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?

International trade is the exchange of goods and services between countries. For example, if you go to a local Malaysian supermarket and are able to buy groceries from other countries, you are experiencing the effects of international trade. International investment is also widely done. It involves purchasing assets or securities that originate in other countries.

The movement of goods or services out of a country is known as exports whereas imports are the movement of goods or services into of the country.

Openness to international trade has many advantages. It allows us to expand our markets for both goods and services that otherwise may not have been available to us. It is the reason why we can pick between a Japanese, German or American car.

Trading globally gives consumers and countries the opportunity to be exposed to goods and services not available in their own countries. Almost every kind of product can be found on the international market: food, clothes, spare parts, oil, jewelry, wine, stocks, currencies and water. Services are also traded: tourism, banking, consulting and transportation.

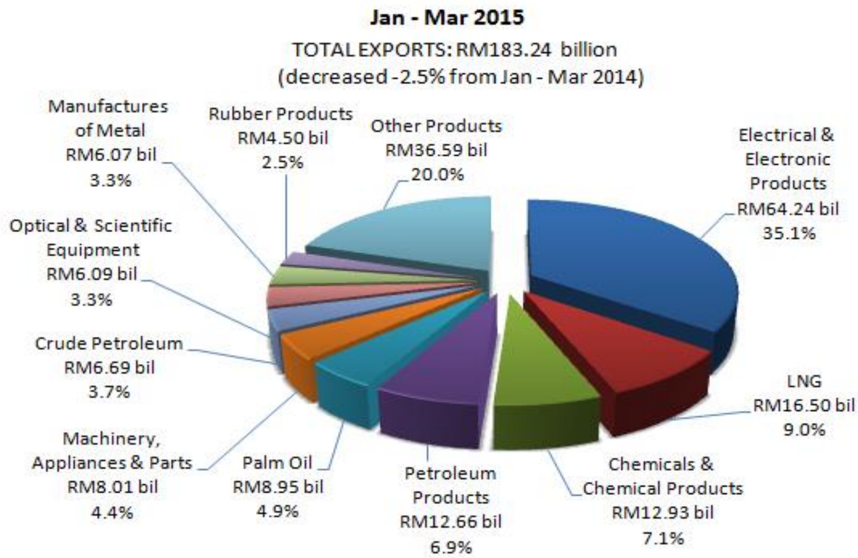
By allowing free trade, Malaysia has taken a risk that there may be either profit or a loss made. If there are a greater number of exports leaving the country than imports coming in, this is known as a surplus in balance of trade. It is represented by the flow of money back into the country as revenue. However, if there are a greater number of imports compared to exports, it is known as a deficit in the balance of payments. It is represented by the flow of money out of a country.

Free trade agreements (FTA) are made by countries which wish to trade without trade barriers. With a FTA, goods and services can be moved across the borders without hindrance. Malaysia has established FTAs with the following countries:

- Malaysia-Japan
- Malaysia-Pakistan
- Malaysia-New Zealand
- Malaysia-India
- Malaysia-Chile
- Malaysia-Australia
- ASEAN-China
- ASEAN-Japan
- ASEAN-Korea
- ASEAN-India

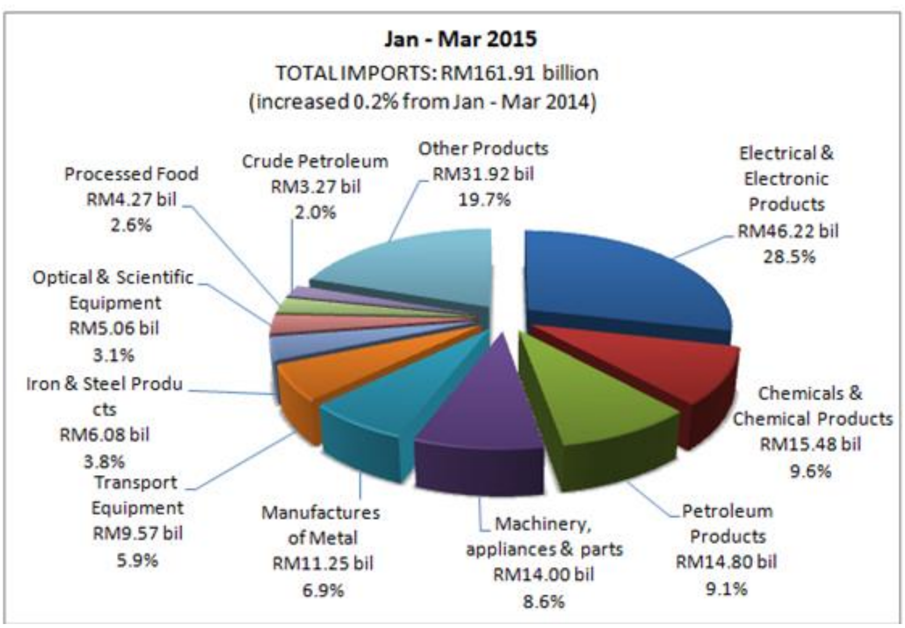
- ASEAN-Australia and New Zealand

<u>Malaysian Exports.</u>



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

<u>Malaysian Imports.</u>



Source: http://www.matrade.gov.my/en/malaysia-exporters-section/33-trade-statistics/3817-top-10-major-import-products-2015

Trading has a lot of benefits. Countries trade to obtain goods and services they cannot produce themselves. For example, Malaysia imports machinery and electrical equipment from EU. In return, Malaysia exports rubber, plastics and types of oils such as crude oil, palm oil and lubricants to them. These countries trade with each other to receive the goods they lack and by doing so, they are able to maintain a healthy relationship with each other.

Countries also trade to exploit a comparative and absolute advantage. When a country is able to produce more units of a good or service using a given quantity of resources, or produce the same quantity of a good or service using fewer units of resources, the country has an absolute advantage over others. An absolute advantage is where a country is better at producing a product than another country. Since countries which have the advantages are more efficient in producing a product, other countries prefer trading from them, for a cheaper and more reliable way of obtaining the goods.

Countries may also be able to obtain goods and services for a cheaper price than what they can produce themselves by trading. Instead of trading with the EU, Malaysia is actually able to produce its own machinery and electrical equipment. However, it takes a lot of time and money for such a long term investment. It is also not very practical as the time and money put in can be used for something else, eg. improving infrastructure. It is easier to trade with other countries which specialize in the production of the particular goods and services and receiving it easily.

Countries also trade to increase choice for their consumers. Instead of just selling a local item from Malaysia, supermarkets lay out a few different options of products from different places to increase variety for the consumers and match the consumers demand. Products from different countries vary in taste, fashion, price and quality, allowing the consumers to choose for themselves what they want.

Countries that trade also enhance the competitiveness in a market. With more competition, there are more producers in the market so local companies strive to do their best to attract consumers. Competition encourages efficiency, lower prices and a better quality of products.

Countries that trade also earn some revenue. A trade goes both ways, with 2 countries gaining benefits from the trade. If Malaysia trades with another country, the other country will also demand for Malaysia's products. For example: palm oil. Palm oil is one of the world's most versatile raw materials. It can be used in food, cosmetics, and pharmaceutical industries and for producing energy. Palm oil is highly demanded for and Malaysia produces 34% of the world's production according to a survey in 2013. Indonesia dominates the market with 50%.

However there are also harms of trading. When Malaysia opens trade to other countries, there is a risk of the local consumers who import goods from the other countries instead. Take for example Malaysia's own automobile manufacturer: Proton. Proton is reasonably priced and has a rather plain design. When the economy starts to boom, people are generally better off and can afford expensive and imported cars such as BMWs or Mercedes. By doing so, the demand for Proton falls, causing the Malaysian car industry to crumple slowly. When Malaysia opens trade to other countries, they will not be able to protect their local industry from falling.

Another disadvantage is when there is too much competition; local or domestic industries may not be able to last and will close down. Too much competition means that the demand of the entire economy is spread out resulting in less profit for each company. The local industries may suffer from this and gradually have slower business. Some inferior goods may not even be wanted by the public leading to the closure of the certain industries.

When other countries import Malaysia's products, it may seem great for our balance of payments but there are also consequences that arise from it. If other countries import too much oil palm from Malaysia, Malaysia would have to plant more palms to match the growing demand. By doing so, Malaysia would have to clear acres and acres of land and habitats of animals to make extra space. This leads to intensive cultivation of land and results in deforestation and extinction of different species. This is known as negative externalities.

One of the disadvantages to free trade is the import of harmful goods to another country. With open trade, it is easier for demerit goods to enter the country. Cigarettes, alcohol and even drugs are shipped to another country in the process and consumed by the residents of the country, ruining and harming their health. It may cause people to lose their jobs and increase unemployment in a country.

Free trade may also cause a negative balance of payments. If Malaysia imports more products than exports, there is money flowing out of the country, meaning there is a loss of money. This is known as a deficit balance of payments. This also adds to national debt. As national debt increases, Malaysia would owe other countries more money. In the future, the money has to be paid back inclusive of tax.

To ensure that Malaysia reaps more benefits than harms from international trade and investment in the future, the government should set some policies to attract international investment and trade to help the economy.

Malaysia is reforming its infrastructure to be better and is now comparable to infrastructures of developed nations. This has attracted other countries' investment. A few examples are the MSC, Iskandar project and SCORE. MSC Malaysia is Malaysia's national ICT initiative designed to attract world-class technology companies while grooming the local ICT industry. Sarawak Corridor of Renewable Energy (SCORE) and the Iskandar Project are two series of five economic corridors in a farsighted attempt to stimulate global and domestic investment in traditionally rural areas to create balanced development throughout the country. SCORE's base contains many different alternatives of producing energy, including renewable energy. There is an abundant supply of resources (eg. Oil reserves, hydropower) in the base. The Iskandar Project is a development project, where living, entertainment, environment and business seamlessly converge within a bustling and vibrant metropolis. It has attracted many foreign investments like Japan, USA, Singapore and more.

At the same time, Malaysia uses the supply side policy to help. The supply side policies improve the economy's productive capacity and ability to produce. By introducing training and education to the workers, people will become more skilled which increases the productivity and in turn, aggregate supply. Malaysia continues to produce highly skilled workforce to support the nation's growth.

The Ministry of Tourism in Malaysia is also doing its part to contribute. They have made initiatives to help the economy by promoting Malaysia as a peaceful multicultural country to live in. They have also promoted the tourist areas, enticing foreign investment with countless videos that shows the beauty and calm of Malaysia's relaxed lifestyle. Shopping malls have been built extravagantly and publicized. Sports like F1 (Malaysian Grand Prix) have attracted the attention of many international countries and investment had been poured in to fund this huge project annually. Malaysia has always been a preferred destination to many multinational companies. To date there are more than 5,000 foreign companies from more than 40 countries operating in Malaysia.

Malaysian government is trying to create a growing business environment to ensure potential investors are drawn into a thriving economy. The Malaysian government is developing and implementing growth and programs to ensure local enterprises meet international standards in various business aspects.

I think that openness to trade and investment has benefited the Malaysian economy. The advantages outweigh the disadvantages and free trade gives people the freedom to choose for themselves the products they want. Free trade exercises efficiency and is more practical. Openness to trade will also lead to better productivity, leaving some funds that could be used for opportunity cost. There will always be trade, so why hinder it?

Summary of Malaysia's Monthly Trade 2015

Month	Total Exports (RM Billion)	Total Imports (RM Billion)	Total TRADE (RM Billion)	Balance of TRADE (RM Billion)
March	66.47	58.64	125.11	7.82
February	53.17	48.61	101.78	4.56
January	63.60	54.65	118.25	8.96

Source: http://www.matrade.gov.my/en/malaysia-exporters-section/33-trade-statistics/3812-summary-of-malaysias-monthly-trade-2015

The above table shows Malaysia's monthly trade in 2015. As shown, there are more exports than imports, showing a surplus balance of payment. I believe that international trade has benefitted the Malaysian economy much more.

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