

# What are Malaysia's main imports and exports



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Illustrate the components of Malaysia's imports and exports using a graph or chart and elaborate on it. Which countries are Malaysia's main trading partners?

## **Components of Malaysia's exports**

According to Malaysia's top 10 trade statistics for year 2009 by MATRADE, the major export products are divided into nine subcategories. Electrical and electronic products are the highest export products valued at RM22.68 billion which is equal to 41.5% of the total exports. While for palm oil, it takes off 6.3% of the total exports and it is equal to RM3.44 billion. Ranking number three for Malaysia's export product is the liquefied natural gas which account for 6% or RM3.31 billion of total exports. Crude petroleum is account for 5.9% of total exports. The chemicals and chemical products hold 5.8% of the total exports are rank at number five of Malaysia's total export. As for refined petroleum products, it represents 4.2% of Malaysia's total export or RM2.29 billion. For machinery, appliances, and parts, these components are rank at number seven which take-up 3.5% or RM1.94 billion of total exports. Manufactures of metal hold 2.6% of total exports. The wood products hold 2.4% of total exports in Malaysia. Optical and scientific equipment are categorized as minority of Malaysia export as it stand for 2.3% or RM1.25 billion for total exports. The remaining percentages represent other export products in Malaysia.

## **Components of Malaysia's imports**

For component of Malaysia's imports, there are three main categories of imports by end use. Intermediate goods are valued at 66.4% of total

imports. For capital goods, it takes up 15.8% of total imports and for consumption goods, it accounts for 7.3% of total imports.

Other major import products of Malaysia include electrical and electronic products which are valued at 38.4% of total imports. Besides that, machinery, appliances, and parts account for 8.6% and chemicals and chemical products take up 8.4%. While for manufactures of metal, it accounts for 5.2% of total imports. Furthermore, transport equipment accounts for 5.1%, refined petroleum products take up 5%, and iron and steel products take up 3.7% of total imports. For optical and scientific equipment, it has 3% of total imports and processed food takes up 1.7% of total imports. Crude petroleum is the minority of total imports where it takes up 1.6% of total imports. The remaining percentages represent other import products in Malaysia.

## **Malaysia's Main Trading Partners**

Main trading partners of Malaysia include People's Republic of China which it accounted for 12.9%, Singapore holds 12.7%, and United States of America takes up 11.1% of total trade with Malaysia. Besides that, Japan is also a trading partner for Malaysia where there is 11.0% total trade between both Japan and Malaysia. Another trade partner for Malaysia is Thailand. Thailand holds 5.7% total trade with Malaysia. On top of that, total trade between Malaysia and Republic of Korea takes up 4.2%. There are 4.1% trade between Malaysia and Indonesia. While for Hong Kong, Germany and Taiwan, those three countries have 4.0%, 3.4%, and 3.3% trading with Malaysia. The remaining percentages represent other countries which also have trade with Malaysia.

Malaysia's top 10 export markets are Singapore which taken up 14.0% of Malaysia's total exports, Republic of China accounted for 12.2%, United States of America holds 11.0%, and Japan holds 9.8% of Malaysia's total exports. For Thailand, Hong Kong Republic of Korea, and Australia, those countries respectively hold 5.4%, 5.2%, 3.8%, and 3.6% of total exports. As for Netherlands and Indonesia, both countries are the minority markets of Malaysia's export markets as there are only 3.3% and 3.1%. The remaining percentages represent other export markets trade with Malaysia.

Malaysia's top 10 import origins are Republic of China (14.0%), Japan (12.5%), United States of America (11.2%), Singapore (11.1%), and Thailand (6.1%). While for other import markets, Indonesia account for 5.3%, Republic of Korea account for 4.6%, Taiwan holds 4.3%, and Germany also holds 4.2% of total imports with Malaysia. Hong Kong only holds 2.5% of imports with Malaysia. The remaining percentages represent other import markets trade with Malaysia.

For the export components, we compare between the year 1989 and 2009. We use the commodity sections for comparison. The export for foods has increased from 3,128.9 in year 1989 to 15,800.9 in year 2009. As the population has increased and there are more and more countries that involved in open economy, this has lead to the increasing in the exports for food in Malaysia. For beverages and tobacco, from the table, it showed that it is increasing from RM80.2 million to 2,482.3 million. Besides that, the crude materials and inedible goods also increased from RM12,656.9 million to RM 13,161.1 million. This does not show much increased. While for

mineral fuels and lubricants, it has more significantly rose from year 1989 to 2009, which it rose from RM11, 023. 6 million to 81, 685. 7 million.

From the table, we can see that there is 605% increase in animal and vegetable oils and fats. The growing rate of animal and vegetable oils and fats is more than 600 is logic as it growth for 20 years long. Furthermore for chemicals, there was significant increase which it increased from RM1, 234. 2 million to RM33, 345. 4 million between year 1989 and 2009. This is because nowadays, there are many companies which need chemical products for the daily operating.

With globalization, export products will raise from one year to another as many companies have come into the industry. Increasing in quantity demanded will also follow by increasing in quantity supplied. That is why export of manufactured goods which includes tin has rose 764. 1% for the past 20 years.

While for machinery and transport equipment, it has grown from RM21, 982. 9 million to RM257, 248. 7 million. As the technology in Malaysia has improved, we export our technology to other least development countries.

On top of that for miscellaneous manufactured articles, the data showed there is 826. 12% increased from year 1989 until 2009. Miscellaneous transactions and commodities also increased from RM201. 5 million in year 1989 to RM4, 607. 3 million in year 2009.

Compare using the same data, we now evaluate on import components. According to external trade data taken from Department of Statistics of

Malaysia website, Malaysia import food has increased from year 1989 to 2009. The data shown in 1989, we import RM4, 613. 9 million of food and in 2009, we import RM26, 770. 3 million of food.

For beverages and tobacco, our import has increased 769. 7% within the 20 years. In average, it increased 38. 48% per year. Besides that, crude materials and inedible has also increased 498. 11% that is increased from RM 2, 488. 9 million in year 1989 to RM 14, 886. 3 million in year 2009. Averagely, it increased 24. 91% per year.

While for mineral fuels and lubricants, it increased from RM 2, 911. 1 million to RM35, 686 million for this 20 years. Furthermore, animal and vegetable oils and fats rose from RM257. 1 million to RM4, 977. 6 million.

As we can see from chemicals, it was RM5, 412. 7 million in year 1989 and increased to RM39, 492. 2 million in year 2009.

Manufactured goods includes tin has rose 432. 79% where in average; it increased 21. 64% per year from 1989 until 2009. Machinery and transport equipment has the most changes where in 1989, Malaysia import RM29, 233. 1 million and it increased to RM222, 578. 8 million in 2009. As Malaysia is in developing, we need more high technology machines to increase our production.

For miscellaneous manufactured articles, we have total of RM3, 257. 5 million import in it and it increased to RM25, 735. 7million in 2009. Besides that, miscellaneous transactions and commodities have increased from RM2, 522. 8 million to RM9, 865. 5 million.

When we compare those import and export components for 20 years, overall, Malaysia still has positive net export. In 1989, Malaysia has RM6, 966. 4 million. While in 2009, Malaysia also has positive net export with RM118, 354. 9 million.

## **What are the benefits of engaging in international trading? Are there disadvantages as well?**

International trade is known as the trade of goods, services, and capital across the international borders with not much difficulty. The international trade accounts for a good part of country's gross domestic product.

International trade system is growing and spreading quickly because of modern production techniques, advanced transportation system, outsourcing in term of manufacturing and services, and rapid industrialization. It is an essential resource of returns for a developing country. The advantages of international trading have been the most important drivers of development for the last half of 20th century. Countries with well-built international trade have turn out to be successful and have the authority to control the world economy. International trade has also turn into one of the main contributor to the decreasing of poverty. There are several benefits from international trade activities which are:

Competitiveness. International trade could maintain cost competitiveness in domestic market where they increase effectiveness in productions, because countries will attempt to accept better ways of production to maintain cost as lowest as possible on order to remain competitive.

Employment. It helps a lot in generate more employment through the development of newer industries to serve to the demands of various countries. As a result, international trade can reduce the unemployment rate.

Inflation. Due to international trade, a new trend has been observed. Countries, all over the world are making all effort to adhere to monetary policies, which have zero inflation, thereby reducing restrictions in trade worldwide.

Offer greater variety of goods for consumption. International trade offer users a lot of options which will not only get better in their quality of life but altogether it will help out the nation to develop.

Increase sales and profit. International trade provides an opportunity to the countries to boost up their sales and automatically generate higher profit.

Effective allocate and fully utilize the resources since countries are going to manufacture merchandises where they have gain in a comparative advantage. The effect is the waste in replication of resources can be prevented. It aids a lot in protecting the environment from any such of pollution and also gives countries with a superior marketing control.

## **Disadvantage of International trade**

There are numerous disadvantages arising from international trade. First disadvantage is exhausted of Natural Resources. It means all natural resource will decrease over the time of international trade. It encourages a



developing country to export all of its raw material early on to gain the return and become the developed company.

Secondly is in terms of dependence, import of low quality products increases dependence on foreign countries to the extent which leads to that country having no productive capacity. This means that businesses, workers and customers are likely to decline in the economies of our trading partners. The production between two countries will stop all together. As an example during recession in Malaysia leads to decreased demand for China exports, leading to diminishing export profits, lower GDP, lower earnings, decrease in domestic demand and increase in unemployment.

Loss in agricultural countries is considered as one disadvantage of international trade. In international trade predominantly agricultural countries are losers to the maximum extent. This happens as the demand for agricultural products is less elastic; there is hardly any increase in their demand despite a fall in the price. International trade also creates unemployment in a country. It occurs when the labour market is competitive where it leads to higher wages and together decrease employment. Trade unions can cause salaries to go higher than equilibrium via the threat of strikes. However when the salary is over the equilibrium, it will cause a drop in employment because the company has to pay higher salaries or wages and it becomes a cost to the company. So they will decide to reduce the employment.

Barriers in long distance trade and different languages also create disadvantages of international trade. The long distance such that it becomes hard

to keep a close rapport linking the buyers and sellers. Every country has possesses its own language, this in because international trade engage in trade connecting two or more countries where there is variety of languages.

The different in language creates problem in international trade.

International trade involves preparation of number of documents which also creates difficult in the way of international trade. Some laws and regulations are imposing on export and import of products. International trade involves a great deal of risk on long distance, even though the risk has been covered by insurance but there is still involve the extra cost of production because the insurance cost is added to cost.

Lastly is the disadvantage in pollution and other environmental problem.

International trade can caused pollution and other ecological problems as corporations fail to take account of these costs in the price of merchandise in trying to fight with corporations operating under weaker environmental laws and legislation in some countries. As a company produce product, the pollution will always occurs and to produce the product they will get raw material from export country. Then as long as they have the part or material to use together with demand of good lead to increase in production and pollution.

**Define foreign direct investment (FDI). What are some of the policies and incentives provided by the local government to boost FDI in Malaysia?**

**DEFINITION OF FOREIGN DIRECT INVESTMENT ( FDI )**

FDI is a component of a country's national financial account. It can be defined as an investment of foreign assets into a domestic structure. A parent business enterprise and its foreign affiliate are the two parties of this relationship. These two sides of entity, they both comprise a Multinational Company (MNC). An example of FDI is when American company taking a major stake in one of the company in china. The company in china is said to be the parent business enterprise whereas an American company is said to be the foreign affiliate for the investment.

On the other word, FDI also exists when there is any joint venture between local and foreign company. Naza Kia Sdn Bhd can be stated as one of a joint venture company in Malaysia where the Kia Motors has made its investment to Naza Sdn Bhd.

Instead of having an investment via joint venture, FDI also involves in participation in management, transfer of technologies and expertise.

FDI can be classified into two types; Inward and Outward.

The Inward FDI means that, when there's an investment of foreign capital in our local resources. There are some factors that determine the growth of Inward FDI. The factors are the tax breaks, the relaxation of existence regulations, loans of low rates of interest and the specific grants.

On the other hand, the Outward FDI also can be stated as a direct investment abroad which means, our local capital is being invested to foreign resources. Basically, Outward FDI is dealing with the import and export of a country.

## **MALAYSIA: FOREIGN DIRECT INVESTMENT POLICIES.**

### **THE FDI REGIME**

Basically, FDI policies are some set of a rules and regulations to regulate the investment made within those countries. In Malaysia, there is no specific laws that governed FDI activities. However, it is regulated that all foreign manufacturing activity must be licensed no matter what is the nature of the business it is.

Malaysia only has “ Foreign Equity Guideline” as a guideline any foreign investment. Until 1998, under the foreign equity guideline, the share limits were made on the performance and conditions set by the industrial policies of the time. For example, in the past years, the size of foreign equity share that allowed for investment in manufacturing sector is based on the share of the product exported. FDI projects that export at least 80% of production. However, the restriction was abolished through decision made by Ministry of Trade and Industry (MITI) when Malaysia desperately needs FDI after the economic crisis in 1998.

Besides abandoning the export, Malaysia also has minimized the negative incentives such as:

Nationalization and appropriation

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Double taxation

Joint venture: requirements.

Domestic employment: restrictions.

Restriction on remittance of profit.

Other than that, there is also some guidance in order to protect the foreign investment. Foreign investors are guaranteed against expropriation of property without compensation by virtue of Article 13 of the Federal Constitution. Due to the absence of the investment law, Malaysia has relied on the bilateral investment guarantee agreement or IGAs to:

- Protect against nationalisation and expropriation
- Ensure prompt and adequate compensation in the event of nationalisation or expropriation.
- Provide free transfer of profits, capital and other fees.
- Ensure settlement of investment disputes between private parties and Government under the Convention on the Settlement of Investment Disputes (ICSID) of which Malaysia has been a member since 1966

Investment Regime: Malaysia, from [http://www. iisd.org/pdf/2004/investment\\_country\\_report\\_malaysia. pdf](http://www.iisd.org/pdf/2004/investment_country_report_malaysia.pdf)

Other than IGAs, our country also has bilateral Avoidance of Double Taxation Agreements. For the employment restrictions,

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one must examine the restriction in a domestic context. For example, Dobson (1998) wrote that while each foreign bank's subsidiary is limited to hiring two expatriate personnel, this restriction was in fact less stringent than that imposed on domestic banks. Furthermore, the restriction has been somewhat relaxed lately to allow for intra-corporate exchanges and short-term assignments after the economic crisis. On 17 June

2003, the Ministry of Industry and Trade (MITI) has established new guidelines on the employment of expatriate personnel that guarantee automatic approval of a certain number of expatriate posts and extend the length of maximum employment for both executive and non-executive posts. Again this shows the extreme fluidity of the investment regime in Malaysia.

Investment Regime: Malaysia, from [http://www.iisd.org/pdf/2004/investment\\_country\\_report\\_malaysia.pdf](http://www.iisd.org/pdf/2004/investment_country_report_malaysia.pdf)

Here, we can conclude that, even with the absence of specific laws regarding the foreign investment, Malaysia Government still has some guidance to follow in relation with Foreign Direct Investment. MITI plays an important role in determining the guidelines for Foreign Direct Investment.

## **INVESTMENT AND INDUSTRIAL POLICIES**

By the absence of specific laws considering the investment, however Malaysia does have some policies on Investment and Industries. These policies can be referred to as trade policies as well.

Basically, Malaysia has begun to have the industrial policies since the 70s and 80s which was focusing on the export. However, this was resulting to the

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export performance to be the main conditionality for foreign equity ownership and incentives were based on investment project.

However, after the years, incentives were based on the product and the activities in order to steer investment towards the 12- targeted industries in the First Malaysian Industrial Plan in the 1986 until 1995. Therefore, investment incentive has become more selective and will be depending on the priority sectors.

Below are the lists of major incentives for investment:

Pioneer Status

Investment Tax Allowance

Reinvestment Allowance

Incentives for industrial adjustment

Incentives to strengthen the Industrial Linkage Scheme: Incentives for both large companies and vendors)

Incentives for export

Incentives for promoting Malaysian Brand Name

Training incentives: including the pre training incentives, Double deduction for expenses incurred for approval training, and Human Resource development fund.

Infrastructure Allowance

## Incentives for Research and Development companies