Economic Synergies Between Australia and Malaysia

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This paper outlines trends in Australia-Malaysia bilateral trade and investment. It describes how the merchandise trade balance has shifted in Malaysia's favour, while the balance of services trade is again in Australia's favour. Surprisingly, the level of Malaysian investment in Australia is significantly greater than Australia's investment in Malaysia, which has fallen sharply since the 1997 Asian financial crisis.

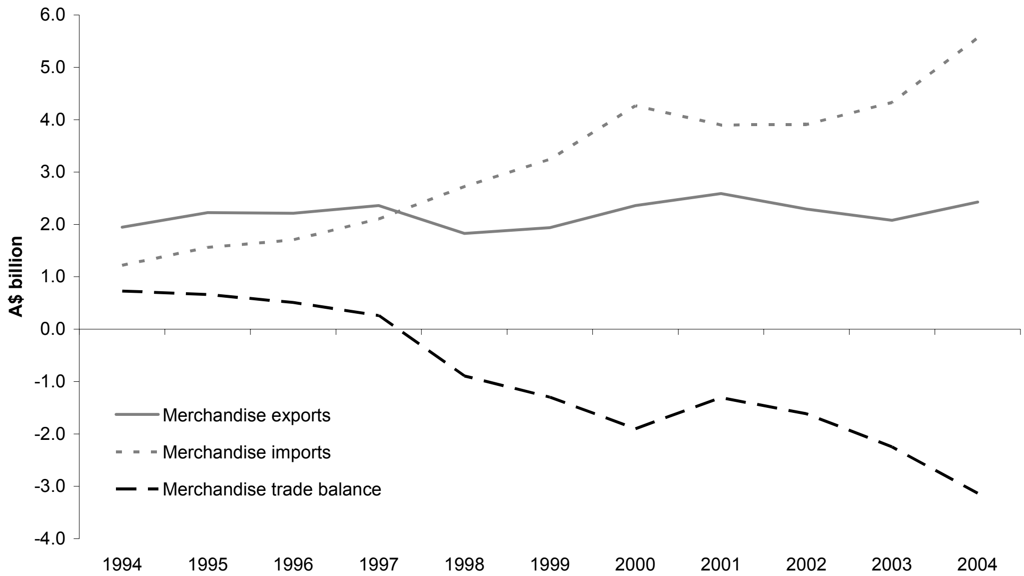
AUSTRALIAN-MALAYSIAN TRADE FLOWS

Australia and Malaysia enjoy a strong trading relationship reflecting the complementary nature of the two economies. Bilateral merchandise trade reached A$8 billion in 2004, accounting for 3.1 per cent of all Australian trade and ranking Malaysia as Australia's ninth largest goods trading partner. Before the Asian financial crisis, the balance of merchandise trade was in Australia's favour with rapid growth and a strong ringgit fuelling Malaysia's import demand (Figure 1). However, the crisis shifted the trade balance in favour of Malaysia as domestic demand contracted sharply causing Australian exports to Malaysia to fall significantly during that period. While Australian exports have recovered from the crisis lows, the trade balance remains strongly in favour of Malaysia, largely reflecting its increased exports of information technology-related and petroleum products to Australia and strong growth in the Australian economy.

Figure 1

Trading places – trade surplus now favours Malaysia

Australia's merchandise trade with Malaysia, A$ billion, 1994 to 2004



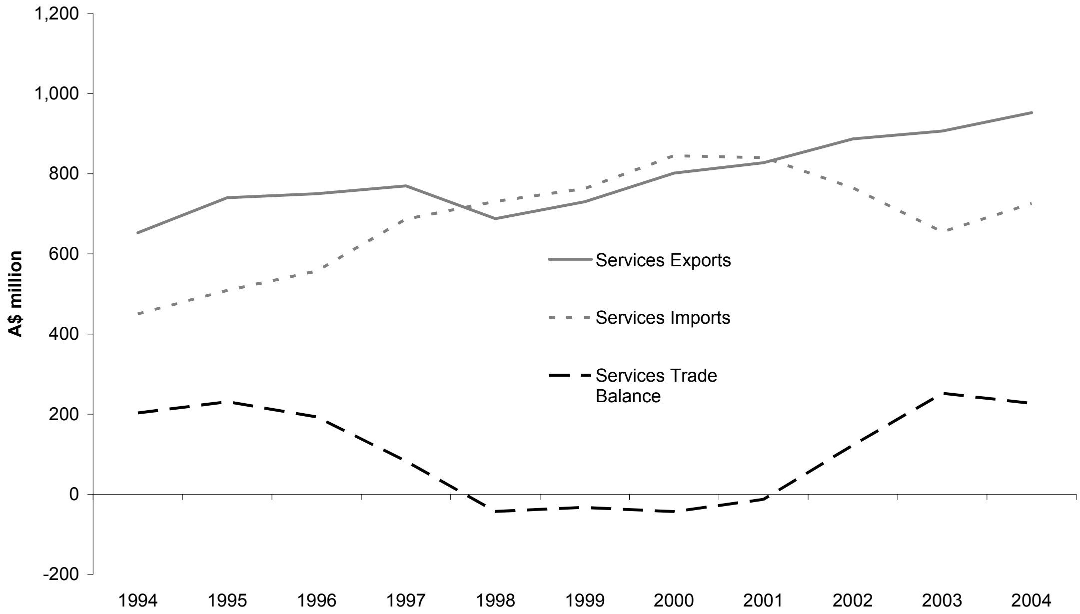
Source: Department of Foreign Affairs and Trade STARS database, 2005.

Australia's service exports have grown steadily over the past decade or so, notwithstanding a slight downturn in the wake of the Asian financial crisis. Bilateral service trade reached A$1.7 billion in 2004. The service trade balance has shifted back in favour of Australia as Australia's service exports recovered and continued to grow while service imports from Malaysia fell in recent years (Figure 2).

Figure 2

Australia – a net service exporter to Malaysia

Australia's services trade with Malaysia, A$ million, 1994 to 2004



Source: Department of Foreign Affairs and Trade STARS database, 2005.

AUSTRALIAN EXPORTS TO MALAYSIA

Australia's exports to Malaysia are predominantly agricultural products, simply transformed mineral-based manufactures and education-related travel services. There are 3750 Australian exporters with Malaysia as an export destination, making Malaysia number seven as a destination for Australian exporters and second among the ASEAN economies behind Singapore (Austrade, 2004a).

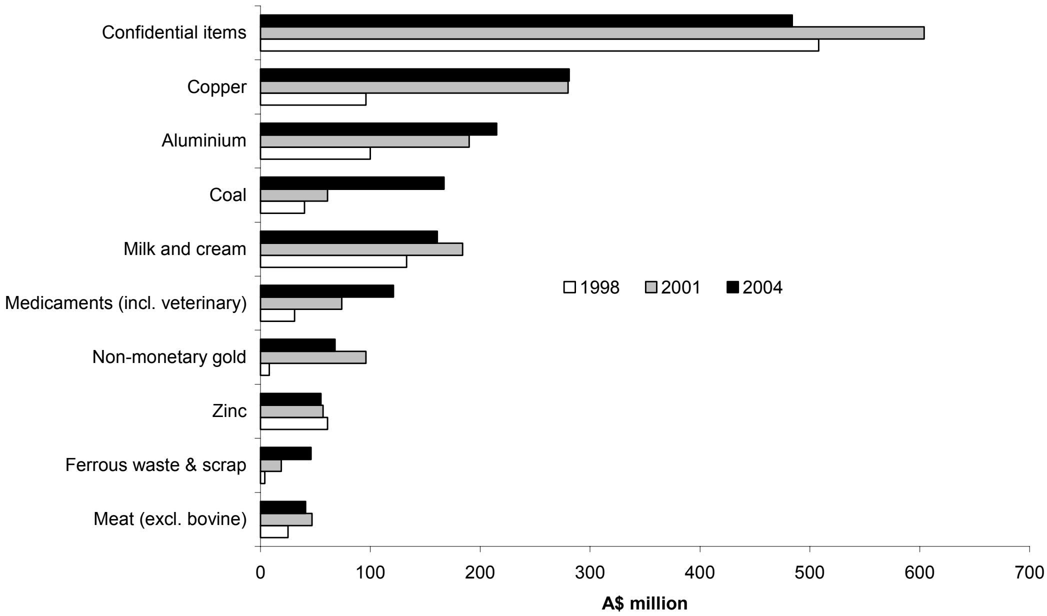
Merchandise exports

Commodities and simply transformed manufactures make up nine of the top ten merchandise Australian exports to Malaysia. In 2004, Australia's merchandise exports to Malaysia valued at A$2.4 billion included sugar and wheat, refined copper, unwrought aluminium, unwrought zinc, coal, milk and cream, medicaments, meat, live animals and fruit (Figure 3).

Figure 3

Commodities dominate merchandise exports

Top 10 Australian exports to Malaysia, A$ million, 1998 to 2004



Notes: Confidential items include raw cane sugar and wheat.
Source: Department of Foreign Affairs and Trade STARS database, 2005.

Commodities are an important component of Australia's exports to Malaysia. However, commodities – with the exception of oil – are not part of Malaysia's top ten imports. Australian exports to Malaysia actually fell in two of Malaysia's top ten categories in the five years to 2003-04 (Table 1).

Table 1

Australia not part of Malaysia's top 10 imports

Top 10 Malaysian imports, share of total imports, per cent, 2003

SITC classification	Description	Per cent of total imports	Australian exports to Malaysia
			Average annual 5-year growth[a]
776	Transistors, valves, etc.	30.0	22.4
759	Parts and accessories for office machines	5.4	-8.9
772	Electrical switcher relays, circuits, n.e.s.	3.8	1.9
764	Telecommunication equipment, parts, accessories	3.7	1.8
778	Electrical machinery and apparatus n.e.s.	3.1	25.0
334	Petroleum products, refined	2.7	22.3
752	Automatic data processing equipment	2.2	1.8
333	Crude petroleum	2.0	-
874	Measuring and controlling instruments	1.6	17.9
728	Other machinery for special industries	1.5	-15.9
	Total top 10 imports	**56.1**	**1.4**

Note: a. 2003-04 data.
Source: MATRADE, www.matrade.gov.my, accessed 29 October 2004; DFAT STARS database.

The Asian financial crisis has had a lingering effect on Malaysian automotive imports. Australia's motor vehicle and parts exports to Malaysia fell sharply from over A$82.9 million in 1996 to A$11.4 million in 2004 (Table 2).

This trend is not limited to Australia; total Malaysian passenger motor vehicle imports peaked at US$1.7 billion in 1996, shrank to US$0.4 billion in 1998, and recovered to around US$1.1 billion in 2003. While Australian exports to Malaysia of passenger motor vehicles and motor vehicles for transporting goods recovered in 2003, exports of passenger motor vehicles amounted to only A$2.1 million in 2004.

Table 2

Australian motor vehicle and parts exports to Malaysia have fallen sharply since 1996-1997

Australian exports of motor vehicles and parts to Malaysia, A$ thousands, 1996 to 2004

	1996	1997	2003	2004
Passenger motor vehicles	28039	9746	14246	2104
Motor vehicles for transporting goods	6960	9061	3434	618
Other road motor vehicles	4304	3288		
Motor vehicle parts	18701	20076	8525	8118
Motorcycles	232	65	67	16
Trailers & semi-trailers	585	645	1945	484
Railway vehicles	24107	47592	2255	69
Total	**82928**	**90473**	**30472**	**11409**

Source: Department of Foreign Affairs and Trade STARS database, 2005.

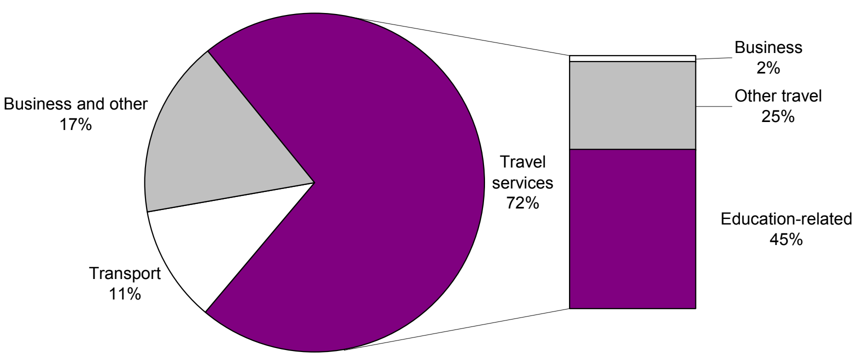
Service exports

Australia's service exports to Malaysia were valued at A$952 million in 2004. Around 70 per cent are 'travel services', of which nearly two thirds is education-related (Figure 4). After falling by 7 per cent in the wake of the Asian financial crisis, exports of education-related travel services have grown on average close to 10 per cent each year since 1998-1999. Tourist flows also are strengthening; in 2004, there were over 166 900 short-term visitor arrivals from Malaysia, making it the second largest source of visitors from South East Asia.

Figure 4

Education-related travel dominates service exports

Composition of Australian service exports to Malaysia, 2002-03



Source: Department of Foreign Affairs and Trade STARS database.

AUSTRALIAN IMPORTS FROM MALAYSIA

Malaysia's pattern of exports to Australia reflects its comparative advantage in assembled and elaborately transformed manufactures (office machines, computers and stereos), petroleum, gas, crude oil and furniture.

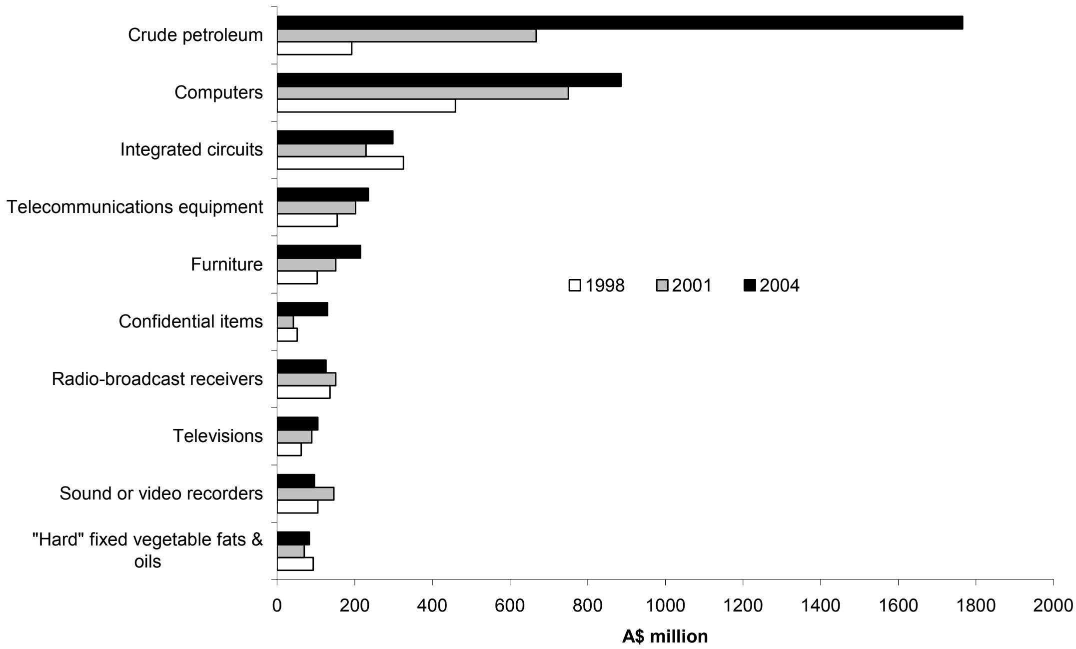
Merchandise imports

In 2003, Australia was Malaysia's tenth-largest export destination with information and communication technology making up the bulk of the top ten exports (Figure 5). Australian merchandise imports from Malaysia, valued at A$5.6 billion in 2004, included crude oil, computers, integrated circuits, telecommunications equipment, furniture, radios, televisions, sound or video recorders and vegetable fats. Crude petroleum imports have shown exceptional growth in recent years as Australia has diversified its energy import base. Australian imports from Malaysia have tapered off since 2000, partly in response to curtailed business spending on information and communication technology following the electronics downturn. By grouping – although not necessarily by size – there is almost a perfect overlap of Malaysia's top 10 exports to the world and Australia's top 10 imports from Malaysia, with crude petroleum, computers, integrated circuits, telecommunications equipment and sound recorders featuring in both sets of statistics (Table 3).

Figure 5

Information and communication technology dominates Australian merchandise imports

Top 10 Australian imports from Malaysia, A$ million, 1998 to 2004



Notes: Confidential items include non-crude oil, for example, oil from petrol and bituminous mineral.

Source: Department of Foreign Affairs and Trade STARS database, 2005.

Table 3

Electronic and electrical equipment dominate Malaysia's exports to the world

Top 10 exports, share of total merchandise exports, per cent, 2003

SITC Classification	Description	Export share
776	Transistors, valves, etc.	21.4
752	Automatic data processing equipment	10.2
759	Parts and accessories for office machines	5.8
764	Telecommunication equipment, parts, accessories	5.0
422	Fixed vegetable fats, oils, crude, refined, not soft	4.8
333	Petroleum oils, crude	4.0
343	Natural gas	3.3
772	Electrical switcher relays, circuits, n.e.s.	3.0
334	Petroleum products	2.1
763	Sound recorders, phonographs	1.8
	Total top 10 exports	**61.3**

Source: MATRADE, www.matrade.gov.my, accessed 29 October 2004.

Service imports

Australia's service imports from Malaysia were around A$726 million in 2004. This trade mainly took the form of transportation services and travel services. Around 144 300 Australians visited Malaysia in 2004, compared with 100 800 in 2003.

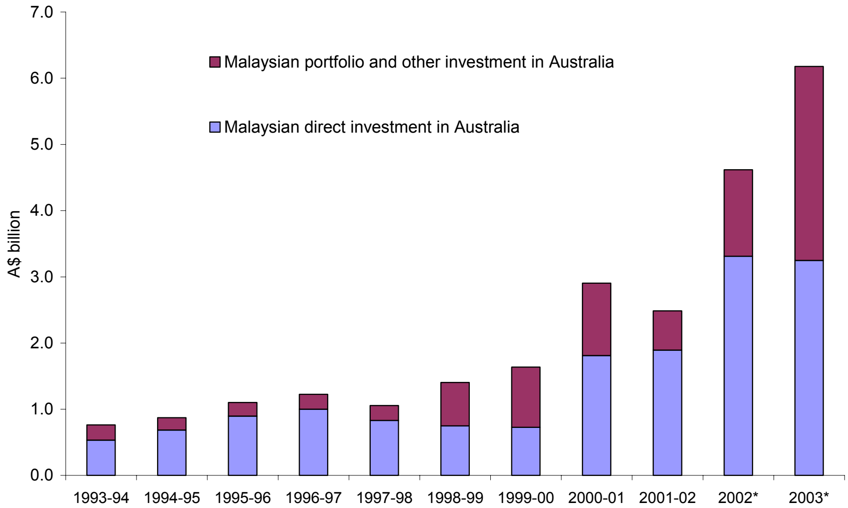
TRENDS IN BILATERAL INVESTMENT

Malaysian investment in Australia has grown steadily over the past decade. In December 2003, Malaysian investment in Australia was valued at over A$6.2 billion representing 0.6 per cent of total foreign investment in Australia. While Malaysia's share of total investment in Australia is small, it has been rising steadily over the past decade and has risen sharply in recent years (Figure 6). In contrast, Australian investment in Malaysia has been declining since 1997 (Figure 7). In December 2003, the level of Australian investment in Malaysia was valued at A$485 million, representing under 0.1 per cent of Australia's total investment abroad. Malaysia's continued economic development should encourage Australian investors to seize emerging opportunities, particularly in service-based investments such as health, education and infrastructure development. Direct investment forms the bulk of investment between the two countries.

Figure 6

Malaysian investment in Australia increasing

Malaysian investment in Australia, stocks, A$ billion, 1993-94 to 2003

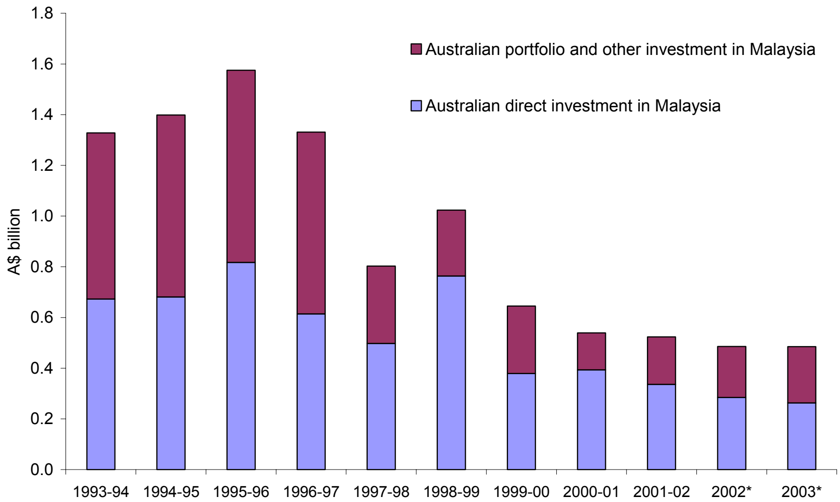


Source: Australian Bureau of Statistics, 2004.
Note: *Calendar year as at 31 December.

Figure 7

Australian investment in Malaysia has fallen sharply since the Asian financial crisis

Australian investment in Malaysia, stocks, A$ billion, 1993-94 to 2003



Source: Australian Bureau of Statistics, 2004.
Note: *Calendar year as at 31 December.

Australian direct investment in Malaysia

Australian direct investment in Malaysia fell to A$263 million in December 2003, less than a third of the level reached in June 1996 in Australian dollar terms. There are, however, a number of prominent Australian companies with an ongoing commitment to operations in Malaysia. These companies include Leighton, Bluescope Steel, Amcor, Ansell International, Boral, CSR and Monash University Malaysia. All have contributed importantly to Malaysia's industrial and infrastructure development. For instance, Leighton has won high-profile construction contracts for road building, teachers' accommodation and power infrastructure projects. Monash University Malaysia is a prominent private university in Malaysia and a leader in research into Islamic banking.

A stronger Malaysian domestic sector, the move up the value chain for exporters, and progressive freeing up of restrictions, could well lead to a revival of foreign direct investment.

Malaysian direct investment in Australia

Total Malaysian foreign direct investment in Australia was A$3.2 billion in December 2003, more than four times what it was in June 1999 and equivalent to 1.3 per cent of total foreign direct investment stocks in Australia.

A lack of data means it is not possible to provide a precise sectoral breakdown of Malaysian investment in Australia. According to the Malaysia Australia Business Council, there are major Malaysian investments in energy, agribusiness, manufacturing, real estate, restaurants, travel agents and the gaming industry. Petronas is a significant investor in Australia.

Figures provided by the Australian Foreign Investment Review Board on proposed investments show that Malaysian investors have been focusing on the real estate sector in recent years. In 2001-02, 92 per cent of the value of proposed Malaysian investment in Australia was in real estate. Real estate accounted for 72 per cent of proposed investment in 1997-98 and 55 per cent in 1996-97.

TRADE ENVIRONMENT

Malaysia has a very high trade orientation, quite low average tariffs, modest inter-industry tariff dispersion, and limited incidence of non-tariff barriers. Malaysia is a member of the Cairns Group, and is an active member of the World Trade Organisation (WTO) and of regional economic arrangements, including the ASEAN Free Trade Area (AFTA) and the Asia-Pacific Economic Cooperation.[1] Malaysia currently is pursuing bilateral free trade agreement (FTA) negotiations with Japan and also is conducting separate parallel scoping studies with Australia and New Zealand on a possible bilateral FTA.

In the AFTA context, Malaysia places a high priority on the early implementation of the common effective preferential tariff scheme which provides for concessional tariffs on intra-ASEAN trade. However, Malaysia continues to offer significant protection for its automotive industry. Malaysian market access for foreign service providers remains limited in the financial and professional services sectors.

Malaysian average tariffs low but some significant tariff peaks remain

The Malaysian economy is relatively open to both trade in goods and foreign investment, although rice and automotive products are notable exceptions (World Trade Organization, 2001). More than half of all tariff lines are duty free and less than one per cent attract non-*ad valorem* rates (Table 4).

Malaysia's longstanding commitment to maintaining a relatively open trade and investment regime has largely been maintained, although various measures were introduced after the Asian financial crisis. There was an increase in the degree of dispersion of tariff rates because of high tariff peaks relating to a few product lines, increased reliance on non-automatic licensing to regulate some imports that directly compete with domestic production by public sector enterprises, and delays in meeting commitments under the General Agreement on Trade in Services (GATS) (Athukorala, 2002). Malaysia's average applied most-favoured nation tariff

[1] The Cairns group is a coalition of 17 agricultural exporting countries lobbying for agricultural trade liberalisation. Current members are Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand and Uruguay.

increased from 8.1 per cent in 1997 to 9.2 per cent in 2001, but is still well below the 15.2 per cent rate in 1993 (Table 4).

Table 4

Malaysian tariffs falling

Tariff Structure of Malaysia, per cent, 1988-2001

	1988	1993	1997	2001
Number of tariff lines	12 183	11 875	10 372	10 368
Bound tariff lines[a]	0.8	0.8	63.7	63.5
Duty-free tariff lines[a]	10.3	13.4	58.6	58.3
Specific and mixed tariffs[a,b]	22.2	12	4.5	0.7
Tariffs with no *ad valorem* equivalent[a]	7.4	5.9	4.5	0.7
Simple average applied rate	17.5	15.2	8.1	9.2
Agriculture (HS01-24)	7.7	7.3	4.8	3.5
Industrial products (HS 25-93)	14.8	14.7	8.5	9.9
Tariff range	0–207.7	0–140	0–200	0–300
Domestic tariff peaks[c]	0.8	2.2	15.8	9.6
International tariff peaks[d]	51.3	49.1	25.9	23.8
Coefficient of variation	91	86	170	210
Simple average tariff by stage of processing				
Raw materials	14.6	14.3	1.0	0.9
Agricultural products	16.9	16.5	0.6	0.5
Mining products	3.6	3.8	1.0	1.0
Manufactured products	5.9	5.8	3.2	3.0
Semi-processed products	18.3	15.3	7.0	7.7
Fully processed products	18.1	15.4	11.9	13.6

Source: Athukorala, 2002.

Notes: a. Percentage of total tariff lines. A bound tariff is a legal obligation not to raise tariffs on particular products above the specified rate agreed in World Trade Organization negotiations and incorporated on a country's schedule of concessions. Bound rates are ceilings on tariffs; they are often higher than the applied tariff rates.

b. Specific tariffs are tariffs that are expressed as a monetary amount per unit quantity of the goods, for example, $15 per tonne. A mixed tariff is either an ad valorem or specific rate with the rate payable being whichever returns the higher or lower level of duty, for example, $2.00 per kg or 5 per cent, whichever is higher/lower.

c. Domestic tariff peaks are defined as those exceeding three times the overall simple average MFN rate.

d. International tariff peaks are defined as those exceeding 15 per cent.

In 2001, around one fifth of Malaysian tariffs were classified as an international tariff peak, defined as a tariff that is 15 per cent or higher (Table 4). Most of these peaks were in the non-agricultural sector (Table 5). The car industry, in particular, attracts substantial tariffs, ranging from five to 200 per cent (the top rate was recently lowered from 300 per cent), which may have hampered a recovery in the Malaysian imported car market. The domestic automotive sector has been effectively sheltered from foreign competition by high tariffs and various incentives. According to the World Trade Organization (2001) while the sector has been successful in winning a large share of the domestic market, its exports are modest – contrary to stated objectives – suggesting a lack of external competitiveness.

Table 5

Non-agricultural items dominate tariff peaks

Malaysia's international tariff peaks, selected 4-digit HS codes, 2001[a]

HS Code	Description	Tariff peak per cent
8703	Passenger motor vehicles	300[b]
8708	Motor vehicles parts and accessories	70
8711	Motorcycles	60
7003	Cast glass and rolled glass	60
6908	Glazed ceramic flags and paving, hearth or wall tiles	60
9613	Cigarette lighters	50
8704	Motor vehicles for the transport of goods	50
8705	Special purpose motor vehicles	50
3604	Fireworks, signalling flares, rain rockets, fog signals and other pyrotechnic articles	50
3606	Ferro-cerium and other pyrophoric alloys in all forms	50
4011	New pneumatic tyres, of rubber	40
4412	Plywood, veneered panels and similar laminated wood	40
9106	Time of day recording apparatus	35
8528	Reception apparatus for television	35
8414	Air or vacuum pumps, air or other gas compressors and fans	35
9701	Paintings, drawings and pastels	30
9614	Smoking pipes	30
9609	Pencils	30
9607	Slide fasteners and parts thereof	30
9606	Buttons, press-fasteners, snap-fasteners and press-studs	30
9508	Roundabouts, swings, shooting galleries and other fairground amusements	30

Notes: a. The tariff peak refers to the highest applied rate for items within the HS4-digit code.
b. Thus rate was recently lowered to 200 per cent.

Source: Department of Foreign Affairs and Trade TNAS database.

In January 2004, the Malaysian Government reduced tariffs on cars sourced within the ASEAN region as part of their requirements under the ASEAN free trade agreement. However, the Government then increased the excise tax on all cars – both domestic and international – but gave a 50 per cent rebate to domestically produced vehicles (*Far Eastern Economic Review,* 'Proton on a slippery slope', July 15 2004, p. 54).[2] In effect, higher excise duties replaced the reduced import tariffs to maintain protection of domestic manufacturers, reducing the incentive for Proton and other local car makers to improve efficiency. The excise tax rates are effective for one year. The Government also announced it would delay further a complete harmonisation of tariffs for the automotive sector from 2005 to 2008.

Malaysia has a wide range of non-tariff measures across many different products and sectors, although they differ in terms of trade restrictiveness. Import licences cover 60 different products ranging from poultry, billets of iron or steel and magnetic tape webs for video and sound recording (Ministry of International Trade and

[2] For example, import duty for ASEAN completely knocked-down passenger vehicles was reduced to 25 per cent while import duty for completely built-up passenger vehicles were reduced to rates ranging from 70-200 per cent based on engine capacity. However, excise duties were imposed on both completely knocked-down and completely built-up from ASEAN and non-ASEAN at rates ranging from 60-100 per cent based on engine capacity. Overall, excise duties on completely knocked-down vehicles were increased from 55 per cent to 60-100 per cent and on completely built-up vehicles from 0 per cent to 60-100 per cent.

Industry, 2004). Some import licences are restricted to a few importers with specific quotas, such as in sugar and rice. Other licences are easily obtainable, such as those for meat. The 50 per cent rebate on domestically produced motor vehicles also is a substantial non-tariff measure.

Barriers to services in the Malaysian market vary. Restrictions on commercial presence are a general impediment which applies to a number of areas. For example, Malaysia is the only market in South East Asia that totally excludes Australian law firms and lawyers. Foreign education institutions must have each course individually approved, rather than having an institution-based accreditation. Australian architecture and engineering firms have difficulty exporting their services to Malaysia.

Malaysia's GATS Schedule tends to leave commercial presence unbound and notes that foreign acquisition of a Malaysian corporation requires approval. There also are restrictions on the movement of services providers into Malaysia. Malaysia has generally left this mode of delivery unbound in the GATS, although companies are allowed to bring in senior managers and two professionals, with additional experts subject to a market test and training Malaysians.

Barriers which are of particular interest to Australia are reflected in the changes Australia has sought in Malaysia's services trade regime, both through the current GATS negotiations occurring under the Doha Round and bilaterally. They include barriers applying to education services, legal services, architectural services, accounting services, engineering services, telecommunications, and insurance and banking services.

Australian tariff barriers applying to Malaysia

Most Australian tariff lines are zero or five per cent, with the simple average applied tariff of only 4.3 per cent. The average applied tariff applicable to Malaysia is a little lower at 3.9 per cent because Australia offers developing countries, including Malaysia, tariff preferences on certain tariff lines.[3] Exceptions include applied tariffs on passenger motor vehicles and parts, which will remain at 10 per cent after further liberalisation occurs in 2005.

Australia's non-tariff barriers are not a major factor in merchandise trade. There are virtually no tariff quotas and few core non-tariff barriers of any kind. Anti-dumping has not been a major issue with Malaysia.

Australia has a relatively open and transparent services regime. It made substantial commitments covering a broad range of services sectors during the negotiation of the GATS, including for business and professional services; telecommunications; construction and engineering; distribution; education; financial; recreational, cultural and sporting; tourism and transport. Australia has since made further GATS commitments in the financial and telecommunications sectors.

INVESTMENT ENVIRONMENT

Foreign direct investment is important to Malaysia. It is sought as a source of capital and foreign exchange and as a means of securing industrial technology, managerial expertise, marketing know-how, and business networks to achieve higher levels of growth, employment, productivity and export performance. Foreign direct investment has contributed significantly to Malaysia's economic development and has made possible the transformation of the country from a producer of primary commodities to a modern industrialising economy.

The Malaysian Government encourages growth in higher-value activities and sees the economy moving to high technology and knowledge-based industries. Industries currently being promoted include manufacturing services covering higher value activities such as research and development, engineering and prototyping, integrated logistics, marketing and distribution, operational headquarters, international procurement

[3] The Developing Country DCS rate of duty applies to Malaysia and 107 other countries. These tariff preferences are not as generous as those Australia provides to Forum Island Countries or Least Developed Countries, but are less than the most-favoured nation rate.

centres/regional distribution centres, and regional and representative offices. Although 'targeting' remains entrenched in Malaysian policymaking there are encouraging signs that the focus is shifting towards creating an enabling environment for private sector business to drive investment and economic growth.

Restrictions on foreign equity participation remain for activities such as extraction and harvesting of timber, capture fisheries, oil and gas and many of the services sectors (Asia-Pacific Economic Cooperation, 2003).

AUSTRALIAN BUSINESS LINKS WITH MALAYSIA

The highest bilateral body which oversees Australia-Malaysia trade is the Joint Trade Committee. The first meeting of the Joint Trade Committee was held in 1986 and the Committee has met 11 times since then, most recently in July 2004. These talks provide an opportunity for both sides to discuss bilateral, regional and global trade issues of mutual interest. For example, in recent years, the focus of the Joint Trade Committee has been on developing cooperative activities that will enhance trade opportunities between Australia and Malaysia, such as the *Halal Food Product and Marketing Initiative* which seeks to combine Australian quality product with Malaysian halal branding for export to third markets. At the Joint Trade Committee meeting in 2004, there was direct participation by construction industry representatives as part of an industry sector dialogue and it is expected that this industry sector participation will continue at future Joint Trade Committee meetings.

The Malaysia-Australia Business Council and the Australia-Malaysia Business Council conduct regular dialogue with both Governments, including through participation in the Joint Trade Committee meetings. Each council has approximately 300 members. Among other roles, the councils assist with business delegations accompanying Ministerial visits and coordinate commercial events to coincide with such visits. They provide information and advice for businesses active in Australia and Malaysia and play an important role in promoting strong networks in the respective private sectors.

According to the Australian Trade Commission (Austrade), there already are around 250 Australian businesses in Malaysia working in accountancy, agribusiness, architecture, banking and finance, building and construction, education, engineering, entertainment, government, import and distribution, information technology, management services, manufacturing, mining and quarrying, telecommunications and transport.[4] As the economy develops, Malaysia has a growing need for infrastructure and utilities, higher level of social services and greater variety of consumer goods, including food. Australia's relatively more developed health services, sophisticated communication systems and advanced technology solutions, and mainstream areas of education, mineral products, and food and beverage industries are well placed to develop greater inroads into the Malaysian market.

Australia's complementarity with Malaysia's economy suggests significant potential for developing further synergies. Malaysia is a very important economic partner for Australia; it ranks as our ninth-largest trading partner and our eighth-largest import source. Two-way trade in goods and services currently stands at 9.7 billion Australian dollars. The relationship is underpinned by strong education links.

Although both countries have liberal trade and investment regimes, there are opportunities for improvement in the services sector and in business and investment flows.

[4] For a full listing, see the Australian High Commission (Kuala Lumpur) website for the Austrade Directory of Australian businesses in Malaysia – www.australia.org.my.

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