

“Has openness to international trade and investment benefited or harmed the Malaysian economy? How can Malaysia ensure that it reaps more benefits than harms from international trade and investment in the future?”

In recent years, Malaysia has become more open to international trade as it aims to achieve a more economically developed country (MDC) status by 2020. Malaysia joined ASEAN on the 8th August 1967 and since then has been a part of the trade bloc. More recently, Malaysia has opened up to international trade and investment through the implementation of the ASEAN Economic Community (AEC). In 2003, leaders from the ASEAN bloc of nations agreed to establish an ASEAN Economic Community by 2020, comprising of three pillars, specifically the ASEAN Political-Security Community, the ASEAN Socio-Cultural Community and the ASEAN Economic Community. After debate and a final resolution, the members decided to quicken the establishment of the AEC to the end of December 2015.

The AEC aims to achieve the following key targets: (a) a single market and production base, (b) a highly competitive economic region, (c) a region of equitable economic development, and (d) a region fully integrated into the global economy. (*asean.org*) This makes the AEC especially relevant to Malaysia as the policy highly influences their trade and investment, in both positive and negative ways.

Firstly, how has Malaysia’s openness to international trade and investment benefited its economy?

Malaysia is a one of the ten members of the trade bloc ASEAN and consequently through joining the AEC, has enhanced its domestic competitiveness as more goods and services are being traded between countries for cheaper prices. This is due to tariffs on almost all goods being removed by the end of 2015, meaning lower export and import prices. As these goods and services become cheaper, the government has more funds to spend on other areas of the economy, such as funding infrastructure projects or increased spending on education. Malaysia could also possibly afford to lower the price of its exports such as palm oil and electronic products (see figure 1) making it more attractive for countries with high demand for Malaysian exports such as Singapore, Japan, China and the USA. This would be beneficial for the Malaysian economy as sales and profits could improve.

Furthermore, by being a part of the AEC, Malaysia has opened itself to the global economy as ASEAN countries are considered as one “node” in the larger regional Asian market of nearly 600 million people. The ASEAN Free Trade Agreement (FTA) will be expanded to zero tariffs on almost all goods by the end of 2015. This is also beneficial for Malaysia, as it will remain engaged with the global economy through regional-level free trade agreements. The APEC agreements will also allow Malaysia to have similar agreements with China, Japan, Korea, India, Australia and New Zealand.

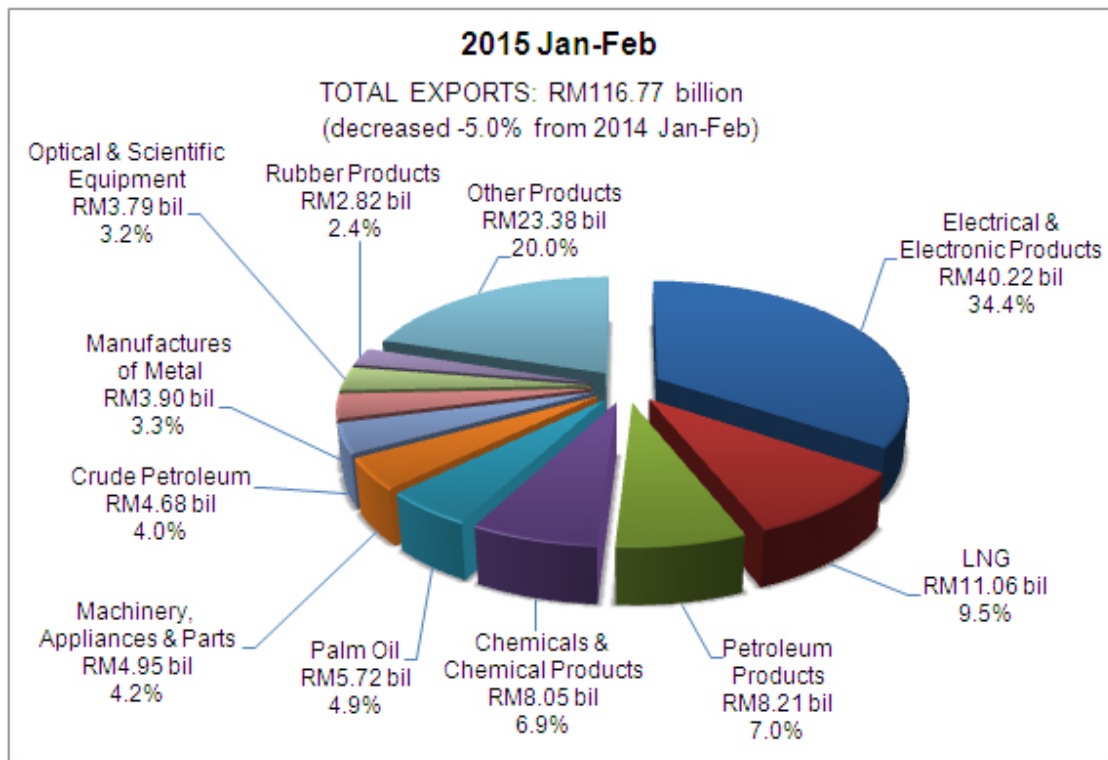


Figure 1: Malaysia's main exports (goods and services) from January- February 2015

Source: <http://www.matrade.gov.my/en/malaysia-exporters-section/33-trade-statistics/3816-top-10-major-export-products-2015>

ASEAN IS AT THE CENTER OF A DYNAMIC ASIA-PACIFIC REGION



Figure 2: Map of Malaysia- a part of ASEAN

Source: www.usasean.org

Located at the heart of the Asia-Pacific region (see Figure 2) and situated across major trade routes – \$5.3 trillion of global trade (*America A. m.*) passes through its waterways each year – ASEAN is the United States' third-largest Asian trading partner and the largest Asian destination for U.S. investment. It also receives the largest chunk of outgoing investment from the EU, at 24%. (*EU-ASEAN*) At current growth rates, ASEAN should become the fourth-largest market after the EU, U.S. and China by 2030, (*ASEAN*) supported by an increasingly well-educated workforce. This is useful for Malaysia's trade and investment as ASEAN countries strive to sharpen their overall competitiveness through closer collaboration. Malaysia's openness to trade and investment through ASEAN may also increase its global and regional competitiveness. This is highly advantageous as Malaysia will be able to reduce its dependence on existing markets and aim to stabilize seasonal market fluctuations as its competitiveness improves.

Additionally, Malaysia offers a wide range of natural resources and specialized services. These include the natural resources: tin, petroleum, timber, copper, iron ore, natural gas and bauxite. In the global supply chain, Malaysian companies have become preferred sourcing partners over other more economically developed countries and is ranked as one of the leading exporters worldwide for medical disposables and devices, processed food, building materials, outsourcing services, information & communication technology (ICT) and engineering services. (*matrade.gov*) All these factors add to the high levels of confidence that international businesses have in Malaysia and help to improve Malaysia's current account on the balance of payments as their export numbers exceed their imports.

Through the implementation of the AEC, Malaysia's economy has benefited from international trade and investment. This is because within Malaysia and between Malaysia and other ASEAN nations there will be an easier movement of goods, services, investment, capital and labour. Ultimately, it will offer new ways of coordinating supply chains and access to new markets for established products. These factors will positively assist Malaysia as more coordinated trade and efficient production operations will increase the supply of goods in the economy. This leads to an increase in the real output (GDP/ efficiency) in the economy. An increased supply will then encourage firms to employ more people and thus production as well as unemployment levels improve. Also, as prices for goods and services fall (due to competition increasing) people may have a larger disposable income and therefore derived demand increases. Thus, we can see how improvements through Malaysia's openness to trade and investment will increase demand and supply, benefiting Malaysia as its productive capacity increases.

Furthermore, international trade and investment in Malaysia enables different technologies to be utilized. Natural resources found in Malaysia make it both self-sufficient and profit earning, as it is an exporter of such resources. There are also opportunities for specialization to occur through international trade and investment. By Malaysia opening itself up to international trade, nations can work together to create a positive production method wherein they each specialize in an area of specific expertise to maximize profits.

Has openness to international trade and investment harmed the Malaysian economy?

Malaysia's openness to international investment and trade may be harmful as though the AEC removes tariffs, it may also result in specific countries trading more with others within the bloc of nations. For example, Figures 3 and 4 show that Malaysia currently trades most with Singapore, Japan and China in terms of annual net imports and exports. This is evidence of a possible lack of equal trade within ASEAN, emphasised further by the free trade agreement the AEC will bring. Malaysia may be encouraged to trade even more with the countries they currently trade with, at the expense of new markets. This may cause the divide between ASEAN nations to worsen as specific 'elite' ones trade more with each other and also cause Malaysia to possibly not look elsewhere outside of Asia and the USA for other possible trading partners.

1	SGP	 Singapore	\$31,003,655,290.04	13%
2	JPN	 Japan	\$29,601,418,126.24	12%
3	CHN	 China	\$29,587,285,257.68	12%
4	USA	 United States	\$17,460,293,845.11	7.3%
5	THA	 Thailand	\$12,198,097,330.54	5.1%
6	IDN	 Indonesia	\$11,396,955,607.97	4.8%

Figure 3: Malaysia's top 6 exporting countries

Source:

<http://atlas.media.mit.edu/profile/country/mys/>

1	CHN	 China	\$29,737,819,924.33	16%
2	SGP	 Singapore	\$26,329,801,343.57	14%
3	JPN	 Japan	\$17,229,448,826.09	9.3%
4	IDN	 Indonesia	\$11,338,747,425.71	6.1%
5	THA	 Thailand	\$10,962,593,054.39	5.9%
6	USA	 United States	\$10,674,981,134.83	5.8%

Figure 4: Malaysia's top 6 importing countries

Source:

<http://atlas.media.mit.edu/profile/country/mys/>

In fact, in an online survey that I conducted, (see figure 5) I found that 35% of people thought Malaysia should trade more with Singapore even though they are already Malaysia's highest exporter. Interestingly, the top three countries (Singapore, Thailand and Indonesia) that were voted are the ones that Malaysia currently trades with more than the rest of ASEAN. Again, this supports the idea that trade with these countries will strengthen at the expense of others. Though this may improve certain trading aspects, in the long term it actually discourages integration and thus may be harmful for Malaysia.

Which country in ASEAN do you think Malaysia should work with more closely?

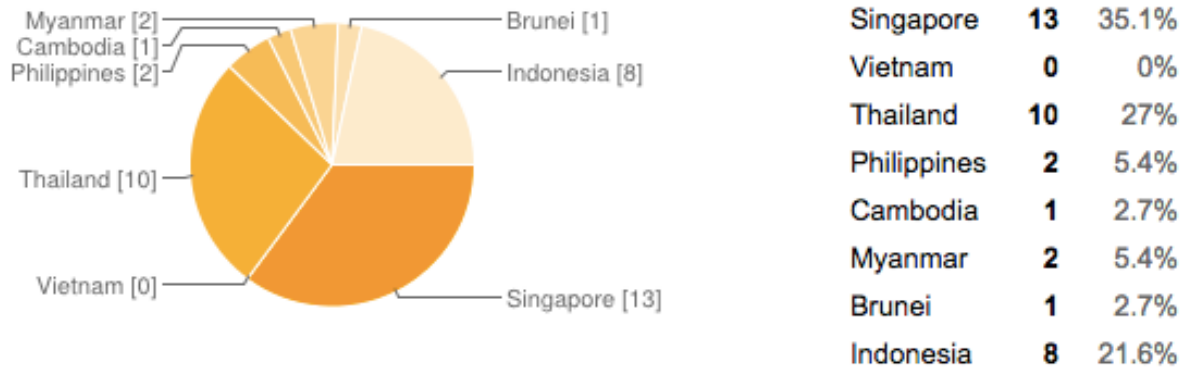


Figure 5: Questionnaire response

Also, though increased competitiveness may increase the number of goods and services Malaysia exports, a surplus in trade may cause inflation in the economy if imports become increasingly expensive. This could harm domestic firms who lose out, as Malaysian consumers prefer to consume cheaper, imported goods from China and Thailand, for example.

How can Malaysia ensure that it reaps more benefits than harms from international trade and investment in the future?"

A way in which Malaysia can ensure it receives more benefits than costs from international trade could be through a Competition Policy scheme. Such a scheme would help to promote and protect the competitive process and provide a level-playing field for all market players. Fair and effective competition contributes to improvements in economic efficiency, development and consumer welfare. Competition policy also complements other government policies such as trade policy, industrial diversification and job creation. Potential gains from having a competition policy are huge. By one estimate in "Realizing the ASEAN Economic Community: A Comprehensive Assessment", such a policy in ASEAN could boost per capita GDP in Malaysia, Indonesia, Thailand and the Philippines by 3% to 15% over 10 years. (*policy*)

The ASEAN Experts Group on Competition (AEGC) is a group of representatives from the ten ASEAN countries working to ensure fair economic competition ahead of the AEC. It has launched an official website (<http://www.aseancompetition.org>) in an effort to educate the public on the benefits of competition policy and laws. However, while these efforts are important, they are likely to be insufficient. Many studies have highlighted the benefits of competition policy, but there is no strong consensus on whether competition policy can benefit developing economies that lack sound legal, judicial, and infrastructure systems.

Sustainability is another area that Malaysia needs to consider in order to benefit from international trade and investment in the future. Malaysia has an abundance of natural resources, but if these are not extracted and supplied with caution, it could risk running down deposits too quickly and therefore put a strain on what Malaysia can export.

Another solution for Malaysia could be an aim to utilize more renewable energy sources in the manufacturing sector, for example, during the production of electronic products. This will ensure that not only will Malaysia become more sustainable, allowing future generations enjoy the benefits of scarce resources; it will also become a 'greener' nation. In turn, this could make it more attractive for future international trade and investment where other nations and trade blocs, (especially the G8 and the EU) become more environmentally friendly. Even now there is clear evidence that some countries and firms will simply not invest in other countries that do not have aims and policies that minimize their carbon footprints. Policies such as the Kyoto Protocol (1997) and other international frameworks (for example the "Hyogo Framework for Action 2005-2015") all act to ensure a reduction in carbon emissions from production. Malaysia could also look to implement a scheme that covers all firms in reducing carbon emissions by giving them targets through tradable pollution permits. Not only will this make Malaysia a more favourable nation for investment and trade, it could act to sustain its limited resources and possibly demonstrate Malaysia's commitment to a global 'green footprint' mentality.

In conclusion, I believe that Malaysia's openness to international trade and investment has been positive for the Malaysian economy. This is seen through the consistent increase in annual GDP (Malaysia averaged 1.28% GDP growth from 2000 to 2014) (*tradingeconomics*) and its improving regional and global competitiveness. However, if these benefits are to continue, Malaysia must seek to implement sustainable policies and be willing to keep itself open to new and creative ways to maintain and increase its international trade and investment.

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