

# PAKISTAN– MALAYSIA ECONOMIC RELATIONS

Altaf Hussain Ansari\*

Dr Marhab Qasmi†

## **Abstract**

The economic and trade relations between Pakistan and Malaysia have always been sound but the balance of trade has remained in favor of Malaysia due to value added products. Pakistan is one of the leading buyers of some of the Malaysian products. Pakistan's major exports to Malaysia are non-value added products. Malaysian side has also shown keen interest for investment in the field of oil exploration in Pakistan. Both the countries have agreed to start negotiations that could lead to free trade agreement. Total trade between both the countries in 2003 was \$713 million. Out of which \$623 million went to Malaysia and remaining \$90 million came to Pakistan. Pakistan and Malaysia trade relations need to be improved so that Pakistan may improve its economic conditions and learn from the experience of Malaysia. We need to understand the nature of trade relations with Malaysia and explain possibilities to find new ways to improve our relations.

---

\* Assistant Professor, Area Study Centre, Far East & South East Asia, University of Sindh, Jamshoro.

† Associate Professor, Department of Economics, University of Sindh, Jamshoro

## **Introduction**

Pakistan and Malaysia are contrasting cases with regard to the impact of economic growth and both the countries have emerged as independent states after World War II, with somewhat similar economic structure but quite dissimilar in institutions and social conditions. The economic similarities are reflected in their dependence on natural resources, including agriculture and minerals, and in their income and employment levels and exports<sup>1</sup>. The dissimilarities however are more significant in terms of the level of income per-capita, in addition, unlike Pakistan, Malaysia was ethnically more diverse, and ethnically played a major role in distribution of wealth and income. However, the economic and social conditions of the majority of Malay (Bumiputera) population were quite similar to the Muslim population in Pakistan<sup>2</sup>.

The main objectives of this paper are to analyze why Malaysian economy is stronger as compared to Pakistan and why Pakistan does not export to Malaysia value-added commodities when in Malaysia there is a huge scope of Pakistan made commodities. How the Pakistan – Malaysia relations can be made stronger in future and Malaysian Government wants to give boost for foreign direct investment in Pakistan and Malaysian companies are actively involved in the Oil and Gas exploration projects etc. In this regard data were collected through secondary and tertiary sources for this research article.

This research article is written with a purpose to analyze the present position of Pakistan – Malaysia economic and trade relations and to suggest ways to improve the balance of trade of Pakistan which comes every year in deficit. This paper starts with the introduction and the organization of the paper is as follows: Section 2 contains analysis of

Pakistan–Malaysia economic growth and structural transformation, Section 3 compares the changes in standard of living in Pakistan–Malaysia role of private sector and its competitiveness. In Section 4, Pakistan–Malaysia trade balance has been discussed. Finally, Section 5 draws conclusions and suggestions.

### **Pakistan – Malaysia Economic Growth and Structural Transformation**

From the very beginning, Malaysia enjoyed far more favorable conditions than did Pakistan in several respects. Malaysia had significantly higher income per head far higher rates of adult's literacy and school enrollment of male and female children, far lower infant endowment of natural resources in relation to the population.

Malaysia's real GDP grew annually at an average of 6.6% compared with 5.3% in Pakistan during 1955-2000<sup>3</sup>. However, Pakistan's economic growth rate was significantly higher in the 1960's and modestly higher in the 1980's. It should be added that Malaysia's growth rate was higher than 6.0% per year throughout the period except in the second half of the 1950's and 1990s and the first half of the 1980's given the lower level of average income in Pakistan in the 1950's and private consumption accounted for 82% of GDP as against 63% in Malaysia, the ratio fell to 73% in Pakistan and to 49% in Malaysia by the end of 1990s<sup>14</sup>. It should be noted that the ratio of private investment to GDP was similar in the two countries in the 1950's but in Malaysia private investment rose to nearly 20% in the 1990's, and stayed unchanged at 9% in Pakistan. Similarly, the share of public investment in GDP doubled from 7% in Malaysia but fell slightly in Pakistan from 8 to 9% during the same period. The Malaysian government estimates that real per capita GDP grew impressively at an average annual rate of 5.7%

between 1985 and 1995. The recovery was led by foreign demand for Malaysia's exports, with next exports accounting for more than three quarters of this growth<sup>5</sup>.

### **Change in Standard of Living of Pakistan–Malaysia**

The standard of living reflected by a number of economic and social indicators, shows that the quality of life in Malaysia has improved far more impressively than that of Pakistan. In 1999 Malaysia occupied 56<sup>th</sup> position and Pakistan 127<sup>th</sup> from a list of 162 countries<sup>6</sup>. The values of Human Development Report Index (HDI) for Malaysia and Pakistan were 0.330 and 0.183 in 1960 and 0.832 and 0.445 in 1995, respectively. The gap in per capita income between Malaysia and Pakistan increased from about 5:1 in 1960 (\$ 975 versus \$ 181) to 9:1 (\$ 4,600 versus \$515) in 2000. Similarly differences are seen in the changes in income per capita measured in purchasing power parity dollars; the gap was 2:1 in 1955, 3:1 (\$ 1,278 versus \$ 421) in 1975, and rose to 4.5:1 (\$8,209 versus \$ 1,834) in 2000. In addition to these differences it is important to examine the changes in other indicators of the quality of life<sup>7</sup>.

The population grew more rapidly in Pakistan from 36 to 150 million than that of Malaysia from 6 to 24 million, increasing the gap between their populations from 5:1 in 1947 to 7:1 in 2004<sup>8</sup>. However, in both countries the gap between them slowed particularly since the late 1980's. In 1960 the total fertility rate was 7.0 in Malaysia and 7.5 in Pakistan, but fell to 3 in the former and 5.3 in the latter by 2000. In 1960, the crude birth and death rate was higher in Pakistan than that of Malaysia, but the difference between two countries had increased significantly by 2004. Since the fall in the both rates was far larger in Malaysia than in Pakistan, it should be noted that Malaysia is far more urbanized than Pakistan (56% of the population of Malaysia and 37% of the population

of Pakistan lived in urban areas) although about one-quarter their population lived in urban areas in 1960<sup>9</sup>.

### **Pakistan Malaysia Trade Balance**

Pakistan and Malaysia enjoy a long-standing and time-tested bond of friendship, which has grown over the years. The excellent relations with Malaysia cover cooperation in various fields such as trade, investment, education, tourism and technical cooperation programs. Bilateral cooperative endeavors could be further developed and deepened in new areas for the mutual benefit of both countries as grow from strength to strength.<sup>10</sup>

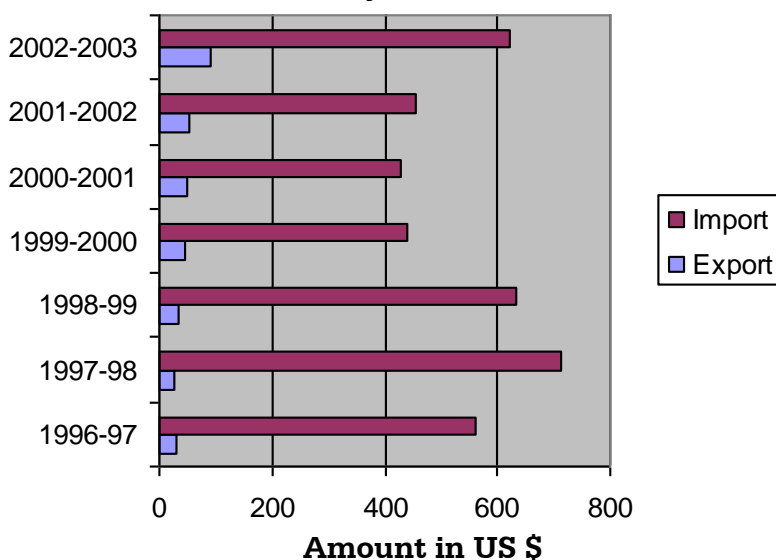
The bilateral economic relations between Pakistan and Malaysia have always been sound but the balance of trade has remained in favor of Malaysia due to export of palm oil, rubber, wood, machinery, chemicals, electronic appliances and timber. Pakistan is one of the leading buyers of aforementioned products. Pakistan's major exports Malaysia are cotton yarn, readymade garments, rice, leather, fruits and vegetables, textile products, surgical instruments, sea food, textile yarn and tobacco etc. Pakistan is fourth-largest importer of palm oil from Malaysia<sup>11</sup>. Total bilateral trade in 2000-01 was \$713 million, \$623 million going to Malaysia and remaining \$90 million came to Pakistan. Just 87% share of trade goes to Malaysia and 13% share came in Pakistan<sup>12</sup>. The following table-1 and Figure-1 shows the evidence.

**Table – 1:****Pakistan – Malaysia Trade Balance**

(Million US\$)

Year	Export	Import	Total Trade Volume	Trade Balance
1996-1997	31.249	562.836	594.085	– 531.587
1997-1998	28.342	714.488	742.830	– 686.146
1998-1999	33.515	633.387	666.902	– 599.872
1999-2000	45.739	439.257	484.996	– 393.518
2000-2001	50.706	429.220	479.926	– 378.514
2001-2002	51.759	456.320	508.079	– 404.561
2002-2003	90.000	623.000	713.000	– 623.000

Source: Government of Malaysia, Ministry of International Trade and Industry, p.34.

**Figure – 1:****Pakistan – Malaysia Trade Balance**

It is clear from the table-1 and figure-1 that Pakistan's balance of trade remains in deficit every year from 1996-97 to 2002-2003. As the trade deficit of Pakistan has been widening over the last decade, so Pakistan needs to find ways to narrow down the deficit through cooperative endeavors, which may include, trade, investment, joint ventures between the private sectors, and the possibility of relocating labor intensive industries. Our country can export non-traditional items such as engineering goods, steam boilers, heavy-duty cranes, tractors, cement, railway equipment, auto parts, agriculture machinery, chemicals and computer software to Malaysia. In this way, trade can also be promoted by active participation in trade fairs and exhibitions<sup>13</sup>.

### **Conclusion and Recommendations**

1. The economic and trade relations between Pakistan and Malaysia have always been sound but the balance of trade has remained in favor of Malaysia due to export value added products.
2. Pakistan mainly exports to Malaysia rice, textile products, surgical instruments, seafood, leather, fruits and vegetables, textile yarn, beverages and tobacco etc.
3. Malaysia has shown its keen interest for investment in the field of oil exploration in Pakistan. In the past Malaysian investors have shown their interest in power projects, telecommunications, information technology, housing, road construction projects, and port development.
4. The Pakistan – Malaysia agreed to make more endeavors to increase trade between the two

countries through their respective export promotion agencies.

5. Pakistan and Malaysia in 2003 achieved a major milestone in their exports. Pakistan for the first time crossed \$10 billion mark and Malaysia crossed \$100 billion.
6. A major contributory factor for Malaysia's success has been the shift of economic activity from primary commodities to value-added products, manufactured goods and services.

### **Recommendations**

1. Pakistan–Malaysia should further promote the economic and trade relations. There is a need for frequent and close interaction between the two countries, both at the government and private sector level.
2. The government of Pakistan should develop projects, in different fields like, agro-, coal mining, information technology, housing projects, engineering goods, textile industry, electrical good and electronic. Malaysian investors may be encouraged to invest in such joint ventures.
3. The government of Pakistan should find ways to narrow down the deficit through export value-added commodities to Malaysia.
4. Pakistan can export non-traditional items such as engineering goods, steam boilers, heavy-duty cranes, tractors, cement, railway equipment, auto parts,



agricultural machinery, chemicals and computer software to Malaysia.

5. The government of Malaysia is appreciative of the business and investment opportunities accorded to Malaysian private sector to participate in the economic development of Pakistan mainly in power, constructions, telecommunication, transportation, and oil and gas exploration in our country.
6. Pakistan has made significant progress in exports during the last 5 years but this is not enough. Pakistan should feel a need of quantum jump in export earnings. The trade policy 2004-2005 is an excellent policy and what is required is the implementation of this policy to achieve \$13.7 billion export target. Together it can transform Pakistan into an export-oriented country.

**REFERENCES**

- <sup>1</sup> Khan Mehmood Hasan "When is Economic Growth Pro-poor? Experiences of Pakistan and Malaysia", *Economics Simon Fraser University*, Vancouver, 2002, pp.3-15 [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=879618](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=879618)
- <sup>2</sup> Khurram Shahzad, "Pakistan-Malaysia to Increase People to People Contact", *Daily Times*, Karachi, July 22, 2003, p.3
- <sup>3</sup> Government of Malaysia, *Annual Report*, Ministry of International Trade & Industry, Kuala Lumpur, 2003-2004, p.44
- <sup>4</sup> Khan Mehmood Hasan, op. cit., pp.5-15
- <sup>5</sup> Asad S. H., "'Pakistan Malaysia Agree to Boot Ties", *Malaysia and Pakistan Bulletin*, Islamabad, October 2002, pp.2-3
- <sup>6</sup> Government of Pakistan, "Annual Report Volume I", *Review of the Economic*, State Bank of Pakistan, Karachi, 2005-2006, pp.149-180.
- <sup>7</sup> Khan Mehmood Hasan, op. cit. pp.10-45.
- <sup>8</sup> Government of Pakistan, "Economic Survey of Pakistan" Finance Division Economic Advisors Wing, Islamabad, 2003-2004, p.105
- <sup>9</sup> Hamza Azam, "Can Pakistan Follow Malaysia Export Model", *Dawn*, Karachi, November 8, 2004
- <sup>10</sup> Muzafar, "Economic Development of Malaysia", *Dawn*, Karachi, December 16, 2003
- <sup>11</sup> Rizvi, "Malaysian Trade Surplus Shrinks", *Pakistan & Gulf Economist*, Vol. XIX, Karachi, July 10-16, 2004, p.9
- <sup>12</sup> Government of Pakistan, "Economic Survey of Pakistan", Finance Division Economic Advisors Wing, Islamabad, 2005, p.123.
- <sup>13</sup> Government of Malaysia, *Annual Report*, Ministry of International Trade & Industry, Kuala Lumpur, 2003-2004, p.44