



Overview of Agricultural Trade in Malaysia

Rozhan Abu Dardak
Malaysian Agricultural Research and Development Institute (MARDI)
Email: rozhanabudardak@gmail.com

ABSTRACT

Malaysia is a trading nation. Malaysia has been recognized as one of the 25 most active trading nations in the world. The volume of trading (export and import) by Malaysia has reached more than RM1.5 trillion (US\$0.357 trillion) level in 2015, and keeps increasing every year. Export of agricultural commodities such as palm oil, rubber and agro-food (fruits, vegetable, fisheries and livestock) contributes more than RM67.00 billion (US\$15.95 billion) to Malaysia's revenue in 2018. The value of agricultural trade by Malaysia is expected to increase due to higher demand by traditional and new markets in the world. Malaysia adopts the free trading regimes and opens its market to international business. At the same time, Malaysia sets policies and initiatives that could facilitate agricultural trade and protect the domestic industries. Among the initiatives that could facilitate international trade are the introduction of the national Policy for Development and implementation of regulation, modernization of Customs Department, the establishment of Malaysian Quarantine Inspection Services (MAQIS) and the implementation of export promotion programs. The openness of Malaysia in international trading will affect the domestic industry. Thus, the Malaysian government balances up between trade liberalization and the protection of its domestic industry. The positive balance of trade will enhance the economy of Malaysia and at the same time secure the domestic industries.

Keywords: International trade, export, import, agricultural products

INTRODUCTION

Agriculture remains as the third engine of economy growth for Malaysia. Agriculture makes its contribution to economic development by producing food and raw materials to non-agricultural sector, and by creating demand for goods produced in non-agricultural sector. In 2018, the agriculture sector contributed about RM99.50 billion (US\$24.69 billion) to the National gross domestic product (GDP) (Department of Statistics Malaysia, 2019). It represented 7.3% of the Malaysia's GDP which amounted RM1,361.50 billion (US\$337.72 billion). In general, about 65% of the GDP of the agricultural sector come from international trade, especially palm oil, rubber and timber. Palm oil was the major contributor to the GDP of the agriculture sector, contributed around 37.9%, followed by other agriculture (25.1%), livestock (14.9%), fishing (12.5%), forestry and logging (6.9%) and rubber (2.8%) (Comtrade, 2018).

International trade is very important to Malaysia's economy because it generates revenue, creates employments and brings in technologies from other countries. The export of products and services generates income for manufacturers, service providers and improves the socio-economic life of farmers. Malaysia's openness to trade and investments, and related export growth have translated into higher labor earnings and jobs. Around 40% of Malaysia's jobs were supported by exports, either directly or indirectly. The importation of capital goods and high-technology products will bring together the new technology into the country. The transfer of technologies from developed nations will improve the production of commodities in Malaysia.

For example, the import of drones from Taiwan speeds up the application of fertilizers and herbicides in the palm oil, paddy field and rubber plantation. The import of mini combine harvesters from Holland has reduced post-harvest losses in paddy fields and the application of internet of things (IoT) helps Malaysia in developing the precision farming technology. Malaysia also imports intermediate goods and consumption goods. In 2019, the import value of these commodities worth more than RM38.9 billion (US\$9.26 billion) and RM6.5 billion (US\$1.54 billion) respectively.

For many years, Malaysia has been recognized as one of the 25 most active trading nations in the world. Malaysia's share in the world total export is around 1.23% in 2017. Malaysia opens its door to products and services from almost all nations in the world. Currently, Malaysia traded with more than 165 countries in the world. However, the top three trading partners in 2019 were China, with the share of 16.9%, followed by the United States of America (share 9.9%) and Singapore (share 12.7%) (Statistics, 2020). Malaysia also fully supports the implementation of trade liberalization, which is championed by the World Trade Organization (WTO). In reality, Malaysia is one of the founder members of this international organization.

However, the implementation of trade liberalization affects the domestic industry in Malaysia. Many cheap products flooded the Malaysian markets and become the competitors to domestic products. The government recognized these issues and challenges, and introduced new policies and measures that could protect the local industry. This paper provides an overview of the agriculture trade and highlights some agricultural trade policies in Malaysia that could balance the international trading for economy development and the interest of the domestic industries.

INTERNATIONAL TRADE

International trade is defined as the exchange of products between countries. Pattern of international trade has been changing in recent decades, and has affected the business strategy. At the same time, the complexity of the global market has created new issues and challenges for business managers in responding and dealing with the cross-border business. The structure of the international trade has changed and the competition becomes stiffer and volatile. The composition of trade has also changed. For example, in the last century, the trading is dominated by countries with large raw materials. However, in the current situation, the international trade is dominated by the industrialized nations.

The role of government policy has also grown. In the early 1980s, the policies are focused on trade negotiation. Now, the policies are more on creating business opportunities for business community. Trading is becoming more liberal and business friendly.

Adam Smith theorized in 1776 that a country should specialize in goods where it had an absolute advantage, and export any surpluses. This theory however, was challenged by David Ricardo in 1817 by introducing the theory of comparative advantage (David and Benjamin, 1994). According to Ricardo, incentives for trade existed even when one country held an absolute cost advantage in all goods. The classic trade theory developed by Smith and Ricardo implied that countries should trade freely. Under free trade, consumers enjoyed the cheaper and high quality products. At the same time, enterprises have greater business opportunities to market their products.

A new body of international trade theory emerged in the 1980s. The fundamental of this theory is that competition in markets was imperfect and that firms and governments could act strategically to affect trade flows and national welfare (Hazard, 1989). Later in the 1990s, the global development has also change the nature of international business (Rugman and Hodgetts, 1995). The political and economic changes in the world are opening doors for a wide variety of business activities, and multinational businesses are taking advantage of this new opportunity. Many countries, including Malaysia are improving their economic status and become more active in international trade. In order to be strong in international trading, a country must maintain its economic competitiveness, and must influence trade regulations so that it can buy and sell products from other countries. In other words, the trading policies must be business friendly to the local and global enterprises.

The decade of the 1990s saw a significant change in the international rules governing national trade policy for agricultural products (Josling, Anderson, Schmitz, Tangermann, 2010). The implementation of the General Agreement of Tariffs and Trade (GATT) and trade liberalizations has reduced agricultural trade barriers between countries in the world. As a result, agricultural products become cheaper and the markets become greater. This situation creates more opportunities for businesses. The world is becoming increasingly homogenized economically and culturally with the use of terminology 'global village', 'global market-place' and 'global factory' (Dicken, 1992). Multinational companies are operating their business in other countries

as to expand their markets for their products. International trading has becoming more common to every nation. International trading generates revenue for the development of economy.

Agricultural trade has been the significant contributors to the global economy. Trade in agricultural products also plays an important role as income generator for a country. Countries are focusing on how to increase their exports and expand their marketplace. At the same time, countries also concerns about the welfare of their domestic industries. Thus, the trade policies are among the most sensitive in any international trade negotiations. Countries try to balance between the benefits from international trading and the protection of domestic industries.

TRADE PERFORMANCE

Malaysia is a trading nation. Malaysia's total trade surged 22.6% in 2017 mainly driven by higher global demand and robust domestic activities. Both export and import volumes show an increasing trend year after year and resulted in positive balance of trade. The total trade in 2017 was RM1.74 trillion (US\$414.29 billion), increased 1.5% compared to 2016. The export increases from RM786.96 billion (US\$187.37 billion) in 2016 to RM917.67 billion (US\$218.49 billion) in 2017. On the other hand, imports also increased from RM698.82 billion (US\$166.38 billion) (2016) to RM822.88 billion (US\$195.92 billion) in 2017 (Table 1). Despite the fact that growth of imports is higher than the export volume, the balance of trade is still positive.

Table 1. External trade Malaysia (2016-2017)

Items	2016 (RM Million)	2017 (RM Million)	Change (%)
Total trade	1,485,783	1,740,356	17.1
Gross exports	786,964	917,474	16.6
- Manufactured	645,768	745,906	15.5
- Agriculture	70,056	87,160	23.8
- Mining	65,056	80,279	23.4
Gross imports	698,819	822,881	17.8
- Capital goods	100,245	117,672	17.4
- Intermediate goods	399,033	481,797	20.7
- Consumption goods	66,977	69,122	3.2
Trade balance	88,145	94,593	7.3

Source: Department of Statistics and Ministry of Finance, Malaysia

Malaysia has successfully diversified its export products and expands its markets in the global areas. The number of partners has also increased every year due to the implementation of trade liberalization and multilateral agreements with many regions. In general, the export destinations have become more diversified over the years. However, the main export destinations are Singapore and China (13.9%), followed by USA (9.1%), Hong Kong (7.5%) and Japan (6.9%) (Figure 1).

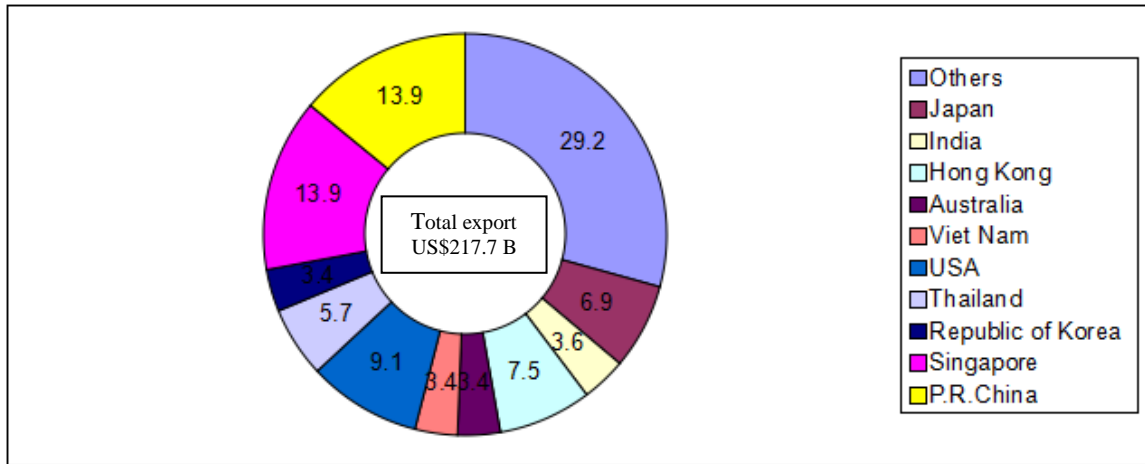


Figure 1. Malaysia's export and Export destinations (% , 2017)

Source: Department of Statistics, Malaysia (2018)

On the other hand, the main sources of imports are from China (19.9%), followed by Singapore (11.7%), USA (7.4%), Taiwan (7.2%) and Japan (7.2%) (Figure 2). Singapore is an important trading partner for Malaysia. Around 13.9% of Malaysia products are exported through Singapore, while 11.7% of the imported products also come through this country. Its location in the middle between the east and west regions creates opportunity for Singapore to be the middleman in the international trade activity.

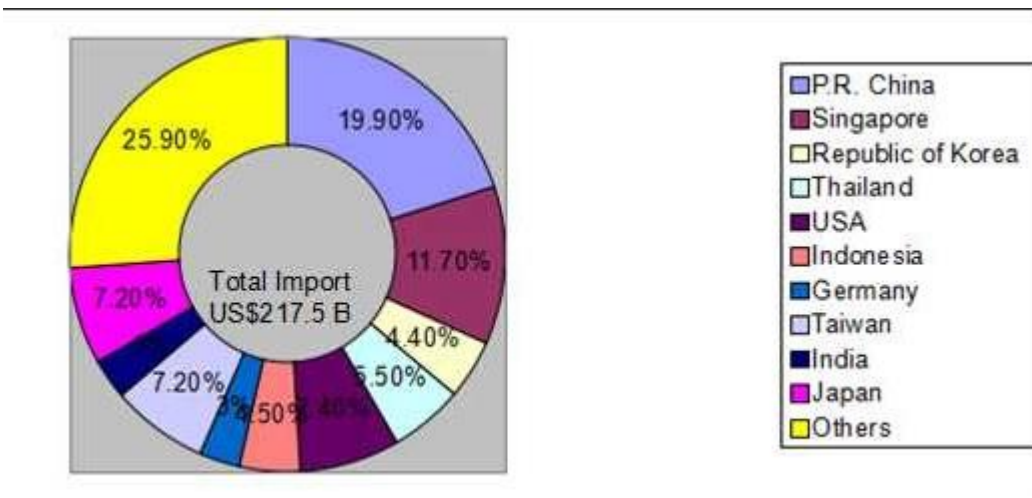


Figure 2. Malaysia's imports and sources of imports (% , 2017)

AGRICULTURAL TRADE

Agricultural trade continues to play an important role in the Malaysia's economy. Agricultural products contribute 13.5% of the total export and 10.4% of the total imports in 2017. Malaysia's agricultural trade remains strong in line with the increase in global demand, especially the palm oil, rubber and other agro-food products, such as pineapple, watermelon, tomato, fish and processed foods. The increase in agriculture trading is also influenced by higher production, which is supported by the development of infrastructure projects and programs. For example, the production of palm oil has increased about 12.2% to 14.1 million tons, rubber rebounded 19.1% to 495,049 tons and livestock sub-sector grew 3.9% in 2017. The production of brackish water agriculture was 324,300 tons in 2017, rose by 6.7% against 304,000 tons in the preceding year.

Malaysia continues to maintain a relatively liberal agricultural trade regime. In general, Malaysia

applied low tariffs or non-tariff barrier on agricultural imports. At the same time, Malaysia applied tariff-rate quota to allow the domestic industry to sustain and develop. For example, Malaysia only allows importers to bring in 100 million coconuts and 500,000 tons round cabbage a year as a way to protect its local industry. The imported coconut is mainly for processed industry, while the domestic production is for fresh consumption. Currently, more than 80,000 hectares of land are cultivated with coconuts and involves more than 50,000 farmers. In this regard, importers are required to apply for the import permits from the Department of Agriculture before they are allowed to import the commodities.

In 2018, Malaysia exported agricultural products valued about RM114.451 billion (US\$28.340 billion), decreased from RM126.492 billion (US\$31.397 billion) in 2017 (Department of Statistics, 2020) (Table 2). Palm oil, cocoa and palm oil based products are the largest export components of the agriculture sector, followed by timber and timber based products and rubber. The main export destinations for agricultural products are China and India. At the same time, Malaysia imports agricultural products and capital goods valued at more than RM93.313 billion (US\$23.154 billion). The higher value of exports has led to a positive balance of trade for the agricultural sector.

Table 2. Agricultural Trade, Malaysia, 2013-2018 (RM Million)

ITEM	2013	2014	2015	2016	2017	2018
Total exports of agriculture sector	106,144.8	109,174.0	109,959.9	115,693.1	126,491.5	114,451.2
Total imports of agriculture sector	75,215.1	77,643.0	83,954.0	84,665.7	95,222.4	93,313.5
Balance of trade for Agriculture sector	30,929.7	31,530.0	226,006.0	31,027.4	31,269.1	21,137.8
Total exports of foodstuff	22,029.8	25,583.0	27,310.8	30,152.1	31,756.5	31,496.5
Exports share of foodstuff (%)	20.8	23.4	24.8	26.1	25.1	27.5
Total imports of foodstuff	38,800.2	42,597.0	45,318.7	46,745.3	51,266.1	50,147.9
Imports share of foodstuff (%)	51.6	54.9	54.0	55.2	53.8	53.7
Balance of trade for foodstuff	-16,770.4	17,014.0	-18,008.0	-16,593.1	-19,509.6	-18,651.4

Source: Department of Statistics, Malaysia

Foodstuff is one of the important commodities traded by Malaysia. In 2018, Malaysia exported foodstuff valued more than RM31.49 billion (US\$7.81 billion). In general, the export of foodstuff has increased continually year by year, except in 2018 when it dropped around 0.82%, if compared to the figure in 2017. At the same time, the value of imported foodstuff also increase every year, from RM38.8 billion (US\$9.62 billion) in 2013, to more than RM50.147 billion (US\$12.443 billion) in 2018, to make a bigger deficit balance of trade (BOT). The BOT for foodstuff has increased from -RM16.77 billion (US\$4.16 billion) in 2013 to -RM18.651 billion (US\$4.63 billion) in 2018. Animal feeds and raw material for animal feeds such as grain corns and soybean are the main commodities imported by Malaysia. In 2017, Malaysia imported animal feed valued RM6.67 billion (US\$1.655 billion), and out of this, 3.71 million tons valued RM3.09 billion (US\$0.767 billion) are grain corns (Mohd Zain, 2017).

In 2017, the top exported agricultural products are shown in Table 3. Palm oil and palm oil based products dominate the export value by nearly US\$1 billion. This is followed by industrial based products, animal or vegetable fat and palm kernel oil. In other words, the top exported agricultural products come from palm oil commodity.

Table 3. Top five exported products of Malaysia, 2017 (Million RM)

No	Products	Value (RM)
1.	Palm oil and its fractions	40,572.0
2.	Industrial monocarboxylic acid	9,958.2
3.	Animal or vegetable fats and oils	8,076.6
4.	Coconut (copra), or palm kernel oil	4,330.2
5.	Bread, pastry and other bakers' ware	2,759.4

Source: WTO, 2019

On the other hand, the top five imported agricultural products are shown in Table 4. Cane and sugar are the most imported agricultural products, followed by maize. These commodities are not suitable to be planted in Malaysia because of the country's weather condition. Maize is imported mainly for animal feeds. Malaysia imports cocoa bean for its processing industry. The cocoa beans are processed or manufactured and re-exported to other countries.

Table 4. Top imported products in Malaysia, 2017 (Million RM)

No	Products	Value (RM)
1.	Cane or beet sugar	1,096.2
2.	Maize (corn)	3,221.4
3.	Cocoa beans whole or broken	2,914.8
4.	Other food preparations	2,608.2
5.	Industrial monocarboxylic acid	2,608.2

Source: WTO, 2019

TRADE POLICY

The policy related to international trade is generally approved by the Cabinet and coordinated by the Ministry of International Trade and Industry (MITI). The direction of trade policy was developed in 1991 to transform Malaysia into a self-reliant and industrialized nation by the year 2020. This policy was reviewed in 2010 when the government introduced the Economic Transformation Program (ETP) and Government Transformation Program (GTP) that include key strategies that could affect the ecosystem for businesses, trade and investments. Under these two programs, the government aims to encourage private sector to lead the economic growth and integrate Malaysian companies into global chains. The government also aims to reform many regulatory measures at various government levels and stress that Malaysia must make stronger inroads into fast-growing markets in Asia and the ASEAN, and other regions through trade promotion activities, trade agreements and other measures.

Malaysia is an active member of the World Trade Organization (WTO), the Asia-Pacific Economic Cooperation (APEC) and the ASEAN. As a member of the WTO, Malaysia continues to support the implementation of trade liberalization and bilateral/ multilateral trading agreements with countries within and outside the regions.

Malaysia has continued to liberalize its trade and trade-related policies, mainly through unilateral tariff cuts, intellectual property rights protection, competition policy and consumer protection. Malaysia's trade policy aims to enhance its global position as a trading nation. It focused on efforts towards creating a more liberalized and fair international trading environment. The trade policy is also geared toward developing high-quality products, creating brand awareness and customer recognition. To ensure that export growth remains robust, trade policies are also focused on strengthening Malaysia's traditional markets and exploring new markets, especially in the Middle East regions. The government's new agricultural policy and directions support the agriculture industry and liberalized the trading between Malaysia and other countries in the

regions and in the world. In other words, Malaysia's trade regime for agriculture remains liberal and supports the international trade liberalization requirements.

Even though Malaysia supports trade liberalization, tariff is still one of the main trade policy instruments and generates some revenues. The tariff schedule is reviewed every year, mainly as a part of the national budget process. Import duties for many agricultural produce were abolished for certain items or reduced, while some products were exempted from duties. In tandem with the ASEAN-free trade agreements, Malaysia reduced many tariffs for agricultural produce from ASEAN countries. In other words, the tariff for agriculture products entering Malaysia will be between zero and 15% depending on the product categories.

However, Malaysia also implements measures to support the domestic agricultural products and protects the domestic industries through fiscal and non-fiscal instruments. In other words, Malaysia's trade policies focuses on both internal and external improvement to ensure that exports continue to grow and at the same time the domestic industries are also protected. For the domestic industry, the policy supports the development of agri-food industry, with focus on the paddy, fisheries, livestock, vegetables and fruits. It aims to ensure sufficient and safe food supply, making agri-foods viable and sustainable. This will ensure food security and at the same time support the international trade.

Some measures were also introduced to protect the domestic industry as a trade barrier for the foreign products to enter the Malaysian market. For example, a wide range of agricultural products are subject to import licensing requirements. This measure will determine the quantity of agricultural produce that can enter the market at one time. For example, the government will issue more licenses which will allow importers to bring in more vegetables during the festive season. The enforcement of the sanitary and phytosanitary regulations is used to ensure the safety of the agricultural produce being imported to Malaysia. The Halal certification will ensure only animal (sheep, goat, cattle and broiler) slaughtered in accordance with Islamic laws are permitted to be imported. Malaysia also uses International standards that allows only certain products that complies with the standards to enter the markets. In this regard, Malaysia has strengthened its enforcement by establishing the Malaysian Quarantine Inspection Service (MAQIS). This agency is mandated to ensure that all agricultural products that are traded between Malaysia and other countries follow the regulation in accordance with the trade liberalization protocols. This is to ensure the products are in good quality and safe for consumption.

INITIATIVES TO FACILITATE AGRICULTURAL TRADE

Agriculture trade is the cornerstone of Malaysia's economy. Malaysian government has been active in facilitating agricultural trade, and some initiatives are as follows:

- Introduction of the National Policy for development and implementation
- Modernization of Customs Department
- Establishment of the Malaysian Quarantine Inspection Services (MAQIS)
- Export promotion program
- Transformation of the service sector
- Strengthen bilateral agreements

Introduction of the National Policy for development and implementation

- The National Policy for development and implementation of regulation was introduced in July 2013. This policy aims to address the gaps in the national-regulatory infrastructure to ensure that Malaysia meets international best practice regulations of good regulatory practices (GRP). This initiative will enhance transparency and predictability of regulatory actions and to create a more conducive business climate.

Modernization of Customs Department

- The modernization of this department aims to improve the effectiveness, efficiency, transparency and predictability of the administration and enforcement. Among the efforts carried out are capacity building, system development and output/outcome development.
- This department sets a vision to be a world-class organization through a transformation program that can be achieved in ten years.

Establishment of MAQIS

- The MAQIS was established in 2011 under the Ministry of Agriculture and Agrobased Industry. It provides integrated services relating to quarantine, inspection and enforcement at entry points, quarantine stations, quarantine premises and certification for the import and export of plants, animals, carcasses, fish, agricultural produce, soil and microorganisms.
- This department assists exporters in issues pertaining to market access and to comply with the requirements of the importing country through integrated services
- This department also ensures that all products exported from Malaysia comply with the health aspects of human, animals, plants and fish and food safety requirements.

Export promotion program

- The government continues to facilitate export promotion activities through its agencies and agriculture consulates in traditional and new potential markets. Many programs were carried out such as through international trade fairs, trade missions, specialized marketing missions and business-matching programs. Currently, Malaysia has more than 40 trade offices in major commercial cities in the world.

Strengthen bilateral agreements

- Malaysia has signed and implemented many free-trade agreements (FTAs) with certain countries and participates in the regional trade agreements. Some of the bilateral agreements are with countries like Chile, Australia, India, New Zealand and Turkey. While the regional trade agreement include the ASEAN Free Trade Area or AFTA, ASEAN and the European Union (ASEAN-EU), ASEAN, Australia and New Zealand (AANZFTA), ASEAN and the People's Republic of China and ASEAN-Korea.
- The involvement with these agreements indicates the commitments and obligation of Malaysia towards elimination and reduction of import duties and removal of Non-Tariff Barriers. The agreement will enable the free flow of agricultural products between the country partners.
- Malaysia also participates actively in the Asia-Pacific Economic Cooperation or APEC. The participation in this cooperation aims to strengthen its trading and investment linkages, and enhance the technical and economic cooperation. APEC is very important to Malaysia as more than 75% of its total trade, including agricultural products is traded within the Asia-Pacific region.
- The trade agreements will facilitate the improvement in the business environment and Malaysia's transition to become a high-income nation.

CONCLUSION

International trade is important to Malaysia as a source of income and economic growth. As a trading nation, Malaysia is also a strong proponent of freer trade. Over the years, the volume of trade is increasing and this indicates that Malaysia's products are well accepted and have competitive advantages in the global markets. Malaysia's products are competitive if compared with developing and some developed countries. Despite of its importance, trade liberalization can also be a threat to the domestic industry. Thus, it is the role of the government to balance-up between the openness to trade liberalization and securing the domestic industry.

Malaysia has embarked on "new generation" trade agreements that will set trade and investment rules over the next few decades. Many more trade agreements will be signed with other countries and economic regions, and these new trade agreements will open up opportunities for Malaysia to move up the value chain, diversify its exports and finally create new employments for the Malaysian people.

REFERENCES

- Comtrade (2018). International Trade Statistics Database. Retrieved from <http://comtrade.un.org>
- Dicken, P. (1992). Global Shift: The internationalization of economic activity. Paul Chapman Publishing Ltd. Manchester.
- Hazard, H.A. (1989). New Theories of International Trade. Harvard Business School Case. Harvard Business School.
- Josling, T, Anderson, K., Schmitz, A. And Tangermann, S. (2010). Understanding international trade in agricultural products: One hundred years of contributions by agricultural economists. American

- Journal of Agricultural Economics, Volume 92, Issue2, April 2010. Pages 424-446.
- Jyrki Niemi (1998). Agricultural trade relations between ASEAN and the EU. Research reports 223. Agricultural Economics Research Institute, Finland.
- Ministry of Agriculture and Agrobased Industry (2011). National Agrofood Policy 2011-2020. Ministry of Agriculture and Agrobased Industry Malaysia.
- Ministry of Agriculture and Agrobased Industry (2020) Agrofood statistics 2018. Ministry of Agriculture and Agrobased Industry, Putrajaya, Malaysia.
- Mohd Zain M.S (2017) Pelan Pembangunan Industri Jagung in Malaysia (The Development Plan of Grain Corn Industry in Malaysia). Paper presented at the Seminar of the development of Grain Corn Industry, 5-7 July 2017. Kemaman Terengganu.
- Rugman, A.M. And Hodgetts, R.M. (1995). International Business: A strategic Management Approach. McGraw-Hill. New York
- The Statistic Department Malaysia (2018). Retrieved from <https://www.dosm.gov.my/v1/index.php?r=column/pdfPrev&id=d3g5T2VOQUPEYzRLNi9ZZGMzdm5TUT09>
- World Trade Organization (WTO) 2019. Retrieved from <https://www.wto.org/>