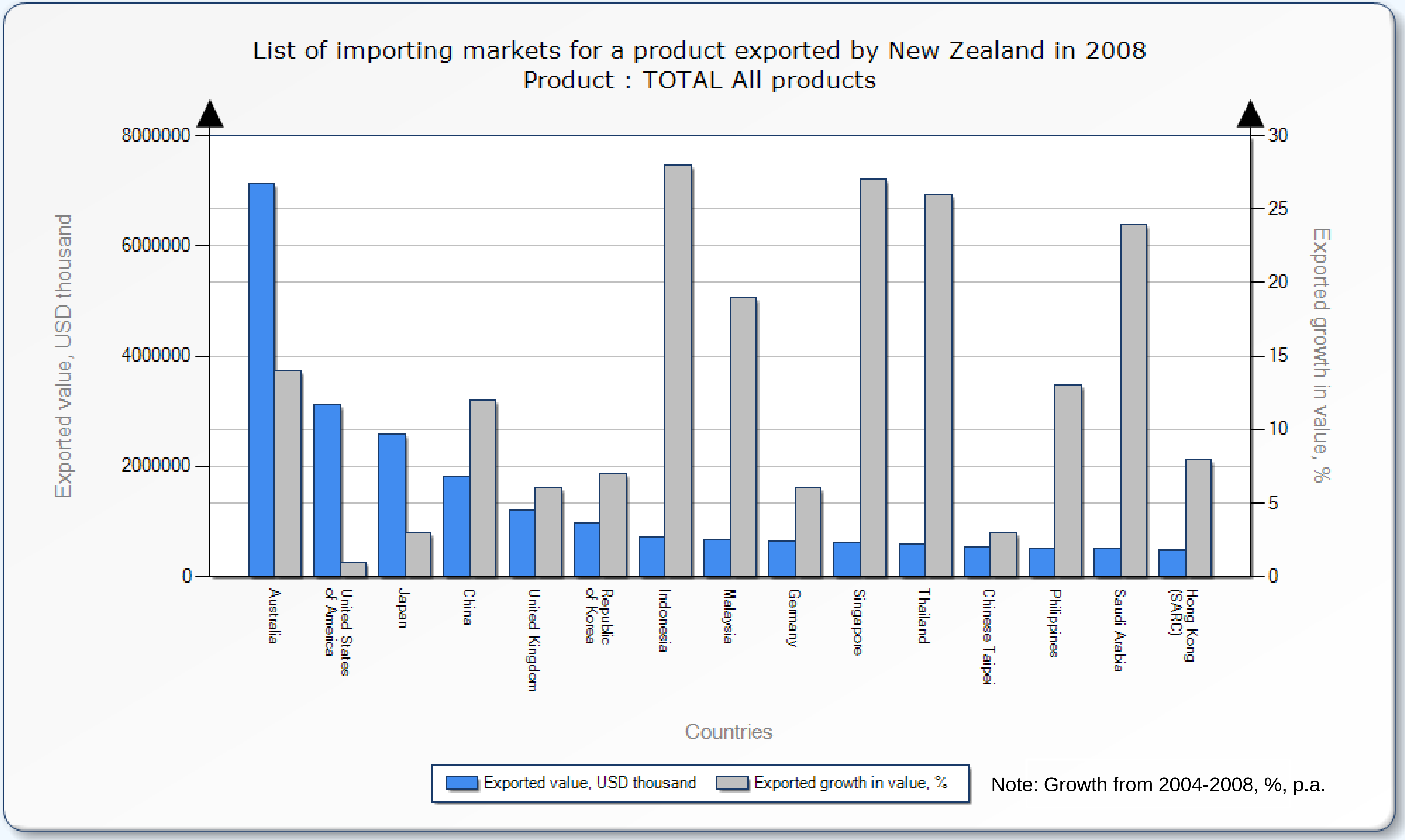
Manufactures e.g ele.ctronics products, crude petroleum, vehicles, construction materials, apparel and clothing

Note: *Value of exports and imports.

Source: IMF Direction of Trade Statistics (data as of November 2009); UN COMTRADE (2008 data); accessed 5 April 2010.

Trade grew 22.5% with PRC and 19.9% with ASEAN between 2000 and 2008.

NZ Markets; ASEAN Most Dynamic



Source: Trade Map (ITC); accessed 7 April 2010.

Top Products in ASEAN

Annual growth in value 2004-2008, %

Top Exported Products	PRC	INDO	MAL	PHI	SIN	THA
HS-04 Dairy products, eggs, honey, edible animal product nes	13	31	26	17	30	19
HS-02 Meat and edible meat offal	20	26	-14	20	17	5
HS-27 Mineral fuels, oils, distillation products, etc.	7	0	732	0	341	1,156
HS-44 Wood and articles of wood, wood charcoal	24	18	33	-14	8	22
HS-47 Pulp of wood, fibrous cellulosic material	5	10	17	25	28	26
HS-84 Machinery and mechanical appliances	14	34	3	10	25	45
HS-08 Edible fruit, nuts, peel of citrus fruit, melons	62	7	18	15	14	61
HS-19 Cereal, flour, starch, milk preparations and products	61	126	24	43	65	15

Source: Trade Map (ITC); accessed 7 April 2010.

Robust Services Trade and Investments Flows

- ASEAN is fourth largest source of international students, third largest source of tourists and third largest consumer of other commercial services.
- Strong links in computer, communications and other services, and has also increased its share of transport services.
- New Zealand tourist arrivals to ASEAN up from 244,700 (2005) to 322,000 (2008)
- In 2008, FDI inflows into ASEAN from New Zealand was $ 116.7 million

Source: ASEAN Secretariat website.

ASEAN-Australia-New Zealand FTA

- Zero tariffs on 90% of goods exported to Malaysia, Thailand, Philippines and Brunei w/in 3 years (2010-2013); longer tariff elimination for CMLV
  - Duty-free dairy products by 2010 (e.g., whole milk powder & cheese in IND; cheese & butter milk in RP; locked-in duty free for milk powder, whey & liquid cream in MAL)
  - Duty-free key beef exports in 2012-2020 (RP/IND); Sheep meat in 2010 (RP); Wool in 2010 (IND) and 2016 (VIE)
  - Reduced/zero tariffs on navigational equipment, electrical static converters, air conditioners, refrigerators & toys in 2010-2013 for IND, RP, VIE & MAL
- Excluded products are limited to 1% of tariff lines
- Flexible ROO in majority of products: Co-equal 40% RVC or CTC, cumulation, back-to-back COs
- GATS plus commitments in services (e.g., legal services in IND & VIE; taxation in MAL; telecoms in BRU, THA, and RP; financial services in MAL, SIN; MFN in VIE mode 1 higher education)
- To date, most comprehensive ASEAN-plus FTA (with investment, IP, e-commerce, MNP, environment and economic cooperation)

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New Zealand-Malaysia FTA

- Faster tariff elimination by Malaysia (than AANZFTA)— 99.5% of NZ exports in 7 years
  - Duty-free kiwi fruit by 2010
  - Locked-in duty free access for NZ dairy (except liquid milk) meat, wool, fish & forestry products
  - Increased in-quota volumes in liquid milk by 5% per annum
- 48-hour customs clearance and self-declaration of origin
- Malaysia's GATS and AANZFTA-plus commitments in education, environmental, tourism management consulting and maritime services; MFN in computer and related services; professional qualification recognition (engineers, architects, accountants)
- National treatment and protection in investments
- Cooperation in TBT, SPS, IPR, competition, economic enhancement

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New Zealand-Thailand FTA

- Duty-free on more than 50% of NZ exports to Thailand upon entry into force (2005) on major NZ products (e.g., milk, wood products, cheese, aluminum, kiwi, wool, apple, petroleum oil, casein, lactose, gas pumps)
- Additional 45% of Thai's TLs liberalized in 10 years (e.g., yoghurts, buttermilk, sheep meat, fats & oils derived from milk, cheese, butter, fish fillet, wine, plastic goods & aluminum foil)
- NZ visitors entitled to 1-year multiple-entry non-immigrant business visa up to 90 days or 15 days without work permits
- 100% NZ equity participation in machinery & mechanical appliances, food processing, paper products, software, furniture & textile manufacture
- FTA provisions on government procurement & negotiations for services

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IV. Food for Thought

Opportunities for New Zealand Business

- Link with existing regional supply chain in SEA (electronics, auto, processed foods e.g., *Fonterra* in the dairy industry)
- New investments in key sectors (e.g., *Datacom* in ICT services and *OPUS Grp* in consulting in Malaysia; BPOs in the Philippines, medical tourism in Thailand; education in Viet Nam)
- New partnerships (e.g., *Angel Investment Alliance* with Singapore)
- Maximize enhanced transparency on investment and services regulations & emerging market opportunities in SEA

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Business

- Raise price, quality & delivery to world class levels
- Link into regional industrial supply chains in ASEAN (e.g. processed foods and machinery)
- Tie up with services value chains – education, IT, business consulting and financial services
- Actively learn about FTAs (preferences, ROOs, FDI rules, IPR etc)
- Participate in outbound missions to ASEAN
- Develop B-B links with ASEAN chambers
- Incorporate FTAs into business strategies

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Government

- Continue deepening FTA-led integration to achieve CEPEA and broaden TPP
- Increase resources for NZ FTA support institutions
  - ✓ Increase information about FTAs and investment regulations in ASEAN
  - ✓ Better surveillance of NTMs
  - ✓ More integrated supply-side support for upgrading and linking to supply chains
- Coordinate and implement capacity building esp. for CMLV

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