THEORETICAL REVIEWS OF INTERNATIONAL TRADE: MALAYSIA AND CHINA EXPORTING GOODS IN ASIA

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Abstract

International business is explained by many international trade theories. In this study, four important theories (i.e. Adam Smith's Absolute Advantage Theory, Steffan Linder's country similarity theory, Dunning's Eclectic Theory and New Trade Theory) are applied on Malaysia and China on their exporting activities in Asian market to explain trends in business adequately. Malaysia is well-known as the world's largest electrical and electronic exporters while China is the top hub for manufacturing exporting. Both countries are playing significant role in Asia trading activities. They are also contributing to the world economic through their exporting.

Keywords: *Absolute Advantage, Country Similarity, Eclectic, New Trade Theory.*

Introduction

International trade is defined as the exchange of goods and services among countries such as import and export. International trading that involves middle income countries is increasing due to the advancement in technology and changes in environmental forces. Besides, impacts of globalization have created vital opportunities as well as challenges for many middle income countries, such as Malaysia and China. Globalization is known as the 'global

integration of international trade, investment, information technology and culture' (Investopedia, 2018). Globalization in international trade has led to open door economy in many countries and boosts up a nation's development (Amadeo, 2018). As the result, China and Malaysia are treated as the champion of globalization due to their growing influence in Asian market (Meinardus, 2017).

Many international trade theories can explain the investment activities among global firms. They are effective to guide firms on developing business strategies, identifying export opportunities, gaining competitive advantage and formulating solutions for external threats (Griffin & Pustay, 2013). International trade theories which had chosen to discuss on Malaysia exporting are Adam Smith's Absolute Advantage Theory and Steffan Linder's Country Similarity Theory; while Dunning's Eclectic Theory and New Trade Theory are applied on China exporting.

1. Background of International Trade in Asian Market

International business is emerging rapidly in Asian market. Asian market is viewed as one of the main markets for global economic growth which expected to grow at 6.1% at year 2015 and 6.2% in year 2016 under the forecast; even though the market largest economy contributor, China was growing slower than expected (Asian Development Bank, 2018). World Bank has reported that South Asia is now the fastest growing region in the world which projected to increase the growth rate to 7.6% by year 2017 while maintains its strong consumption and investment (World Bank, 2015).

Asian market is treated as strong market which creates valuable business opportunities for global firms from various industries. Compared to many developed regions, most of the Asia Pacific countries are working tight in multi-industries global trading. The significant example can be found from ASEAN where 10 member countries had agreed to form their single window to achieve the objective of ASEAN Economic Community (AEC). However, this coalition has failed to reach expected results due to the readiness of all members are not in line (Wong, 2016). Malaysia and China are selected in this study because these two countries are found to experience greatest benefits from globalization in international trade (Meinardus, 2017). Therefore, different trade and investment theories are used to explain how they can achieve strong economic performance from Asian market.

2. Malaysia Exporting in Asian Market

Malaysia is one of the fastest growing Asian countries. Central Intelligence Agency's World Fact book announces Malaysia's exported goods and services represent 75.2% of total economic output (Workman, 2018). When look into year between 2000 to 2015, service sector is the Malaysia largest sector which has accounting for 25% of GDP and its

electronic industry has grown rapidly by large intra-industry trading in electronic components where contributes 39.8% export in manufacturing sector by year 2018 (Department of Statistic Malaysia, 2019). However, according to Trading Economics (2015), Malaysia economy has grown 4.7% in September 2015 which is 0.2% lower than previous year in line with the market expectations. This growth rate is considered the weakest expansion since the second quarter of year 2013. The GDP annual growth rate of Malaysia was 4.77% in average from year 2000 to 2015 which reported by the Department of Statistic Malaysia. In current economy, Malaysia's most valuable exported goods are electronic machinery and equipment which worth US$68.8 billion, equal to 31.6% of total exports (Workman, 2018).

Malaysia's economic growth rose to 4.5% in the final quarter of 2016 and Bank Negara Malaysia (BNM) estimates the growth pace will be accelerated thanks to the higher demands of electronics from China and other Asian countries (Ng, 2017). Besides, the shipments of electrical and electronic goods increased 11.4% in recent year and had accounted for more than one-third of Malaysia's total exports. Thus, statistic shows that export in January 2018 has reached 82.9 billion ringgit ($22.2 billion) which is 4.4% increase compared to previous year (Ng, 2018).

3. China Exporting in Asian Market

China has shifted from a centrally planned economy to a market based economy since year 1978 and has achieved rapid economic development. It has also reached Millennium Development Goals (MDGs) by year 2015 and China currently is the world second largest economy, playing significant and influential role in the global economy (The World Bank, 2018).

Figure 1 below shows the China GDP annual growth rate from 2015 to 2018. Chinese economy is expanded by 6.8% in the first quarter of year 2018 which is in line with market expectation (National Bureau of Statistics, 2018). This growth rate was mainly supported by the country's export activities in manufactured goods. In average, the GDP growth rate is in between of 6.8% to 7% in recent years. China has the world largest population and its strategic location in Asia plays a significant role in Asia trading market.

Figure 1: China GDP Annual Growth Rate from 2015 to 2018

Source: National Bureau of Statistics. (2018). China GDP annual growth rate. Trading Economics. Retrieved from https://tradingeconomics.com/china/gdp-growth-annual

China export of goods in 2016 had reached 2097.63 billion (approximately 2.1 trillion) in U.S. dollars. The country's exports have been growing steadily since year 2000, except in year 2009 when global economy was downturn due to the financial crisis. In today Asian market, China is the largest manufacturing economy and also the largest manufactured goods exporter in the world. China has also become the world largest textile exporter (33.4% of the global textile exports) and the revenue of Chinese textile industry reached above 526 billion U.S. dollars in year 2013 (The Statistics Portal, 2018).

4. Adam Smith's Absolute Advantage Theory on International Trading

Theory of absolute advantage developed by Adam Smith stated that country should export the product and service for which it is more productive than other countries (Hill, 2013). Besides, this theory mentions 'the ability of a country or region to produce a good or service at a lower cost per unit than another entity that produce the same good or service' (Investopedia, 2018). This theory is widely applied in international trade activities. A country that able to gain absolute advantage can produce more efficient than another country. It can decide to specialize in producing and selling a specific product or service to trading partners (Wong, 2017). It can be seen from China. Malaysia and other Asian countries are well-known to have absolute advantage in manufacturing due to their ability to produce at lower labor cost.

Department of Statistics Malaysia (2018) shows that the industrial production index (IPI) in March 2018 has increased by 3.1% as compared with the same month of the previous year. It was supported by the growth in manufacturing index which is 4.1%.

Manufacturing sector in Malaysia has registered a sales value of RM68.5 billion in March 2018, equal to an increase of 3.9%. Besides, a total employee engaged in the manufacturing sector was also increased 2.1%, from 1,046,040 to 1,068,116 persons. Besides, Ministry of International Trade and Industry (MITI) stated that the exports of manufactured goods in yield the most growth of 20.4% (RM68.34 billion) which is accounting for 82.5% share of the country's total export (The Star Online, 2018). Table 1a below shows the main contributors to manufactured goods exports.

Table 1a: Main Contributors to Manufactured Goods Exports

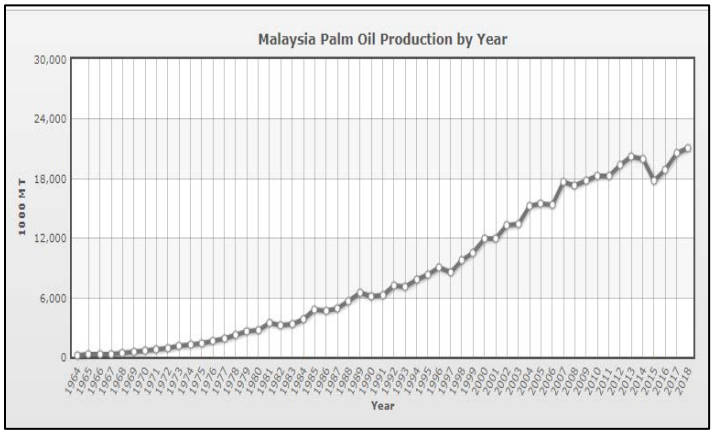
Electrical and Electronic	27.1%	Agriculture	6.2%
Chemicals and Chemical	23.4%	Palm oil	10.1%
Iron and steels	60.9%	Mining goods	8.5%

Source: The Star Online. (2018). Malaysia's trade exports grow 17.9% to RM82b

Further, Malaysia currently is the world's largest palm oil exporter which accounts for 36% of world palm oil production and 44% of world exports (Malaysia Palm Oil Council, 2018). It is because of the country's geographical specifications, weather and other natural conditions which allowed the country to specialize in palm oil production with lower production cost. Malaysia with 62% of forest areas has strong production in palm oil manufacturing compare to neighbor countries which currently accounts for 39% of world palm oil production and 44% of world export (MPOC, 2013).

Malaysia is also able supply total of 10% (18.8 million tons) global vegetable oils and fats in year 2012 and the oil palm giant, Sime Darby had produces 2.44 million tons or 5% world's crude oil output annually (Sime Darby, 2014). The country exports palm oil to high consumption countries such as China, India, Indonesia and European. In overall, Malaysia palm oil production was rose in average since 1696 to 2018 due to the country's ability to produce at lower cost (Index Mundi, 2018). Figure 2 below shows the statistic of palm oil production by year from 1964 to 2018.

Figure 2: Malaysia Palm Oil Production by Year (1964-2018)



Source: Index Mundi. (2018). Malaysia palm oil production by years, from https://www.dosm.gov.my

Besides, Malaysia is also the world's leading rubber producer and exporter of latex products which achieved total exports of RM14.5 billion in year 2012 where US remained as Malaysia's largest rubber products export destination (MATRADE, 2015). Malaysia Timber Industry Board (MTIB) statistic shows that rubber industry's contribution to national exports has reached RM30.94 billion in year 2014 (MTIB, 2015). This theory has explained that country like Malaysia has absolute advantage in producing palm oils, rubbers and other productions which make the country become larger exporter to other countries who are in less productive of the product.

5. Steffan Linder's Country Similarity Theory on International Trading

Steffan Linder's Country similarity theory was developed by a Swedish economist. This theory mentions inter-industry and intra-industry trade among countries. It is refers to the exchange of products produced by one industry in a country for products produced by same (intra) or different (inter) industry from other country. Some unique characteristics found from this theory are (i) country will trade with other country where the demand and user condition from both sides are similar. For example, developed country prefers to trade with another develop country where their economic development condition are similar. The main reason is the traded product or service is found to have similar interest and can be accepted by both countries when they have the similar economic development; (ii) countries in same culture will trade more among themselves. For example, ASEAN has formed trading integration where all countries are from similar background which is Asian culture. Thus, all countries are having similar demands from the perspective of cultural

products or services. It is effective to make sure the supply and demand can be matched perfectly among nations (Liu, Hong, Ran, Chen & Jiang, 2018).

It can be seen in Malaysia electronic industry has grown rapidly by large intra-industry trading in electronic components. Electrical and electronic industry is the leading sector in Malaysia where it contributes 32.8% export in manufacturing sector by year 2013 (MIDA, 2015). Malaysia has production advantage in radio, computers and consumer electronics. Trade in electronic products with those major partners and ASEAN members are growing fast. Asian exports were rebound in 2017 and Malaysia has achieved outstanding performance in this upturn (Halim, 2018).

It can be seen from the trade value between Malaysia and China has increased by more than 650 times due to the high demand of electronic products. Further, global trading between Malaysia and other neighbour countries such as Indonesia, India and Vietnam also increased 21500 times in year 2009 (Parinduri & Thangavelu, 2011). Thus, this theory has explained that the trading among countries' industries is contributing to higher economic development. One of the key factors of Malaysia exporting is the global demand for electronics, for example, the global memory chip market had grown 10.7% in the second quarter of 2017 to reach RM127.96 billion (Halim, 2018).

Table 1b: ASEAN Electronic Exports by Country in 2013

Country	Value ($bn)	5 years Growth Rate (%)	Global Ranking
Singapore	124.0	40.3	5
Malaysia	60.7	34.4	10
Vietnam	38.4	814.2	12
Thailand	29.5	32.0	14
Philippines	20.3	30.3	20
Indonesia	10.4	28.1	29

Source: BDG Asia. (2014). ASEAN electronics exports by country. Retrieved from http://bdg-asia.com/southeast-asia-growing-electronics-exports/

Besides, statistic from table 1b shows ASEAN electronic exports by country in 2013. It shows that Malaysia is mainly exporting electronics to Southeast Asia countries where they have the similar demand on electronic goods. All trading partners are focused on their electronic industry (e.g. semiconductor). By applying country similarity theory, Southeast Asia is the largest export region for electrical and electronics equipment since 2013, where the exported figure was nearly $300 billion in 2014 (BDG Asia, 2014). The six countries

mentioned in table below accounted for almost all of Southeast Asia's electronics exports. All the six counties are having the similarity where they invest heavily in their electronic industries.

Current research on global investment and financial analysis stated that the exports of electronic components which continue to contribute and expected to grow further in 2018, but at a slower pace in Malaysia. The estimated Malaysia's growth rate will fall to 4.7% in 2019 (Financial Tribune, 2018). The main reason is because of the recent years' national political scandal which caused the decline in global investments' confidence (Wong, 2017). However, Malaysia remains as the strong export country in ASEAN together with Indonesia, Thailand and Philippines.

6. Dunning's Eclectic Theory on International Trading

When look into Dunning's Eclectic Theory, firms that decided to enter into global market must consider three advantages which are ownership advantage, location advantage and internalization advantage. Ownership advantage is the tangible or intangible resources owned by the firm that serve as competitive advantage. It serves as a strong advantage to allow firms taking more competitive advantage over their rivals in international market. China has the world largest population, land, natural resources and other ownership advantages allow the country to produce large varieties of manufactured goods. In fact, China has becoming world's second largest trading nation with the strong human capital and technology innovation (Pei, 2013). China is also the world largest manufacturing economy with the 22% share of manufacturing activities. Its manufacturing value added has reached $2.56 trillion in year 2017 (Mauldin, 2018). Besides, China currently has more than 500 kinds of industrial products, 56 manufacturing enterprises were listed in the world's top 500 companies and also owns the world largest 4G network (China's Ministry of Industry and Informational Technology, 2018). Thus, the overall scale and strength of China's industry has been further enhanced and it is still the world's largest manufacturer.

Second factor is location advantage. This factor will affect the desirability of firms to produce their products in home country or host country. China has location advantage of lower labor cost, material cost and high technology. The country has high technology in manufacturing industry which is continuing expand rapidly with the strong investment in R&D. There are many critical factors that influence the technology innovation of China's manufacturing enterprises such as the huge market demand, technology integration and others (Su & Liu, 2012). China is producing around 80% of the world's air conditioners, 70% of cell phones and other manufactured goods (The Economist, 2015).

Besides, high quality new materials that help to lower the production cost can be found from this country serves a strong competitive advantage. Further, China is now the world's

largest greenhouse gas emitter and ready to run its green opportunity to utilize its location advantage. China has sufficient labors, lands and technologies. The country's national energy administration has announced to spend $360 billion on renewable power by 2020 to become the main player in all the major technologies (Turner, 2018).

Third factor is internalization advantage such as level of transaction cost and political stability. China government is encouraging foreign direct investment (FDI) to enhance its manufacturing industries since past decades. The country has introduced new regulations and policies that can eliminate some of the restrictions imposed on foreign firms to open door for foreign investments in several industries in its 12th 5 years Plan. China's foreign direct investment has increased from $32.9 billion USD IN 2016 to $80.4 billion USD in 2017 (CEIC, 2018). Figure 3 below shows the China foreign direct investment from 2017 to 2018. China's FDIs were increasing constantly in 2017 but there was an obvious reduce in 2018 despite the country further opens its economy to outsiders (Trading Economics, 2018).

Figure 3: China Foreign Direct Investment from 2017 to 2018

Source: Trading Economic. (2018). China foreign direct investment. Retrieved from https://tradingeconomics.com/china/foreign-direct-investment

Statistics show that China's FDI in 2018 just accounted for approximately 2.5% of the nation's gross capital formation because of the country does not need the money (Enright, 2017). China in today is strong enough to develop its own manufacturing exports to the world especially Asian market. Dunning's Eclectic Theory has explained that country like China has considered the three advantages and successfully exports a very wide variety of manufactured goods in international markets.

7. New Trade Theory on International Trading

New Trade Theory mentioned that the abilities of firms to obtain economies of scale will have important implication for international trade (Hill, 2013). The term "economies of scale" is referred to the unit cost reduction with a large scale of production. This theory says that firm who able to gain economies of scale can increase the variety of goods manufactured to consumers by reducing the average cost. It also represents the significant proportion of total world demand. For example, China economy is soon overtaking the US to become the world's largest. The country already became the world's largest manufacturing base and also world's largest consumer of energy with the growing demand of 5.6% per annum (Lockie, 2014).

New Trade Theory also mentioned first mover advantage help to gain economies of scale. Volkswagen China has gained this advantage by owning at least 70% of the Chinese domestic car market in year 1995 and once again leading the car manufacturing in China with about 20% of sales by year 2010 (Witzei, 2013). This theory has explained the trend in business by getting economies of scale can help firms to become large manufacturer with lower production cost.

The Chinese Academy of Social Science predicts the country's economy will expand further about 6.7% in 2018 but there are persistent worries on China's debt mountain and the challenges of continuing act as the low cost producer (Leng, 2018). China's reputation for low cost manufacturing is under attack due to too many regulations especially taxes and fees had increased the cost to run a business in China (The Economist, 2017). The raise in labor cost has shift the country rapidly moving into medium to high tech manufacturing. Deloitte's Global Manufacturing Competitiveness Index stated that India will be the next top hub for low cost manufacturing and Malaysia, Thailand, etc. will be the "new China" (Lomas, 2017).

Conclusion

Malaysia and China are actively involved in global trading in order to boost up their economic development. International trade and investment theories mentioned in this study are useful to explain the exporting activities done by these two strong countries in Asian market. Besides, international trade and investment theories are also important to predict the countries' future trading movement and access their competitiveness in global market. This paper is only focuses on theoretical findings and reviews of empirical evidences.

However, it can serve as the guidance for researcher to understand the issues in global trading and recent data from this study is useful to provide insight on trading value in Asian

market. Thus, researcher is recommended to conduct statistical findings and analysis as the future research.

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