

PAKISTAN - MALAYSIA BILATERAL TRADE AND INVESTMENTS

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Abstract

This research article entitled “Pakistan-Malaysia, Bilateral Trade and Investments” is written with the purpose to see trade and investment relations in between Pakistan-Malaysia. Both countries have involved in enhancing their economic cooperation through a series of important initiatives. Since the trade between the two countries is very low there is need to strengthen the exports. For favorable trade and economic growth both the countries are adopting significant measures. In this regard the data is collected from various secondary and tertiary sources. This research paper is structured with six sections. The first section is initiated with the introduction, the second describes Pakistan-Malaysia joint ventures, the third section states Pakistan-Malaysia trade and investment relations, the fourth explores the balance of trade between Pakistan-Malaysia, the fifth elaborates the bilateral trade and its impact on FDI and the finally it ends with the sixth and last section which is conclusion.

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Introduction

Pakistan-Malaysia have been enjoying cordial diplomatic relations and strengthening understandings on important regional and international affairs over the past several decades. Both the countries have decided to enhance their economic cooperation through a series of important initiatives. For favorable trade and economic growth both the countries are adopting significant measures.¹

The two countries signed a protocol on Free Trade Agreement (FTA) which is another important facet of the Pakistan-Malaysia growing cooperation. FTA would prove a milestone in further enhancing the trade and bilateral ties between the two countries. Moreover, both the countries have also agreed to pursue an Early Harvest Program (EHP) which was implemented with effect from January 1, 2006 and expired on March 31, 2007. EHP aimed to deliver benefits to the private sector of both the countries. Under the EHP, the two countries had zero duty on the imports of selected items from each other, which helped to boost trade.²

Malaysia makes an effort to support Pakistan to become a full-fledged dialogue partner of the Association of South East Asian Nations (ASEAN). Pakistan-Malaysia air flights will also be resumed between Karachi and Kuala Lumpur. Both the countries plan to set up branches of different banks in each other's country which will absolutely improve bilateral trade relationship between the two countries.³

Pakistan has a large surplus of skilled and relatively cheap manpower which labour-short Malaysia has decided to import. Both the countries have signed a contract for employment of 100,000 Pakistanis in Malaysia. Moreover, Malaysia can also shift its labour-intensive industries to Pakistan. As a starting point, around 1000 Pakistanis will be sent to Malaysia. Thus, the two countries could learn from each other's experience in science and technology, education, culture, insurance, Islamic banking and other Islamic investment instruments.⁴

Malaysia has also shown its interest to invest in Pakistan in the areas of textile, petroleum, agro industry, real estate, construction and tourism. Malaysia is also associated with the construction of physical infrastructure in Pakistan. The Malaysian traders may take advantage of vast opportunities for investment in Pakistan. Both sides also agreed upon exchange of technical groups related to trade. Malaysia has attached a great importance to its relations with Pakistan and would continue to strive for the expansion of relations in all the fields. Both the countries have decided to set up a Joint Development Committee to further develop bilateral cooperation in various fields such as processing of vegetables and fruits, fisheries, rubber industries, agriculture, textile, information technology, telecom, finance, construction, education, human resources, tourism, culture, housing and other areas of life.⁵

Pakistan-Malaysia Joint Ventures

Pakistan-Malaysia enjoys strong trade and diplomatic relations and share common perceptions on national and international issues. They can spread out the possibilities of expanding

economic and trade relations between the two Muslim countries by establishing joint ventures. The businessmen of both countries have decided to expedite their trade relations by entering into joint ventures in various fields.

They can start joint ventures arrangements in the field of cotton textiles together, to exploit the opportunities offered by the textile quota-free world markets. Malaysia has already set up the first phase of one power project named Liberty Power in Pakistan and is interested in being offered the second phase as well. They could also enter into joint ventures in palm oil. They can also further enhance cooperation in the fields of power and water.⁶

Pakistan is well aware of the fact that without facilitating greater people to people contact, the objective of closer economic, trade and commercial relations with the countries of East Asia cannot be realized. It is for this reason that every agreement Pakistan has signed with countries like Malaysia, Singapore, Thailand, Indonesia and the Philippines contains honest provisions for increasing people to people contacts through cultural exchanges and diverse educational programmes.⁷

Memorandum of Understanding between Pakistan-Malaysia

Pakistan-Malaysia's gracious relationship between becomes further healthier with the signing of the Memorandum of Understanding (MoU) which was signed for the construction of another section of the Motorway namely M-4 which is for the development of the Faisalabad- Khanewal Motorway. This

M-4 will be a joint venture between the National High Way Authority of Pakistan (NHA) and the Construction Industry Development Board, Malaysia (CIDB). The signing of the MoU signifies the devotion and dedication by the two sides to maintain good relations and bilateral trade cooperation between NHA and CIDB to jointly facilitate the construction of 184Km of motorway from Faisalabad to Khanewal. As a result, it will open up the doors for prospective joint ventures between Malaysian and Pakistani companies especially in the field of construction such as highways, roads, bridges, housing, ports and airports.⁸

Pakistan-Malaysia Investment Relations

Malaysia has good investment relations with Pakistan. Pakistan is enthusiastic to attract more Malaysian investment. A lot of private companies from Malaysia are already investing in Pakistan. Malaysian companies have made investments in power generation, bulking storage facility for vegetable oils, property development and oil and gas exploration. Since the trade between the two countries is very low there is a need to strengthen the exports urgently but with care so that any growth in trade is not unbalanced in either partner's favor.⁹ Moreover, another discouraging factor is that, both the countries had remained largely importing countries throughout the past 30 years. It is only in the last ten years that Malaysia has become a significant exporter. On the other hand, Pakistan is also making potential attempts to orient its foreign trade towards exports rather than imports. At present Malaysia is amongst top 20 trade partners of Pakistan. The country, however, is sustaining a huge trade deficit every year in trade with Malaysia. They can start with exploring the possibility of

entering into variety of agreements for preferential treatment of their respective goods in each other's country. In order to promote trade and investment, Pakistan offers attractive investment opportunities to Malaysian entrepreneurs, through identifying areas of housing, information technology and telecommunication etc.¹⁰

Pakistan-Malaysia Balance of Trade

Pakistan's imports from Malaysia are primary goods whereas Pakistan's exports are merely secondary goods. There is no substitute of huge edible oil imports from Malaysia in the foreseeable future for Pakistan. Pakistan needs to diversify its trade. Exports basket must be improved with the inclusion of value-added products.¹¹ Malaysia's major exports to Pakistan are palm oil, margarine and telecommunication equipments; whereas, Pakistan's main exports to Malaysia are fresh, chilled and frozen fish, rice, surgical apparatus, vegetables, tobacco, textile yarn, fabrics and woven cotton fabrics.

In 2004, the export from Pakistan to Malaysia was US\$ 83.4 million and it increased over the period to 195.74% when compared with 1990. On the other side, Pakistan's imports also increased by 145.66% in 2004 when compared with 1990.¹² Evidence is given in Table -1.

Table- 1: Pakistan-Malaysia Balance of Trade 1990-2004

(Million US \$)

Year	Exports	Imports	Balance of Trade	Total Exports of Pak	% Share in Total Exports	Total Imports of Pak	% Share in Total Imports
1990	28.2	245.3	-217.1	6131	0.46	7619	3.22
1991	7.2	304.9	-297.7	6904	0.10	9252	3.30
1992	25.2	388.9	-363.7	6813	0.37	9941	3.91
1993	54.2	512.3	-458.1	6803	0.80	8564	5.98
1994	48.7	471	-422.3	8137	0.60	10394	4.53
1995	50.9	912.7	-861.8	8707	0.58	11805	7.73
1996	41.4	852.6	-811.2	8320	0.50	11894	7.17
1997	31.3	564.2	-532.9	8628	0.36	10118	5.58
1998	28.4	713.2	-684.8	7779	0.37	9432	7.56
1999	33.4	634.5	-601.1	8569	0.39	10309	6.15
2000	45.7	439.3	-393.6	9202	0.50	10729	4.09
2001	50.8	429.2	-378.4	9135	0.56	10340	4.15
2002	51.7	455.8	-404.1	11160	0.46	12220	3.73
2003	78.3	566.6	-488.3	12313	0.64	15592	3.63
2004	83.4	602.6	-519.2	14391	0.58	20592	2.93
Total	658.8	8093.1	-7434.3	132992	7.26	168801	73.67
Average	43.92	539.54	-495.62	8866.13	0.48	11253.40	4.91
% Share	7.53	92.47	-	-	-	-	-
(+) (-) over the period	195.74	145.66	-	134.73	26.09	170.27	(9.00)

Source: Government of Pakistan, Federal Bureau of Statistics
5-SLIC Building, F-6/4, Blue Area, Islamabad,
Pakistan, pp 449-453

It is also clear from the above table-1 that the balance of trade always remains in deficit. The total exports of Pakistan averagely were US \$ 8866.13 million from the period of 1990 to 2004. The percentage increased in total exports was 134.72% in the 2004 when compared with 1990. Similarly, the total imports

increased by 170.27% in 2004 when compared with 1990.¹³

It is also obvious from the above table-1 that in the total trade balance Pakistan's share in percentage is 7.53% whereas Malaysia's share in percentage is 92.47%. The basket of Pakistan's exports to Malaysia is quite low including items such as rice, textiles, surgical instruments, leather, seafood, and tobacco, etc. In order to improve the trade imbalance in favor of Pakistan and for rapid expansion and growth, the items of exports should be diversified.¹⁴

Bilateral Trade and its impact on FDI

Malaysia is an important source of palm oil requirement for Pakistan. Pakistan annually imported palm oil worth \$800 million from Malaysia; In return, Pakistan's exports to Malaysia are quite negligible. Malaysia is a potential market for Pakistani rice, fruit and vegetables. Therefore, Pakistan needs to take necessary steps to adjust this huge trade imbalance in its favor.¹⁵

Malaysian trade surplus may be converted into FDI activities in several public and private sectors in Pakistan. FDI has become an important source of private external finance for the developing countries. It is different from the other major types of external private capital flows in that it is motivated largely by the investor's long term prospects for making profit in production activities in the host countries. While FDI represents investment in production facilities, its significance in the developing countries is greater. Not only can FDI add resources and capital formation but it is also a means of

transferring production technology, skills, innovative capacity and organizational and managerial practices between locations, as well as of accessing international marketing network. Given the eventual role FDI can play in the accelerating growth and economic transformation, developing countries are strongly interested in attracting it.¹⁶

It's admirable that in July and August 2006, Pakistan had a 37.7% increase in FDI compared to the same months of last year. FDI in the country rose up by 37.7% in July-August 2006-07 to \$407.3 million against \$295.8 million last year. FDI stood at \$375.4 million.¹⁷

Like many other emerging market economies Pakistan has also taken a number of steps including wide-range reforms in various sectors of economy and restoring macroeconomic stability to attract FDI. More than ten leading Malaysian firms are undertaking projects in Pakistan in oil and gas, power generation, chemical, telecommunication, information technology and palm oil refinement process.¹⁸

Pakistan has emerged as the fourth largest FDI destination for Malaysian investors after Singapore, Indonesia, and China. This is indeed a very positive indication that an important ASEAN member gives top priority to Pakistan in its FDI in South Asia even at the preference of other East Asian countries such as Hong Kong and Taiwan. Malaysia has a considerable number of ethnic Chinese communities which are the integral part of its business, manufacturing and exports activities. The Chinese community has a natural tilt toward Singapore, Hong Kong, Taiwan, and Mainland China. Knowing that Pakistan has friendly ties with China, Malaysian investors can increase

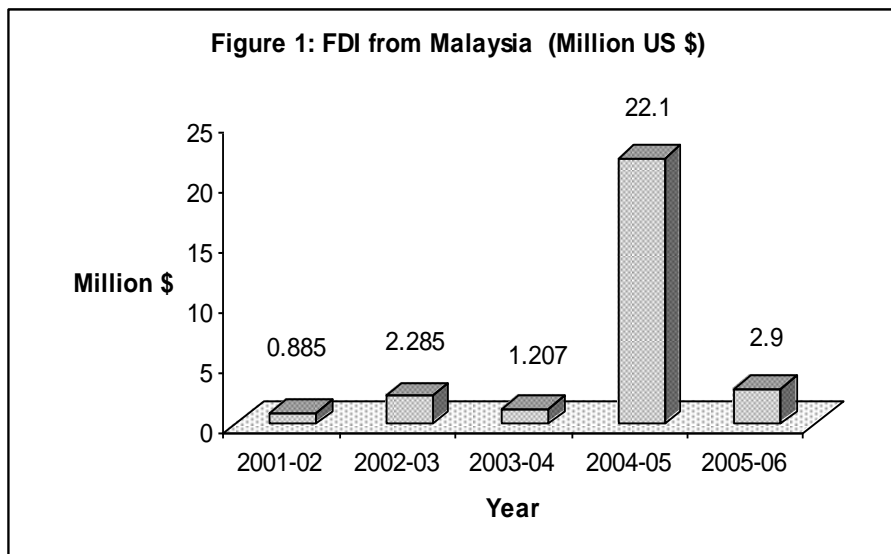
their presence in Pakistan. To attract more Malaysian FDI to Pakistan, our policy-makers further need to constantly take advantage of this favorable situation. This also shows the potential growth of investment activities between Pakistan and the other ASEAN members.¹⁹ Table-2 shows the total FDI into Pakistan and the FDI share which comes from Malaysia:

Table – 2: Foreign Direct Investment (FDI)

(In Million US \$)

F-year	Total FDI into Pak	FDI from Malaysia	Percentage share
2001-02	487.7	0.885	0.18
2002-03	798.0	2.285	0.29
2003-04	949.4	1.207	0.13
2004-05	1524.0	22.1	1.45
2005-06	3521.0	2.9	0.08
Total	7280.1	29.377	2.13

Source: Government of Pakistan (2006), Ministry of Privatization and Investment, Board of Investment, Islamabad, pp.5-6



Source: Government of Pakistan (2006) Ministry of Privatization and Investment, Board of Investment, Islamabad, pp. 5-6

It is also clear from the above table-2 and fig-1 that from 2001 to 2006 the total FDI into Pakistan was US \$ 7280.1 million where as FDI from Malaysia was US \$ 29.377 million. The percentage increase in FDI from Malaysia was US \$ 227.68 million when compared with 2001-02. The study reveals that from the period of 2001 to 2006 FDI from Malaysia remains US \$ 227.68 million. In 2005-06 the percentage share of FDI from Malaysia was 0.08% when it is compared with 2001-02 when it was 0.18%.²⁰

Conclusions

It is concluded that Pakistan-Malaysia attached a great importance to their relations. For favorable trade and economic growth both countries may adopt significant measures. As the

countries have signed a protocol on FTA and also agreed to pursue an EHP, Malaysian private companies are already investing in Pakistan. Malaysia's major exports to Pakistan are secondary, whereas Pakistan's are primary. In 2004, the export from Pakistan to Malaysia was 83.4 million US\$ and the increase over the period was 195.74% when compared with 1990. On the other side, Pakistan's imports also increased by 145.66% in 2004 when compared with 1990. This study reveals that the total exports of Pakistan averagely were 8866.13 million US dollars from the period 1990 to 2004. The percentage increase in total exports was 134.72% in 2004 when compared with 1990. Similarly, the total imports increase by 170.27% in 2004 when compared with 1990. This study also shows that in the total trade balance, Pakistan's share in percentage is only 7.53% and Malaysia share in percentage is 92.47%. It also depicts that from the period 2001 to 2006 the FDI from Malaysia was US\$ 29.377 million; and the percentage increase in FDI from the Malaysia was US\$227.68 million when compared with 2001-02.

Finally it is suggested that:

1. The Government of Pakistan must encourage the Malaysian Investors to invest in various sectors of Pakistan.
2. The Government of Pakistan must motivate the Government of Malaysia to take Pakistan's human resources as both the countries have signed a contract in 2005 for employment of 100,000 Pakistanis in Malaysia.
3. The Government of Pakistan should focus on value added products in the place of raw commodities.

4. The Government of Pakistan must have control on corruption and political interferences. Law and order situation should be improved to provide favorable environment to the Malaysian investors.
5. The Government of Pakistan should identify various investment areas for Malaysian investors such as Thar coal power, Gwader sea port, Sandak etc.
6. The Government of Pakistan should not impose heavy duties on manufacturing, imports and exports.
7. The Government of Pakistan and Malaysia should take steps to learn from each other's experience in science and technology, education, culture, insurance, Islamic banking and other Islamic investment instruments.
8. The Government of Pakistan and Malaysia should start joint ventures arrangements in the field of cotton textiles together to exploit the opportunities offered by the textile quota-free world markets.

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