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?

Malaysia is undoubtedly known as a diverse country; a country rich in resources, skilled labour and economic opportunities amongst many others. It's fairly open to prospective international trade, businesses and investments. Over the past few years, the Malaysian government has strived to create pathways to link Malaysia to the global arena (e.g. Free Trade Agreements) for the advancement of technology, increased productivity and skill of labour, and of course, for the greater prize of economic growth.

However, the question remains. Has such openness served to build up or cripple the Malaysian economy? To answer this, let's first analyse a few facts with regards to the Malaysian economy as a result of dealing with international trade and investments.

Facts

1. Overall balance of trade favours Malaysia with a current balance of RM83.13 billion as of 2014.[1]
2. There had been a 70% increase in foreign investments in Malaysia. (RM 59.5 billion in 2013, RM 34.9 billion in 2012).[2]
3. The largest proportion of foreign investment in Malaysia was in the real estate field. (RM 88, 558.9 million in 2014 and RM 83, 314.2 million in 2013)[3]
4. Five-Year Programme on Economic and Trade Cooperation between Malaysia and China was inked on 4 October 2014. Eleven areas of cooperation have been identified namely: agriculture; manufacturing; industrial parks; infrastructure; energy and mineral resources; information and telecommunications; tourism; engineering and architectural services; small and medium-sized enterprises (SMEs); logistics and retailing; and the Halal industry.[3]

5. The total foreign investments approved were in 5,942 projects and this is expected to generate about 178,360 job opportunities, many of which will be in high technology and high value-added industries.[3]
6. Crude oil prices had plunged by more than 50% in the last 7 months to around US $ 55.[4]

With respect to these facts and more (from the MITI report 2014), a reasonably safe conclusion can be drawn that Malaysia had generally benefitted from the majority of international trade and investments. How so?

There was an overall input of money into Malaysia as the balance of trade was a surplus. This wealth can be spent on repaying debts from loans or spent on improving infrastructure of the country to allow domestic businesses to thrive and grow as well as providing a positive outlook to foreign investors that Malaysia is capable in providing the services and resources in sustaining foreign operations within the country.

The substantial increase in foreign investments also reflects how the demand of foreign companies/investments has risen thus also helping to control the value of the Ringgit Malaysia from plunging further (foreign investors wishing to invest in Malaysia have to buy and trade in Malaysian Ringgit, therefore increased demand would cause in a demand pull inflation of the currency value) as a result from weak global demand for oil and petroleum related products which accounts for around 30-40% of the Government's total annual income.[4] An increase in the value of the Ringgit Malaysia would also support domestic firms as they face the challenges of appreciating foreign currencies that has made the cost of essential raw materials more expensive. Increased foreign investment would be beneficial in the long run as more potential investors or multi-nationals will be attracted to starting up their operations in Malaysia after regarding the stable and pleasant economic environment in Malaysia. This would be healthy as long as hefty chunks of the profits aren't taken out of the country. (Various government policies and regulations can be implemented to control this but not to the extent where it discourages foreign investment.)

Malaysia has also been able to negotiate valuable Free Trade Agreements (FTA) with other countries like Turkey (at 17th April 2014).[3] This would allow Malaysian goods to be taxed at a mush lower rate compared to before thus granting Malaysian exporting companies a larger market share into other economies. A partnership agreement with China, a country currently benefitting from a large proportion of foreign investment, can help Malaysia expedite progress both economically and to improve the standard of living. The major areas of the cooperation such as trade, education, infrastructure, healthcare, logistics, agriculture and more can serve to improve Malaysia as Malaysia can learn from effective managerial methods, introduction of new technology and share knowledge, experience and also stimulate companies to embark on operations between the countries.

The foreign investments had also generated the demand for labour which can help in reducing unemployment. Currently, Malaysia has training programmes that can help people to learn important and useful skills such as the 'Skills Upgrading Programme' by SME Corp. Malaysia and MLVK (Majlis Latihan Vokasional Kebangsaan) which aims to enhance technical and managerial skills of employees so that they are qualified to carry out jobs at exceptional quality. This would help Malaysian workers to fill the job vacancies offered by international companies when they begin their operations in Malaysia instead of the company being forced to employ more qualified, foreign workers. Especially when these job opportunities are in high-tech industries, Malaysian labour can improve their skills and productivity, and gain knowledge from working in such environments.

Despite sustaining healthy benefits from international trade and investment, there's still a lot that can be done to ensure that Malaysia gets the best slice of the cake from all these trade and investment.

After analyzing the facts, there is a way Malaysia can pursue to reap benefits from international trade and foreign investment.

Development of high-technology products

Malaysia does face a hard battle against the falling global oil prices due to the lack of demand and a falling value of the Ringgit Malaysia. Because crude oil and petroleum related sources account for around 30-40% of the Government's total annual income,[4] this would make the Malaysian economy quite vulnerable; especially since oil and petroleum are non-renewable resources. To combat these problems Malaysia would have to take a big step to develop other substitute goods in other areas especially in terms of medical, pharmaceuticals, machinery and equipment, scientific or technological goods and renewable energy (e.g. SCORE- 'Sarawak Corridor of Renewable Energy', a development to provide stable, clean energy to encourage foreign industries to locate in rural area to create a balanced development) because those kind of goods are of high demand and price at the present stage. Such goods and services are among the most demanded in the world by many developing and developed countries.[5]

Malaysia does have the potential to strengthen its development in this field. Many Malaysians have been going abroad to study courses such as engineering in highly specialized fields (e.g. aeronautical engineering), pharmacy, medicine, and biotechnology in reputable universities worldwide.[6] Malaysia should use the opportunity to pump in domestic investments to develop industries to provide the assets that can be used to produce health medications, high-tech machinery and equipment. This would also allow Malaysian graduates to work locally in such environments to create new, innovative goods for export purposes. For example, Malaysia is one the world's top producer of palm oil. Recently, palm oil has been found to possess curative abilities in preventing cancer, stroke and high blood pressure. This should be taken as an advantage to develop new revolutionary medications for export to global markets so that it will in turn show that Malaysia is capable of producing goods that developed countries produce.

The fact that Malaysia is close to essential raw materials, has a large areas of land for development, has cheap labour and production costs also encourages and allows foreign investors to confidently invest in a developing industry that produces advanced technological goods. The low production costs and labour costs would also allow Malaysia to have a competitive edge when they sell this product globally as the selling price can undercut most of the same product produced by other countries. If it is possible, Malaysia should aim to produce such goods, using locally available raw materials, so that when such a good is of high demand, Malaysia can be in an advantageous position to monopolize the market for this good.

Development of advanced technology production industry

Furthermore, a development of such an industry to produce, for example, manufacturing machinery, pharmaceuticals and technical equipment can be a safe path to take because of the favourable locality of Malaysia and its healthy foreign international relations. Because of this, it would be possible to guarantee a large and profitable market for such goods due to the fact that Malaysia is surrounded by developing countries such as Cambodia, Vietnam and Indonesia who are countries that have a great effective demand for manufacturing or technological goods.[5] It is even more excellent that Malaysia is part of the ASEAN free trade area so this would be beneficial as Malaysia would face fewer problems in trade barriers and such hindrances.

Overall, this would serve a long term goal to boost Malaysia up the value chain in terms of strengthening the Malaysian name in producing quality, high tech products like Germany or Japan[7] so that it can become a centre of high technology and global activities and make it less reliant on foreign equipment that it would otherwise have to import. (Imported machinery is the 4th highest product imported from oversees)

To conclude in my opinion, I believe that Malaysia has a lot of potential to grow economically. Since Malaysia has a current account surplus, healthy competition from foreign companies should definitely be stimulated so Malaysian companies can adopt even better methods to increase productivity and in turn, increase GDP. However, there are a few things that need to be straightened out in order to reveal a better future.

Malaysia should lower down spending on huge-scale investment projects and look at a smaller picture first. There needs to be a large and secure demand before embarking on an ambitious attempt to draw in investment. At this time however, it is unlikely that foreign investment will continue to increase in Malaysia as there has already been a slow down in the activities of investors. For example, there has recently been a decrease in Singaporean banks have decided to decrease loans for investment into real estate properties in Johor due to the oversupply and to stop the excess purchasing of properties there.[8]

Another example would be the ‘1 Malaysia Development Berhad’ (1MDB) initiative to pull in foreign investors. This has suffered serious deficits so far as it has used money from loans amounting up to RM42 billion and has yielded only a very small profit. Only few companies have invested in the activities of the 1MDB projects so far. This has really reflected negatively in front of many of the banks that lend money to support these projects such as the ‘Deutsche Bank Singapore’.[9] At this rate these banks would ask for early repayments and the whole project could be a disaster in a few months time. Both these, situations can suggest that there is a general decrease in investment coming into Malaysia.

I believe the bubble has burst. There will be a slow down in 2015 compared to the reasonably prosperous economic growth Malaysia has experienced in 2014. Due to a general decrease in demand of investment into Malaysia, it should focus on improving the standards of its domestic abilities currently so that when there is a increase in demand of foreign investors in Malaysia in the next few years, Malaysia is capable of responding fast to it by providing well-trained labour, stable supply of energy, high quality capital, being politically stable, and having a transparent and efficient managerial system. I would term this as a ‘passive investment initiative’ to prepare for prospective investment that would not use up too much of public expenditure to undertake compared to the ‘proactive investment initiatives’ which are carried out in hopes of getting the attention of foreign investors but may not guarantee success and because it's more risky.

In this way, Malaysia can remain strong economically, driving economic growth and investment successes against the challenging global economic downturns for now and for many more years to come.

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