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Economic Integration: Priorities of Malaysian foreign policy

P.Kartiban
University Malaysia Pahang

Abstract: Economic diplomacy has become one of the priorities of Malaysian foreign policy, especially during the reign of Pakatan Harapan (PH). Foreign policy is expected to have a portion of 90% for economic aspects and the remaining 10% for political aspects. The need to increase economic diplomacy aims to expand access to foreign markets and increase the volume of Malaysian exports. This growing market and export volume will lead to a noble goal, which is to encourage the domestic economy and prosper for all the people of Malaysia.

Keywords: Regional Integration, Political, foreign policy, AFTA

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Introduction

Economic diplomacy based on efforts to prosper the people has become substantial for countries in the world. One way to make this happen is by increasing trade diplomacy. International trade is an important variable in the world economy, especially when the concept of trade liberalization is born, which simply involves several countries in a framework of cooperation. The existence of the Association of the South East Asia Nation (ASEAN) is a symbol of political and economic strength in the Southeast Asian region, especially its position at the international level. The presence and existence of ASEAN has been recognized by other countries in the world, especially in the fields of economy and trade. In its development, one of the noble ideals in the field of economics was to realize the ASEAN Economic Community (MEA) in 2015 with the aim of making ASEAN a stable, prosperous, and highly competitive region. Economic relations in which include ASEAN trade and investment certainly do not only revolve between ASEAN member countries, but there is a need to cooperate with other countries or communities. This is so that various opportunities for cooperation can be utilized by ASEAN business people to compete internationally, besides that ASEAN must be able to become an attractive market for foreign investment. One of the instruments to realize these ideals is a Free Trade Agreement (FTA) that binds ASEAN with its partners, such as China, Korea, Japan, India and New Zealand. The FTA will enable ASEAN to carry out international cooperation through bilateral agreements, especially in the international economic field. China is one of several ASEAN partners that shows the most rapid economic development.

This development is not only felt by ASEAN, but has also been recognized by the world, even the United States. This progress was driven by China's post-reformation Deng Xio Ping, where Chinese-made products managed to reach markets in various parts of the world. One factor in the size of the Chinese economy and market lies in the large population of China, which is supported by the existence of advanced technology and infrastructure that can support this bamboo curtain country. The products produced by China in majority have qualities that can be rivaled with other products, at a more affordable price (Booth, 2016). The ASEAN-China Free Trade Agreement (ACFTA) Competency is marked by the proposal from Zhu Rongji, the former Prime Minister of China in the 6th ASEAN Summit in 2000. The partnership between ASEAN and China is the most important and profitable relationship for China. ASEAN is a chosen Chinese community because it is considered to be a big market for Chinese export activities and to become a supplier of the needs of Chinese-owned industries (Pieterse, Embong, & Tham, 2017).

Historical Establishment of Representative Office

Taiwan Representative Office in Malaysia

Diplomatic relations between Malaysia and Taiwan began in 1960 with the opening of the Taiwan Consulate in Kuala Lumpur in 1964 and upgraded the Taiwan Consulate to the Taiwan Consulate General in 1969. However, when diplomatic relations between Malaysia and Taiwan ended on May 31, 1974 Taiwan Consulate General in Kuala Lumpur closed and renamed Fareast Trading & Tourism Center Sdn Bhd in August 1974.Malaysia agreed that Fareast Trading & Tourism Center Sdn Bhd was upgraded and converted to the Taipei Economic and Cultural Center in Malaysia to represent the status of the Taiwan Government organization in 1988. Then, on 13 July 1992 the Malaysian Government agreed to upgrade the name of Taipei Economic and Cultural Center in Malaysia to Taipei Economic and Cultural Office in Malaysia.

Malaysian Representative Office in Taiwan

When the diplomatic relations between Malaysia and Taiwan ended in 1974, the Malaysian Consulate in Taipei was later closed. Furthermore, Malaysian entities in Taiwan were only represented by the Malaysian Airlines System Company (MAS) in 1979. In October 1983, the Malaysian Trade Office was established and subsequently converted to the Friendship and Trade Exchange Center (FTEC). Immigration Department joined the FTEC in 1985. The FTEC Office was expanded with the creation of the Economic Division in March 1987 and the FTEC name was changed to the Malaysian Friendship and Trade Center (MFTC) in Malaysia. Subsequently, the Investment Division (MIDA) was established in May 1988, and was followed by the Tourism Division in 1989. Although Malaysia and Taiwan have no diplomatic relations, both sides have established significant cooperation in trade, investment, social and cultural fields.

Economic and Trade Relations

According to Taiwan Customs statistical information, bilateral trade between Malaysia and Taiwan for 2015 is USD13.68 billion, where exports from Taiwan to Malaysia is USD7.13 billion, while imports from Malaysia to Taiwan is USD6.54 billion. Primary export products from Taiwan to Malaysia are motor and equipment, natural gas, mineral oil and refining products, machinery and mechanical parts, iron and steel products, plastics and its products, chemical products and optical products. Taiwan imports are natural gas, motors and equipment, optical products, machinery and mechanical parts, wood and wood products, chemical products, plastics and their products. Taiwan is the sixth largest trading partner, also the sixth largest supply source and the 12th export market, for Malaysia for 2015.

Investment Relations

Taiwan's investment in Malaysia for 2015 is USD297.32 million, compared to 2014, growing 84.25%, ranking seven foreign investors. As of 2015, Taiwan's accumulated investment in Malaysia is USD12.11 billion behind the US, Japan and Singapore, ranked fourth in Malaysia. Primary investment sectors from Taiwan to Malaysia are basic metal products, electrical and electronic products, machinery and mechanical parts, non-metallic mineral products, petrochemical products, food manufacturing, wood production, furniture, chemicals and chemical products, metal foundries, scientific and measuring equipment, rubber products, plastic products, transport equipment, paper manufacture, printing and publishing.

Investment

Taiwan and Malaysia signed the "Investment and Protection Promotion Agreement between Taiwan and Malaysia" on the 18th day of February, 1993, whereby investment from Taiwan to Malaysia was allocated.

Tax

"Double tax evasion agreements and tax avoidance tax between Taiwan and Malaysia" were signed on July 23, 1996. Taiwan obtained a referral authorization from Executive Yuan on January 29, 1997. The Government of Malaysia officiated the announcement and voting in effect on February 1999.

Travel Tourism

Based on migration statistics, in 2017, the number of Malaysian tourists visiting Taiwan was 528,019. Meanwhile, Taiwanese tourists traveling to Malaysia totaled 332,927 people. For the years 2018 January to November reaches 453,666 Malaysian tourists to Taiwan, The number of Taiwanese tourists to Malaysia this year for January to November is 299,835. Taiwan implemented a free 14-day visa grant for Malaysian tourists since Nov 2002; On May 1, 2003 free visa period extended up to 30 days to Malaysian tourists. The Malaysian government gave Taiwan to allow Malaysian travelers to use 14-day arrival visas since Nov 2003; On 1 Sep 2006, the duration of the arrival visa is extended to 30 days for Malaysian tourists. In addition, on March 15, 2009, the Malaysian government had canceled free visa grant to Taiwanese tourists. On March 18, the Malaysian government allowed Taiwanese visitors to enjoy a 15-day visa period in Malaysia. Since September 15, 2015 Taiwanese travelers can enjoy a 30-day visa period in Malaysia. Based on the above information has shown cooperation between Malaysia and Taiwan in the relationship between the two countries promoting tourism. Unfortunately, compared to other ASEAN members such as Singapore, Indonesia, Thailand, and Vietnam, the flow of Chinese foreign capital into Malaysia is still relatively low. ASEAN Integration Report 2017 states that one of the reasons ASEAN partners are reluctant to invest in a country is the lack of investment protection set out in fair and equitable treatment principles. It is often linked to the presence of an investment barrier imposed in a country. Indonesia is one of the few FDI Restrictions in the country compared to other ASEAN member states, such as regulations, taxes, human resources, infrastructure, and others.

How these regional integrations affect or influence the participant countries.

As a result of the AEC agreement, China has invested RM4.77 billion in 33 local manufacturing projects involving 22 property development projects, with a gross development value of RM581.2 billion. The report also noted that cooperation between the two countries, especially for the KLIA Aeropolis Free Trade Zone (DFTZ) and other projects of the e-commerce segment, could attract more interest in the logistics segment (Idris, & Othman, 2016).Funds from the One Belt One Road China initiative are used to finance the Kuala Linggi International Port (KLIP) at a cost of RM12.5 billion. This is just the beginning of more potential cooperation, when e-commerce is rapidly developing. It seems (e-commerce) will not stop, and this may cause more ports in Malaysia to be expanded to meet demand from the industry. (Idris, & Othman, 2016). The report also revealed that despite China's restraining of capital outflows, as well as the surplus in real estate in the country, China's investor interest in the country remains, focusing on manufacturing, logistics, construction and property segments. More Chinese developers are also seen joining smaller and specialized projects targeting the domestic market. (Idris, & Othman, 2016). Asked whether this would have a negative impact on local developers, the local industry would benefit from this stream as a result of technological transfer, while more manufacturers are expected to open production facilities in Malaysia in the future. The report also stated that between 15 percent to 25 percent of the 500 major Chinese corporations said they were aiming to invest in ASEAN and Malaysia as a preferred destination. Tariff-free access to regional markets, low operating costs and tax incentives are amongst the attractive deals that attract these investors to Malaysia (Andaman, Yusop, Noor & Kaliappan, 2016).

Issues

Following the recent government of Pakatan Harapan (PH) which was formed after the 14th general election (GE13), China's taytan newspaper, also Malaysia's digital economic adviser, Jack Ma, described China-Malaysia's relationship to be too big to fail. The Hong Kong-based South China Morning Post portal reported this, quoting an expert analysis from the Economist Intelligence Unit, Fung Siu, who believes any change is only a 'small scale'. As cited by Nambiar, (2017) it also reports Alex Holmes, an economist from London's Capital Economics, which expects investment from China to Malaysia to be expected to decline in the next few years. Under the Barisan Nasional (BN) government, Malaysia is China's fourth largest investment payer last year, compared to 2015 when it was 21st. DBS Bank reported that China's investment in Malaysia last year was valued at US $ 2.36 billion (Devadason, 2018). Below is the total Chinese investment in Malaysia as shown below:- However, Universiti Putra Malaysia (UPM) Faculty of Economics and Management Lecturer Dr Yusof Saari argues that the current Pakatan Harapan (PH) government will not cancel the project involving China if it would bring benefits to Malaysia. According to him, everything depends on government research and research. And decisions depend on the financial position, repayment ability and the extent to which the project generates future returns (Nambiar, 2017). Malaysia is one of the best destinations for foreign direct investment in Southeast Asia for 2017. Our country is also one of East Asia's top listed countries that is easy to trade compared with other neighboring countries. In addition, Malaysia is also the sixth best country to invest in Asia. The question is, does Malaysia need foreign investors? And will it help in terms of strengthening the economy of this country? The answers to these questions are affirmative. As we know, foreign direct investment can increase job opportunities, especially in industrial sectors whether skilled or semi-skilled labor. It will also indirectly reduce the unemployment rate in our country. Not only that, foreign direct investment also strengthens the value of the Malaysian Ringgit as foreign money has been invested in the country using the ringgit currency. This will also help reduce the inflation rate in the country as Malaysia's currency will become more valuable and strong among foreign currencies, thereby reducing inflation. Hence, foreign direct investment enables the transfer of modern technology as well as expertise into our developing developing countries and ultimately Malaysia can learn these technologies from foreign-invested countries. However, what steps have been taken by the Malaysian government to ensure that this country becomes the preferred choice of foreign investors?

Through the efforts examined, among others, through the Malaysian government's policy of spending wisely in building international standards of infrastructure. This can be seen through the construction of the Kuala Lumpur International Airport 2 (KLIA2), the East Coast Railways Project (ECRL), MRT, Pan Borneo Highway, Tun Razak Interchange (TRX) and others. Such construction has resulted in savings in terms of time.Not only that, our low exchange rate at the moment also has given foreign investors the opportunity to invest in Malaysia. In addition, we also have a very mature banking system. Looking at the importance of foreign investment in Malaysia, we need to understand the factors that cause foreign investors to invest in the country. One factor, Malaysia itself has a more stable political environment than neighboring countries. In addition, Malaysia is also a unique country with racial diversity between Malay, Chinese, Indian and many more. More proudly, the Malays have a thoughtful thought with a brilliant idea by embarking on and opening up and Muslim and halal markets. In fact, the country also has a high loan approval rate and this will facilitate foreign investors to manage their investments in Malaysia. In addition, our country also applies common law laws that are practiced by the international community. Of course, these foreign investors will be more comfortable investing in the country because the laws are used much the same. Not only that, most Malaysians are now highly educated, where they have various qualifications such as diplomas, degrees, scholars and so on. This is also one of the factors that encourage foreign investors to invest in Malaysia. Skilled manpower is very easily found amongst the people of this country following Malaysia's position as an education hub in the Southeast Asian region. Therefore, as a responsible Malaysian citizen, all parties must have the confidence to assist in attracting foreign direct investment to the country. As more and more foreign investment goes here, it is thus highlighting the image of our nation as a country capable of competing with developed countries. Therefore, as a responsible person we must increase our productivity for the sake of survival of the nation. Therefore I doubtless assert that the optimism of our country's competitive ability will increase from time to time so Malaysia can become a high-income nation and compete as a developed country.

The following are suggestions that can be used by the Malaysian government to strengthen international cooperation:

i. Increase Income, Reduce Costs

To create financial space and immediate and long-term efforts have been proposed by the Public Finance Laboratory to increase income, reduce costs and empower the country's economy. This will enable the Government to deal with any deficiencies, settle its debts and invest in the future.

These proposals are grouped into six main areas, namely the implementation of taxation, refining corporate tax incentives, transparent acquisitions, dual accounting fiber expenditure controls, and services . A total of six efforts will be implemented to increase tax collection. These include expanding the field of investigations and audits, broadening the tax base and enhancing the audit capabilities and enforcement of the Customs Department. Actions are also taken to control the Government's expenditure in four areas, namely subsidy compatibility, procurement, travel expenses and payments to statutory materials.

Refine the Role of Government in Business

In the SRI laboratories discussing the Government's Entrepreneurship in Business, the Government is urged to work to ensure the boundaries between business and enforcement are clearly separated so as not to break any conflicts or conflicts of interest and promote a fairer market thus attracting investments from the private sector. This policy will also enable Malaysia to reap the benefits in terms of savings and financial markets that are strong and credible. This will further enhance the country's financial position as well as drive the country's growth. Each investment will also have a strategy for the government to escort its presence. The Government will refine each of its investments, starting with 33 companies that have been identified for release either by listing on the stock exchange, reduced holdings or lump-sum sales. For other businesses, the Government of Malaysia is determined to build a structure to improve its operational level. The unit to monitor every government-linked company (GLC) will be set up to monitor the loyalty of the company and statutory bodies involved. This performance information is also disseminated to the people through its web site to ensure transparency and the relevant party assumes full responsibility

Developing Human Capital for High Income Economy

Malaysia is also keen to develop human capital, starting with the effort to update its labor laws. A total of four Acts will be reviewed and widely amended to accommodate the current needs of the various parties involved. As Malaysia is also moving towards a productivity-based payroll system, where workers are compensated by the amount of work done, the Human Resources ministry will also announce a minimum wage by the end of this year. Increased labor skills is vital to building human capital for high-income economies. In this regard, Talent Corporation will assist in developing a detailed program for specific areas in line with the NKEAs and the City and Next Corridor Laboratories. The European Union (usually abbreviated as EU), is an economic and political collaboration involving 28 European countries. This agreement began after World War 2 with the aim of helping to restore economic cooperation. The rationale is that European countries cooperate in terms of trade, so the potential for conflict (read: war) between European countries will be easier to avoid. In its development, the EU grew into a "single market" that allowed human migration and circulation of goods in its territory without bureaucratic barriers, like the traffic of goods and services in one country. The EU then also has a single currency, namely the euro which was launched January 1, 2002 and used by 19 EU member countries. The EU also has its own parliament and now rules for sectors other than the economy including the environment, transportation, consumer rights and even cellular telephone credit costs. Brexit is an acronym for Britain Exit, which is a term that has a definition of Britain's exit from the EU. This acronym is similar to Grexit, which is an acronym for Greek Exit, which was popular when Greece, which was hit by political and economic turmoil at the time, was expected to leave EU membership. The decision was taken based on a referendum held on June 23, 2016, in which the majority of the British people (52%) wanted Britain to leave the EU. The number of British people who participated in voting now reached 30 (thirty) million people, or around 71.8% of the total number of British people. David Cameron resigned from his position as Prime Minister of the United Kingdom the day after the referendum, later replaced by Theresa May who previously served as the interior minister of the United Kingdom. Like Cameron, May was also opposed to Britain's exit from the EU but he stated that he would respect the people's choices. May has repeatedly emphasized that "Brexit is Brexit", but there is still much debate about what the impact is especially on two main issues: how British companies will do business in the European Union and what restrictions EU countries will apply to their citizens to live and work in England. The UK economy is likely to hold past the initial shock caused by the Brexit referendum results, although the pound exchange rate moved near a 30-year low, but there are different opinions about how the UK economy will run for the long term after leaving the EU. Some large companies such as Easyjet and John Lewis noted that the weakening of sterling has made their budget costs swell. The UK has also lost its AAA credit rating, which means that government borrowing costs will be higher. Nonetheless, stock prices have experienced a recovery after an extraordinary weakening, including shares of companies based in the UK which traded higher than before the referendum. The Bank of England cut interest rates for the first time since 2009, from 0.5% to 0.25%, which is the lowest level of all time. So far there has been no economic recession as many have predicted. To get out of the EU, Britain must seek approval in accordance with Article 50 of the Lisbon Treaty which gives time for both parties (Britain and EU) for two years to make an agreement regarding the separation. Theresa May has stated that she intends to start the process at the end of March 2017, which means that Britain is expected to officially leave the EU in the summer of 2019. That will also depend on the agreement reached in negotiations between the UK and EU. The British government will also set up a Great Repeal Bill that will end EU supremacy in Britain. All regulations that have been made by the European Union for the past 40 years when Britain is still a member will be collected in one book, after the government decides which must be maintained, changed or deleted.

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