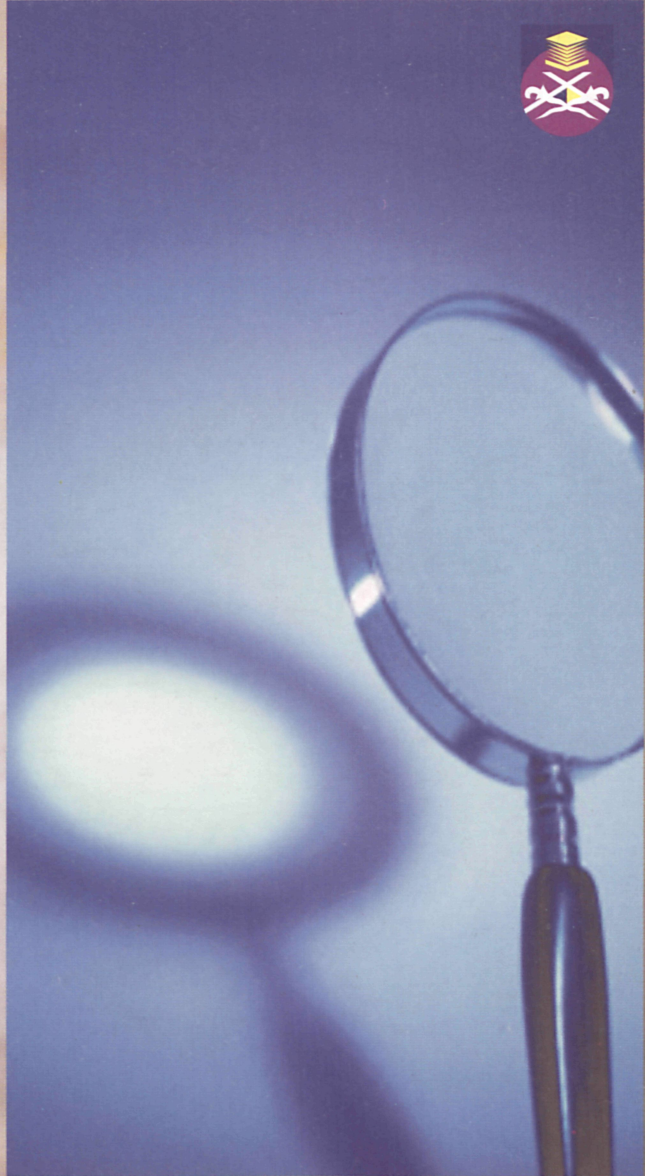


PROSIDING  
**KOLOKIUUM**  
UNIVERSITI TEKNOLOGI MARA CAWANGAN PAHANG  
2002 - 2003



ISSN 1675 - 8919

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Universiti Teknologi MARA Cawangan Pahang  
Lintasan Semarak  
26400 Bandar Jengka  
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Tel: 09-4602000  
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## THE IMPACT OF ASEAN FREE TRADE AREA (AFTA) ON THE INFORMATION TECHNOLOGY (IT) INDUSTRY IN MALAYSIA

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### ABSTRACT

*The trends in global IT in the new millennium are irreversible, and it is imperative that we study them and address them in a serious and concerted manner. The beginning of the new millennium marks a new era in global information technology and its management. While the eighties and the nineties witnessed global business and global IT expansion, the issues in global IT have now reached a new level of interest and maturity. The introduction of the free trade area concept has somehow influenced the IT industry. As we can see globalization has now become a threat to every industry. These industries are either directly or indirectly affected by such rapid development in the world economy. IT is one area that is vital to organizations where the capability to control information will give them a competitive advantage in the business environment. Global IT management is the new paradigm of the next millennium; domestic IT and uni-national Information System (IS) are now only parts of the broader global IT, and it is absolutely essential that we view all aspects of IT and IS from the comprehensive and all-embracing lens of global IT management and the impact of the free trade concept on the industry.*

### INTRODUCTION

Globalization is not a single phenomenon. It has become a range of trends and forces leading to openness, integration and interdependence of economies. Globalization and liberalization processes are interlinked and mutually reinforcing. While globalization is the product of liberalization whereby it set in motion forces working to accelerate liberalization. Multilateral trade liberalization in particular facilitates global economic integration. Thus, globalization in turn, necessitates multi-lateral trade liberalization.

The term globalization in the economic sense can be broadly defined as a process relating to the integration of economies worldwide where the world economy is viewed as a single market and production area with regional or sub-sectors rather than a set of national economies linked by trade and investment flows. It is the optimal utilization of global resources including competitive sourcing of inputs for achieving cost competitiveness in production, economies of scale in operations, and efficient technology utilization. The industries in developing countries may not have reached a stage where they are able to take full advantage of the trade and investment opportunities in other countries.

Liberalization policies should be properly sequenced and phased gradually as industries in the sectors in question acquired the necessary competitive strength in international markets. Finally, this will ensure that market forces are not manipulated by the big players to the disadvantage of the developing countries particularly those with small domestic markets.

**IT INDUSTRY IN MALAYSIA**

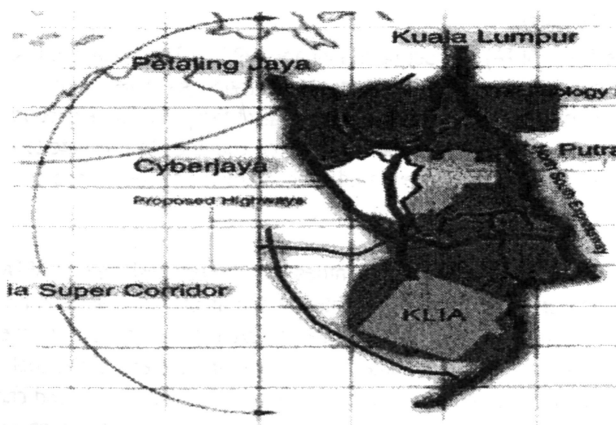
Information Technology (IT) is now generally considered a recognized force to support and drive the globalization of business. Today IT provides the ability to coordinate the activities of geographically dispersed employees, customers, and suppliers; increase the efficiency and effectiveness of important organizational functions and processes; and manage data, information, and knowledge across borders.

Malaysia aspires to be a software exporter in the future and seeks to position itself as a regional center and hub for value-added activities such as software research and development, IT training and education as well as warehousing and distribution. At present Malaysia is a hardware exporter and the chart below details the export market. The composition of the Malaysia IT market for 1993 and 1998 (projected) is as follows:

Market Composition (Percentage Of Shipment Value)

Sector	1993	1998 (Projected)
Hardware	60.30%	49.70 %
Services	20.20 %	27.30 %
Software	15.40 %	19.50 %
Data Communications	4.10 %	3.50 %

Source: IDC Malaysia



The Malaysian Government's aspiration to make Malaysia a regional hub for telecommunications as well as information technology (IT) has led to the development of Putrajaya – an intelligent city/new government administration complex - and the Multimedia Super Corridor (MSC).

Putrajaya will be equipped with state-of-the art communications technology and IT infrastructure while the MSC will be the focal point for the manufacturing of high value-added IT goods and services.

In July 1995, the Government Information Telecommunications Network (GITN), announced a project which aimed to enhance coordination between various government departments through the application of information technology. The goal of GITN was to create an integrated information technology infrastructure for the public sector. GITN Sdn Bhd, a joint venture company between Permodalan Nasional Bhd (PNB) and Telekom Malaysia, responsible for implementation and management of the project. The Malaysian Administrative Modernization and Management Planning Unit (MAMPU), Public Administration Institute (INTAN), the Economic Planning Unit, the Ministry of Finance and the Chief Secretary's Office (KSN) are involved with the project. GITN is expected to play a significant role in the future development of IT projects in Malaysia. Global IT applications are defined as IT applications that are used across national borders of two or more countries or regions in the world. This would include IT applications that are designed to provide global infrastructure, global inter-organizational systems as well as functional intra-organizational systems that are used on a global basis. The focus of this track is on the use and impact of these types of global IT applications.



**ASEAN FREE TRADE AREA (AFTA)**

The ASEAN Free Trade Area (AFTA) was set up in January 1992 by The Singapore Declaration of ASEAN as a free-trade zone in the making. Economic co-operation is considered important to the political goals of safeguarding ASEAN interests against that of the powerful neighbours like India and China. It is still working out agreements amongst all ten countries to eliminate tariffs, quotas and other restrictions on trade. It has concentrated lately on removing restrictions on capital and services.

Following mutual agreement between member countries that the establishment of AFTA provides them a platform to better serve and protect their interest and amplify their voice in international forum. The birth of AFTA was driven by various internal and external factors such as, the increase in industrializations in the ASEAN region over the last twenty years, the end of the cool war which has brought forth many new competitors to Asia countries and the global trend and challenge of regionalism and segmentation of the world economy in the form of North American Free Trade Area (NAFTA) and European Union (EU). The attraction and rationale for the establishment of AFTA is that through regional market integration, it allows ASEAN countries to improve their competitive edge as an international production centre, enabling them in particular to attract foreign direct investment. AFTA is therefore an instrument for the structuring of a wider and more productive division of labour within the South East Asia region.

AFTA: Common Effective Preferential Tariff (CEPT) List for 2001

Country	Inclusion List	Temporary Exclusion List	General Exception List	Sensitive List	Total
Brunei	6,284	0	202	6	6,492
Indonesia	7,190	21	68	4	7,283
Malaysia	9,654	218	53	83	10,008
Philippines	5,622	6	16	50	5,694
Singapore	5,821	0	38	0	5,859
Thailand	9,104	0	0	7	9,111
<b>ASEAN-6 Total</b>	<b>43,675</b>	<b>245</b>	<b>377</b>	<b>150</b>	<b>44,447</b>
<b>Percentage</b>	<b>98.26</b>	<b>0.55</b>	<b>0.85</b>	<b>0.34</b>	<b>100</b>
Cambodia	3,115	3,523	134	50	6,822
Laos	1,673	1,716	74	88	3,551
Myanmar	2,984	2,419	48	21	5,472
Vietnam	4,233	757	196	51	5,237
<b>New Members Total</b>	<b>12,005</b>	<b>8,415</b>	<b>452</b>	<b>210</b>	<b>21,082</b>
<b>Percentage</b>	<b>56.94</b>	<b>39.92</b>	<b>2.14</b>	<b>1.0</b>	<b>100</b>
<b>ASEAN TOTAL</b>	<b>55,680</b>	<b>8,660</b>	<b>829</b>	<b>360</b>	<b>65,529</b>
<b>PERCENTAGE</b>	<b>84.74</b>	<b>13.40</b>	<b>1.28</b>	<b>0.55</b>	<b>100</b>

Source: ASEAN Secretariat

In order to achieve the objective of AFTA, various programs have been implemented. From the tariff structure perspective, the Common Effective Preferential Tariff (CEPT) Scheme was introduced in 1993 with the objective of reducing intra-regional tariffs and remove non-tariff various within a 10-year period. The overall goal of the Scheme is to reduce intra-regional tariffs on goods ranging from 0% to 5%.

The tariff reductions are moving ahead on both the "fast" and "normal" tracks. Tariffs on goods in the fast track will be reduced to 0-5% by the year 2000. Tariffs on goods in the normal track will be reduced to this level by 2003. Currently, about 81% of ASEAN's tariff lines are covered by either the fast or normal track. ASEAN members have the option of excluding products from the CEPT in three cases:

- Temporary exclusions;
- Sensitive agricultural products;
- General exceptions.

Temporary exclusions refer to products for which countries are not prepared to begin lowering tariffs. Temporary exclusions include products in the plastics, vehicles, and chemicals sectors, and represent about 15 percent of the tariff lines in ASEAN. However, beginning in January 1996, each ASEAN country began moving 20 percent of its temporary exclusions each year on to either the fast or normal track. (Not including those for Laos and Myanmar).

A small number of sensitive agricultural products will be extended a deadline of the year 2010 for their integration into the CEPT scheme. In an agreement that has yet to be fully spelled out, the process of tariff reduction on these products will begin between 2000-2005, depending on the country and the product.

General Exceptions refer to products, which a country deems necessary for the protection of national security, public morals, the protection of human, animal or plant life and health, and protection of articles of artistic, historic, or archeological value. Approximately one percent of ASEAN tariff lines fall into this category.

## ADVANTAGES AND DISADVANTAGES OF FREE TRADE

### Advantages

- Higher goods and services to consumers in all countries at lower prices as competition increases.
- Cost of production decline.
- Free movement of knowledge.
- Specialisation increased in free trade zones.
- Economies of scale to take place.
- Increase income and employment.
- A greater variety of goods and services available for consumers.
- Poor countries are usually recipients of large amounts of capital investments made by the wealthier countries.
- Long-term political and social benefits to trade blocs as economies become more intertwined.

### Disadvantages

- Job and economic sector displacement. For many reasons, some industries will be shut down or forced to downsize because of increased competition from trading partners.
- Negative impact on small-scale enterprises.
- Increased dependency. As countries become more specialized, they become more dependent on their trading partners. This means that each country loses some control over its economy or sovereignty. Decisions by foreign businesses can however greatly affect domestic economies.
- Weaker economies in trade blocs clearly have the most to gain and to lose. They fear being swallowed by the more advanced countries.
- There are also environmental concerns raised by these agreements.

## THE IMPACT ON THE IT INDUSTRIES

Information technology plays a big role in ensuring business development. Most of the businesses, organizations as well as government are now depending on the information based tools to support their operation. Looking at this perspective it is undeniable that the industry has a bright future. The main question now is that whether the industry will be able to maintain its position and importance with the implementation of the free trade concept. There are always pros and cons on the impact.

Free trade allows the market or the industry to be more open to newcomers. New competitors will emerge in the market with similar products. In Malaysia, the IT industry is rapidly growing due to good infrastructure and development. The development of Multimedia Super Corridor (MSC) is one of the main reasons why the industry continues to produce information technology tools. Most of these companies are medium-scale companies obligated to produce certain components for bigger companies that produce finished goods. The implementation of free trade will see the expansion of the market where new suppliers will emerge to compete with existing ones in order to supply these components.

There are also some multi-national companies that operate in Malaysia but due to the world economic situation, most of them decided to withdraw their operation in the quest for cheaper operating cost. Seagate, for example has decided to stop their operation in Malaysia due to the high cost that they incurred and the slow economic condition in United States. The company was once a leader in producing hard disk for computers.

As we can see even before the implementations of AFTA, some of the companies have shut down due to the instability of the world economy. Just imagine what it would be when AFTA is implemented. There will be less tax or tariff for the product imported to the country. Due to the free trade, the government cannot control the inflow of product from ASEAN countries. Imported product will be cheaper and sometime it could be cheaper than the local product.

IT industry will become more competitive thus providing the customer with a variety of choices in terms of product selection. There will be a battle in term of pricing due to product similarities. Small companies will be threatened by giant companies due to the capability of mass production. These giant companies can produce more and apply the economies of scale. They will control the supply as well as the demand for the products or components. Some of these companies might even close if they cannot compete with the larger companies. The decisions of other ASEAN country can also affect the industry. Country that manages to become the bigger player in the industry will be more specialized. They can control the whole industry with their decisions. The weaker player in the market will slowly be swallowed by the stronger player.

The free trade concept has so much to offer to those who could take the chances. Countries with the ability and strong economics could become the strongest among all and it can either be the other way around. It all depends on the capability and capacity of the industry itself in order to maintain its position. As like other industry, the IT industry in Malaysia will also face the same consequences if they are not ready to meet the market demand of the free trade blocs.

## CONCLUSION

In compliance with the ASEAN leaders' collective decision, the date for the formal completion of AFTA has been postponed to the beginning of 2002. However, ASEAN has also agreed to ensure that tariffs on at least ninety percent of tariff lines in the inclusion list drop to 0-5 percent by the beginning of next year, with each individual country committing itself to at least 85 percent of its tariff lines.

IT impacts modern society in different forms. Relationships are created or changed based on new communication media and technologies. Virtual communities transcend geographical boundaries and bring together people with similar interests. What is more, although the individual's privacy may be threatened, new communication media may enable a new form of anonymity (pseudonymity). There are also a number of legal and ethical issues that need to be addressed. These effects are magnified when we consider the global reach of these changes. National borders are blurring and national governments have difficulties to restrict cross-border communication.

Not only are tariffs going down. AFTA is getting rid of quantitative restrictions and other non-tariff barriers to trade. These barriers have to do with technical and physical obstacles as well as with policy measures. Thus, trade is being made easier and smoother by the standardization of customs procedures, the harmonization of product standards, the conclusion of mutual recognition arrangements, and similar measures. It is clear that ASEAN's leaders have made regional economic integration a primary component of the region's response to the economic troubles that have hit it. They know that ASEAN needs investments for the recovery of its economies, and that a large integrated market can attract investments much more effectively than small, fragmented ones. The economies of scale made possible by larger markets make for more efficient production and marketing. Regional integration fosters competition within the region before regional industries and firms face the inevitable competition brought on by globalization.

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