

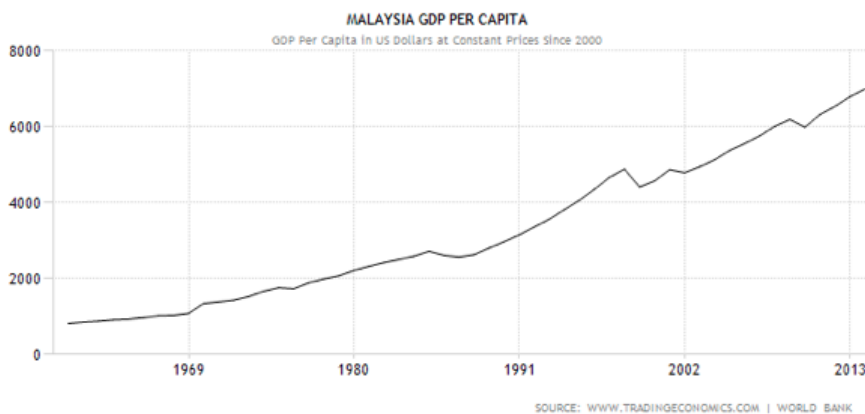
*Has openness to international trade and investment benefited or harmed the Malaysian economy? How can Malaysia ensure that it reaps more benefits than harms from international trade and investment in the future?*

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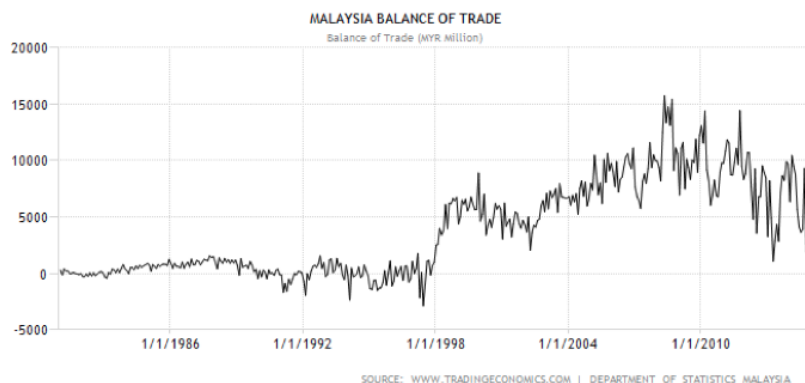
Located at a strategic outpost in the world, Malaysia has a rich heritage as an international trading hub. History has demonstrated how trade has benefitted the area with examples such as the Malacca Sultanate that was founded on maritime trading. At the time of writing, although there's a general consensus on Malaysia's stance on globalisation, advocate for protectionism has gain grounds due to the slump in oil price leading to skepticism on whether Malaysia actually benefits from globalisation.

## Has Malaysia Benefitted?

### Looking at the figures

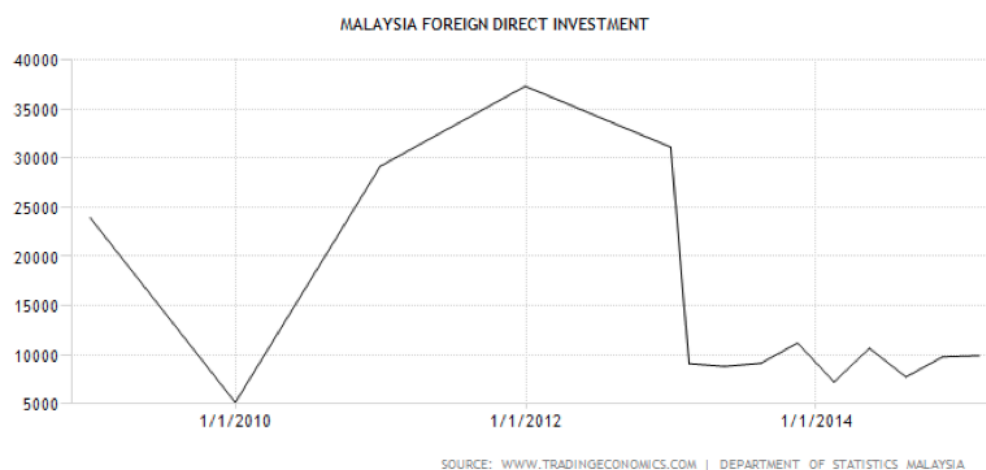


Over the years, Malaysia's GDP per capita has been increasing prolifically. Since 1960, the GDP per capita of Malaysia has proliferated from less than \$1000 to \$7000. Amongst the increase, it is beyond a shadow of a doubt that net exports has played an important role in promoting the prodigious growth. Net export is an important part of Malaysia's GDP, and is expected to continue to be so in future due to Malaysia's involvement in trade agreements such as the ASEAN Economic Community (AEC) and Trans-Pacific Partnership. (TPP).



As shown in the graph, since the 1997 Asian financial crisis, Malaysia has been consistently running a surplus in balance of trade, this is obviously good news as the high level of exports will fuel the economic growth in Malaysia. As a producer of crude oil and natural gas, Malaysia's export mainly consists of primary commodities and the processed products of palm oil, along with manufactured electronics. Singapore is Malaysia's most prominent trading partner with more than RM108 billion worth of trade between both countries, while countries such as China and Japan are also huge exporting countries for Malaysia due to the bilateral trade agreements between Malaysia and these countries.

## **Foreign Direct Investment**



Another benefit of globalisation in Malaysia is the attracting of foreign direct investment (FDI) into Malaysia. As shown in the graph, FDI peaks between 2010 and 2013. The influx of FDI due to increased globalisation will lead to more capital to Malaysia, which is important for a developing country like Malaysia. Besides, government revenue is also generated through corporate taxes. At the same time, FDI also promote development of infrastructures and boosts development of capital.

Perhaps the most notable initiative by the government to attract FDI in recent years is the Iskandar Development Project in the southern tip of Malaysia. Besides, notable projects such as the construction of Educity, has managed to improve the human capital through transfer of technology and providing world-class education to Malaysian citizens. In the long run, this will benefit the country as the human capital improves.

## **Specialisation**

Specialisation refers to a phenomenon in a globalised world in which countries focus on producing the goods and services that they are best at producing. Adam Smith's and David Ricardo's theory on both absolute and comparative advantage has provided groundwork for the model of globalisation in Malaysia.

According to them, specialisation happens as countries have different opportunity cost, thus, the country that has either absolute or comparative advantage over other will specialise in the industry. For Malaysia, the abundant of natural resources such as crude oil and natural gas has ensured

that Malaysia specialise in these areas. By specialising in these industries, Malaysia can exploit economies of scale and lower the average cost thus increase profit.

### **Employment and exploitation of labor**

Labour is defined as the aggregate of all human physical and mental effort used in the creation of goods and services. In Malaysia, majority of them works in the secondary manufacturing sector and in private industries. These delicate industries have been extremely vital in Malaysia's robust economy as it is the top manufacturing industry in Malaysia. It has provided for approximately a third of Malaysia's total exports and has created employment opportunity for 27% of our workforce.

The presence of major factories of companies of Multinational Companies (MNCs) exhibits Malaysia's initiative in attracting FDI from the Top 100 MNCs. This is the result of the ease of doing business in Malaysia (ranked 6 in the world) due its unrelenting development of industrial and research area, as well as the government's generous tax incentive for the setup of MNCs. This is clearly beneficial for Malaysia's future as it diversifies exports and lowers the risk of budget deficit were there a fluctuation in the price of primary commodity such as the fall in oil price.

However, in the process of attracting FDI, the government has sacrificed the welfare of the workers. A rigid recruitment structure that was in place to protect workers right and trade unions were abolished. According to an investigation by the US department of labour, almost 350,000 workers in the E&E industry suffered from modern-day slavery, such as debt bondage and passport withdrawal. This leads to skepticism as the issue of forced labour becomes uncontrollable, ultimately tarnishing Malaysia's reputation as Malaysia were downgraded to tier 3 by the UN in terms of human trafficking.

### **Over-specialisation: when specialisation goes too far**

One argument against Malaysia's enthusiastic embrace towards globalisation is the case of over-specialisation. While specialisation can reap us with a lot of benefits such as greater efficiency and economic of scale, it has significant drawbacks. This includes the risk of over-specialisation and strategical-vulnerability when terms of trade (relative price of exports in terms of imports) shift unfavorably towards Malaysia.

The reliance on primary commodity as the main export is emphasises the fatal risk of excessive specialisation due to the price volatility, which manifested in the recent slump of oil price. The inelastic nature of primary commodities also means that even when price level of exports fall, expanding the export won't be effective in balancing the trade.

### **Dutch disease: an understated threat of current account surplus**

As desirable as a constant trade balance surplus Malaysia has, the surplus is not without drawbacks. An ominous threat is that the persistent widening of current account surplus puts pressure on exchange rate to be overvalued. This illusive overvaluation of Malaysia's Ringgit will put downward pressure on the demand for other exports such as manufactured goods, thus rendering these industries uncompetitive in global level.

In economist's jargon, this symptom is known as the "Dutch's disease" due to the decline of manufacturing sector in Netherlands after increased trade surplus due to the discovery of large oil fields in the country. Malaysia has been alleged to contract the Dutch disease due to the increased prominence of palm oil and oil. Morgan Stanley economists Deyi Tan and Shweta Singh has argued that Malaysia's emphasis on primary commodities such as palm oil has come at a stake of sacrificing the electronics industry. In the long run, such trend is indeed worrying, as Malaysia seems to be heading in the wrong direction of over-specialisation.

### **Verdict**

Despite the obvious drawbacks that are worth noting, it is beyond a shadow of a doubt that Malaysia, due to its openness in global trading has indeed benefitted much from globalisation. The pressing question now is how should Malaysian ensure that globalisation continues to work in a way that enhances sustainable economic growth.

## **The Globalisation Agenda**

### **Trading blocs: ASEAN Economic Community**

Since its inception, Malaysia's involvement in the AEC has indeed been beneficial to its economy. With the combined GDP of \$2.4 billion, the community is ranked seventh in terms of nominal GDP in the world. As the largest trade partner of Malaysia, the AEC has ensured that Malaysian firms can acquire a larger market for exports without having to comply with trade barriers.

However, Indonesia's recent reluctance to the community is definitely a cause for concern. President Jokowi recent statement that Indonesia "must ensure that no harm comes to [their] national interests," is worrying as it signals the rising nationalism that might hinder the economic integration of AEC. It is worth noting that Indonesia, being the member with largest nominal GDP in the AEC, plays an important role in the community and Malaysia. To quote from Datuk Seri Nazir Razak, chairman of CIMB Groups "ASEAN is nothing without Indonesia", only by keeping Indonesia in the bloc that Malaysia can reap the benefit.

In short, Malaysia has to play a proactive role in the AEC by ensuring that Indonesia remain committed in order to benefit from the trading bloc.

### **Trading blocs: Trans-Pacific Partnership**

On the other hand, the TPP is seen to represent a new opportunity for Malaysia. The TPP is ambitiously envisioned to "enhance trade and investment among the TPP partner countries, to promote innovation, economic growth and development, and to support the creation and retention of jobs." Yet, it is worth noting that most of the prospective members of TPP such as the ASEAN, Australia and Japan has already signed trade agreements with Malaysia, hence the only way Malaysia will benefit through the TPP is through the opening up of market is the United States and Latin America.

Far from being free from controversies, the TPP is claimed by Joseph Stiglitz, a Nobel Laureate, to “serve the wealthiest and promote income inequality”. The deregulation will mean more exploitation of labour, which will lead to more inequality that will distort the market.

Another controversy surrounding the treaty is on the intrusive clause of Investor-state arbitration, more commonly known as the ISDS due to the farcical lawsuit between Philip Morris Asia and the Australian government. Ratifying the clause will mean giving extraordinary rights to MNCs to bypass Malaysian law, which will indubitably undermine the judicial system in Malaysia.

Hence, it is clear that the TPP has to be approached cautiously by the Malaysian government to ensure that it benefits Malaysia.

### **Currency manipulation (or not)**

Recently, the depreciation of Ringgit has fuelled concerns on whether the government should peg Ringgit to Dollars due to apprehensions regarding the problem of government debt, which are based on the perception that Malaysian debt is mostly denominated in US dollars.

However, the perception that foreign owners hold Malaysian debt is simply not true, as ratio of foreign holding federal government debt remains low at about 20%. Besides, Malaysia’s debt-to-GDP ratio is at a healthy level of about 50%, significantly lower than countries like Japan and China. Therefore, argument for capital control to prevent debt problem, put simply, is flawed.

Besides, it can be said that depreciation might actually benefit Malaysia’s export industry. According to the Marshall-Lerner condition, the relative inelasticity of Malaysian exports and imports means that devaluation will improve current account. Thus means Malaysia should allow the depreciation to occur, as this is the best way to ensure the attractiveness of country exports.

As the saying every cloud has a silver lining goes, Malaysia should maintain the floating exchange rates and seek this opportunity to reform the export industry to a more manufacturing-oriented export industry.

### **Supply-side policies: both interventionist and market-based**

Malaysia has been known for protecting infant-industry through trade barriers such as import duties and tariffs, with the automobile industry being the most prominent example. By protecting the industries, it is hoped that when they mature, they will be able to compete in global level.

However, these measures are simply inadequate. Under the unequal playing field, these “infant industries” has the advantage of lower cost. It is argued that the protectionism has actually lower their efficiency rather than increasing it, as companies engage in rent-seeking activities such as exploiting their monopoly power.

Hence it is clear that market-based supply side policies such as deregulation is needed to promote the competitiveness of these industries. The recent privatisation of Proton is widely seen as the first step of such measures.

On the other hand, interventionist supply-side policies such as improvement in infrastructures and education are sorely needed to increase

the productive-potential of Malaysian economy. The controversy-ridden 1MDB, though widely criticised, undoubtedly will prove useful in improving the factors of production.

## **Conclusion**

Based on the arguments above, it is clear that Malaysia has a bright prospect in the process of globalisation. However, the future presents us with a lot of challenges that need to be dealt appropriately. Our outlook will be rosy, only if we can ensure that globalisation work in the right way.

2000 words, excluding graphs and bibliography.

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