Trade and Investment Ties

Session Two of the Roundtable was chaired by Tan Sri Mohamed Jawhar Hassan, then Chairman and CEO of ISIS Malaysia, and Ambassador Yim Sung-joon, President of the Korea Fundation. The lead speakers were Dr Park Bun Soon, Senior Fellow of Samsung Economic Research Institute (SERI) South Korea, and Datuk Dr Rebecca Fatima Sta Maria, Deputy Secretary General (Trade), Ministry of International Trade and Industry (MITI) Malaysia. ISIS Analyst ***Terence Too*** *reports.*

(From left) Park Bun Soon, Ambassador Yim Sung-joon, Mohamed Jawhar Hassan, Rebecca Fatima Sta Maria

Dr Park Bun Soon presented a Korean perspective on the trade and investment ties between Korea and Malaysia. He identified a number of similarities between the economies of the two nations, particularly with regard to macroeconomic indicators. He noted that both countries experienced rapid economic growth up to the Asian Financial Crisis of 1997-98, and both countries were badly hit by the event. Though growth rates in both have largely recovered, gross fixed capital formation fell sharply after the Crisis, and has not recovered to pre-Crisis levels. Korea has however exhibited slightly higher numbers compared to Malaysia since the Asian Crisis.

Additionally, despite calls for East Asian countries to strengthen their domestic economies and domestic demand, as well as to reduce their dependence on external markets, exports of goods and services as a percentage of GDP has risen in both countries since the Asian Crisis. Thus they will face new challenges from the current global economic crisis, given their dependence on exports and the sharp contractions in their main export markets, including Japan, China, EU and the US.

In terms of differences, Park noted first that Korea has benefited from its relatively good human resources while Malaysia has taken advantage of its abundant natural resources. As a consequence, Malaysia has been able to better manage its foreign reserves directly after the Asian Crisis. Second, Korea's market size was larger than Malaysia's in terms of population, which allowed Korean entrepreneurs to enter into the manufacturing sector. Third, investment in the manufacturing sector was led by indigenous entrepreneurs, allowing Korea to achieve great technological progress.

However, in Malaysia, MNCs played a significant role in investment in the manufacturing sector. Finally, in terms of investment, Park noted that Malaysia has accumulated a large current account surplus, exceeding 15 per cent of GDP, which indicated there have been few, or insufficient investment opportunities for Malaysia since the Asian Crisis.

In examining these similarities and differences Park focused on trade and investment cooperation between Korea and Malaysia. He noted that while Korea's exports to Malaysia have largely remained stagnant over the 2000s, imports from Malaysia have increased significantly over this period. The cause of the major problem in trade between the two countries, he concluded, was the fact that Korean products were being squeezed out in Malaysia.

The first reason for the poor performance of Korean products in Malaysia over the last decade, he said, was poor Korean investments in Malaysia. While Korean investments were vigorous over the 1990s, they contracted sharply during the Asian Crisis and never recovered to their former levels until 2007. Park noted that the current trends of Korean investment and trade in the Malaysian manufacturing sector has created a demand for Korean exports.

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The second reason was Malaysia's industrial structure, which was heavily concentrated in the electronics industry. Malaysia has been participating in the international division of labour of the electronics industry, but its industrial structure was rigid and could not be easily diversified. China had begun producing and exporting manufactured products in direct competition with Korean manufacturers and, as

such, the economic link between Korea and Malaysia would depend heavily on whether Malaysia has an edge over Chinese manufacturers.

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On the way forward, Park noted that both opportunities and difficulties existed. First he proposed that the Korea-Asean FTA should be more extensively pursued; both countries should more fully commit themselves to the agreement. While Malaysia is believed to be protecting its industrial sectors to an extent, both countries should strive to achieve trade liberalisation in order to expand their exports.

Second, recently concluded FTA agreements between Japan-Asean and China-Asean may have blunted the original expectations of the potential benefits of trade creation that the Korea-Asean FTA could bring about. To address this, Park proposed a bilateral FTA between Malaysia and Korea, similar to that between Malaysia and Japan. There should also be further promotion of Korean investment into Malaysia. Noting that trade and investment ties are not independent but rather build upon one another, such as the situation during the mid-1990s, Park proposed that further efforts be made to inform Korean investors of the opportunities and merits of investing in Malaysia.

Third, Malaysia should open up its markets to allow imports to enter more freely. Malaysia's high current account surplus indicates that it has been saving too much instead of investing or raising its private consumption. One measure to boost consumption would be to make the distribution of income more equal, while another would be for MNCs to raise wage rates. While investment inflows may be reduced in the short term, this situation can stimulate investment in non-trade measures by local businesses. In the process, Malaysia's dependence on exports can be reduced and the production chain from MNCs can be reorganised to use more advanced technologies as they adjust to the new environment.

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Fourth, Malaysia must address its market size. One way would be to complete its integration into the Asean FTA. The other would be to upgrade the transport infrastructure, to integrate the Malaysian peninsula more fully with its neighbours. Even after full realisation of the Asean FTA, transport infrastructure must be of a high quality so as to reduce transport costs between Malaysia and neighbouring countries such as Vietnam and the Philippines. This will improve Malaysia's position as a market, making

it more appealing to foreign investors.

Finally, efforts to integrate with the East Asian region is vital. Advanced economies are not expected to recover quickly and the threat of rising protectionism due to domestic political pressure exists. Over the past decade, the Chinese market was important for other East Asian exports; however, as the end market for Chinese goods are in the US and EU, continued exports to China would face difficulties.

As such, to reduce transaction costs and enhance economic cooperation among East Asian countries, creating an East Asian free trade area based on the Asean +3 would be the solution. The realisation of the EAFTA would lead to a virtuous circle where rising trade would lead to rising consumption and investment. Korea should play a leading role in Northeast Asia, and Malaysia in Southeast Asia, while harmonising their actions through a close relationship.