Malaysia Trade Brief

Trade Policy

Following the East Asian financial crisis in 1997, Malaysia implemented aggressive reforms by cutting tariffs and systematically and gradually liberalizing various sectors of the economy. As a result, Malaysia now has a relatively open economy, as judged by its MFN Tariff Trade Restrictiveness Index (TTRI)[1] of 4.1 percent, below the averages for both the East Asia and Pacific (EAP) region (4.8 percent) and upper-middle-income countries (6.9 percent). The barrier to imports remains slightly higher for non-agricultural goods than for agricultural goods (TTRIs of 4.2 and 1.6 percent, respectively). Based on the MFN TTRI, it ranks 24th out of 125 countries (where 1st is least restrictive). The simple average of the MFN applied tariff rate had been steady since 2001, but then increased slightly in 2008 to 8.8 percent. Malaysia's maximum tariff on all goods (excluding alcohol and tobacco) increased by more than 65 percent in 2008 to 122 percent. The trade policy space, as measured by the wedge between bound and applied tariffs (the overhang), has remained constant in the past several years at 60 percent. This represents a change from the early 2000s when the overhang was in single digits. Malaysia taxes exports of palm oil, rubber, and timber products to encourage domestic processing. Regarding the extent of its commitment to liberalizing trade in services, Malaysia ranks 63rd out of 148 countries on the GATS Commitment Index.

In response to the food crisis, Malaysian officials attempted to barter palm oil for rice to avoid paying the high market prices in the first half of 2008, although no bartering agreements were reached at that time. As trade financing became scarcer, in January 2009, Malaysia successfully arranged several bartering deals whereby it traded palm oil with the Democratic People's Republic of Korea, Cuba, and the Russian Federation for fertilizer and machinery. Several other barter deals were proposed with countries in the Middle East but were never completed. Since the start of the world economic slowdown, Malaysia has decreased restrictions on imports of iron and steel products and removed import duties on steel.[2] The government has also provided subsidies for the country's automobile industry and instituted a scheme that would encourage Malaysians to purchase new automobiles.[3] Also, in an attempt to protect Malaysian workers, the government banned the hiring of new foreign workers in the manufacturing and services sectors after a government report predicted that 45,000 people would be laid off at the end of January. It also ordered companies that if they had to cut their work force, they should first fire foreign employees.[4] Furthermore, in April 2009, the government dropped some domestic ownership (the 30 percent Bumiputra equity) requirements on 27 services sub-sectors, facilitating foreign investment in the country.[5]

External Environment

Malaysian exporters have relatively good access to international markets. The country's Market Access TTRI[6] (including preferences) is 2.3 percent for all goods, with a significant difference between agricultural and non-agricultural goods (6.6 percent versus 1.9 percent). This is slightly lower than the average for the EAP region (3.8 percent) and equal to the average for upper-middle-income countries. The weighted average rest of the world tariff faced by Malaysian exports is 1.8 percent, with the rate faced by agricultural goods and non-agricultural goods fairly different (7.6 and 1.4 percent, respectively). In 2008 there were nine anti-dumping investigations initiated against Malaysia, which was an increase from six in 2009. This is much higher than the regional average (excluding China), which is less than two per country. Over the course of 2008, the real effective exchange rate of the Malaysian ringgit appreciated by 2.1 percent, making exports less competitive.

In January 2008, an economic partnership agreement between Malaysia and Pakistan went into effect that

---

Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank .org/wti.

If using information from this brief, please provide the following source citation: World Bank. 2010. "Malaysia Trade Brief." *World Trade Indicators 2009/10: Country Trade Briefs*. Washington, DC: World Bank. Available at http://www.worldbank.org/wti.

eliminated or reduced tariffs on many imports. As a member of the Association of South-East Asia Nations (ASEAN), Malaysia has recently been involved in the negotiation of several additional free trade agreements (FTAs). In March 2008, Japan signed an FTA with ASEAN member countries whereby Japan agreed to eliminate tariffs on 93 percent of their exports. In February 2009, an FTA was signed between ASEAN members and Australia and New Zealand, with a comprehensive framework covering goods and services as well as investment and intellectual property issues. It is expected to come into effect by the end of 2009. A bilateral trade deal between Malaysia and New Zealand was agreed upon in June 2009, but is yet to be signed. In August 2009, an FTA between India and the ASEAN countries was signed and is expected to take effect on January 1, 2010. An agreement among four countries, Malaysia, the United States, New Zealand, and Australia, was to be renegotiated in 2009.[7]

Behind the Border Constraints

Malaysia has a comparatively favorable business environment, ranking 23rd out of 183 countries in the 2010 Ease of Doing Business Index, which ranks institutional environments based on their conduciveness to business. This represented a noteworthy improvement from 25th in 2007 due to its impressive progress in simplifying its tax structure for businesses. Malaysia also maintained its ranking as first in credit availability. The Logistics Performance Index, a measure of the extent of trade facilitation, rates Malaysia at 3.48 on a scale from 1 to 5 with 5 being the highest performance, compared with 2.58 for the EAP region and 2.85 for countries in the upper-middle-income group. It ranked 27th in the world and first in the EAP region. The area in which it performed the best was the timeliness of shipments in reaching their destination, while its weakest performance was in lowering domestic logistics costs.

Trade Outcomes

In real (constant 2000 U.S. dollars) terms, the growth rate of total trade declined to 5.2 percent in 2007 and fell further to 1.6 percent in 2008. Malaysia has an export-oriented manufacturing sector, with the largest portion being electronic equipment, which composed nearly 40 percent of all exports in the first half of 2009.[8] As a result, Malaysia is likely to face contractions in GDP due to the global economic downturn.[9] This was partially felt in 2008 when export growth decelerated to 1.3 percent in real terms, having gradually slowed down from an impressive growth of 16.1 percent in 2004. Exports are projected to fall by 12.8 percent in 2009 due to significant decreases in retail demand. Real growth of imports also decelerated to an estimated 2 percent in 2008, a gradual slowing down from the 19.6 growth rate in 2004, and imports are expected to fall by 7.7 percent in 2009.

In nominal U.S. dollar terms, total trade grew by an estimated 14.2 percent in 2008, which was a slight increase from 2007 (13.6 percent). Total exports increased by an estimated 13.5 percent, driven mostly by increases in goods exports, which grew by an estimated 13.6 percent, while imports increased by an estimated 15 percent, driven by a 12.7 percent increase in imports of services and a 7 percent increase in imports of goods. However, in the first half of 2009 this trend reversed, and both exports and imports of goods contracted. Exports fell by 31.2 percent in nominal U.S. dollar terms, while imports dropped by 33.8 percent, compared to the first half of 2008.[10] This was due to substantial decreases in some of the top export categories including electrical and electronic products and palm oil, which decreased by 29.2 and 35 percent, respectively. The fall in imports in the first six months of 2009 was influenced by a fall in imports in all three main categories—intermediate, capital, and consumption goods—which decreased by 37.9, 21.9, and 15.9 percent, respectively. While trade of goods has followed the projections that it will decrease significantly in 2009, trade in services is expected to grow, albeit at a lower growth rate than it did in 2008. Foreign direct investment inflows accounted for 4.5 percent of Malaysian GDP in 2007.

Notes

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
2. World Bank PREM Trade Group, 2009, p. 3, and ESCAP, 2008, p. 4.
3. World Bank PREM Trade Group, 2009, p. 4.
4. Associated Press and Agence France-Presse, 2009.
5. WTO, 2009, p. 71.
6. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
7. Bilaterals.org, 2008; 2009a–e.
8. Department of Statistics Malaysia, June, 2009.

9. Asian Development Bank, 2009, p. 240.
10. Department of Statistics Malaysia, June, 2009.

References

Asian Development Bank. 2009. *Asian Development Outlook 2009: Rebalancing Asia's Growth*. June 26, 2009. <http://www.adb.org/Documents/Books/ADO/2009/ado2009.pdf>.

Associated Press and Agence France-Presse. January 22, 2009. "Ban on Foreign Workers." *The Straits Times*. August 31, 2009. <http://www.straitstimes.com/Breaking%2BNews/SE%2BAsia/Story/STIStory_329368.html>.

Bilaterals.org. January 1, 2008. "Pak-Malaysia FTA to Be Operational from Today." July 8, 2009. <http://www.bilaterals.org/article.php3?id_article=10840>.

———. April 2009a. "AANZFTA." <http://www.bilaterals.org/>.

———. August 15, 2009b. "India-ASEAN FTA: Trade in Goods (2009)." <http://www.bilaterals.org/>.

———. April 2009c. "Japan-ASEAN." <http://www.bilaterals.org/>.

———. May 25, 2009d. "Malaysia FTA Renegotiations to Start in June." <http://www.bilaterals.org/>.

———. June 2, 2009e. "NZ, M'sia Agree on FTA." <http://www.bilaterals.org/>.

Department of Statistics Malaysia. June, 2009. *Malaysia External Trade Statistics June 2009*. Department of Statistics Malaysia. August 31, 2009. <http://www.statistics.gov.my/eng/index.php?option=com_content&view=article&id=416:malaysian-external-trade-statistics-june-2009-&catid=39:malaysias-external-trade-statistics-&Itemid=12>.

Economic and Social Commission for Asia and the Pacific (ESCAP). June 2008. *E-TISNET Monthly News*. United Nations, New York, NY.

Energy Information Administration, U.S. Department of Energy. June 24, 2009. "Weekly Malaysia Tapis Blend Spot Price FOB." Washington, DC. <http://www.eia.doe.gov/>.

Lewis, Leo. May 14, 2008. "Food Crisis forcer Malaysia into Barter: Palm Oil for Rice." *Times Online*. <http://business.timesonline.co.uk/>.

World Bank PREM Trade Group. April 21, WTO, Geneva.