

Impact of International Trade Policies at Indonesia Malaysia Thailand Growth Triangle

Saari Ahmad, Mohd Rashdan Sallehuddin and Noraini bt Othman

Abstract--- Purpose of Study: *This article focus on the effectiveness of Malaysian government trade policies to assists the business activities in the IMT-GT region. The study is aimed to examine the level of helpfulness of the trade policies by the Malaysian government to assists the business activities in the region.*

Methodology: *Adopting the stratified sampling method the data was collected from 300 respondents.*

Result: *The findings clearly indicate that investment tax allowance, export credit refinancing, export credit insurance and reinvestment allowance are helpful to increase the business activities at the IMT-GT region. The business performance of the respondents are increasing annually.*

Keywords--- *Malaysia Government Incentives and Business Performance in Malaysia.*

I. INTRODUCTION

The world economic and financial environment have experience a dramatic change in 2018. The increase of crude oil price has contributed huge revenue while countries that fully depending on purchased petroleum suffers the most. Besides that the major increase in prices of major commodities has enable the ASEAN region which is rich in rubber and palm oil to experience extra revenue which will assists them to program their development project accordingly. International financial markets also experienced heightened volatility driven by the economic war between USA and China in early April 2018. As a result this economic war has shaken the international financial activities which have brought major changes to the international fiscal and monetary policy. Unfortunately Malaysian economy was exposed to the historical event of Brexit and the withdrawal of USA from TPPA. Despite the challenging international economic environment, Multi-National Corporation from industrialized nation, continue to invest and expand as well as diversify their projects in Malaysia. Monetary policy became a driving force in the financial markets. Malaysian hope for sustainable growth to prosperity continues as their effort to increase their international trade with the new government led by Tun Mahathir Mohamed continuously prevail. The latest ASEAN 2018 leaders summit in Singapore Tun Mahathir emphasized the importance of multilateral dialogue instead of adopting inward-looking protectionist measures (<http://can.asia/2DiMxi1>). He further emphasized it at the APEC summit at Papua New Guinea. Tun Mahathir emphasized the need of collaborations at the global level and the importance of win- win concept among APEC members to chart a common and inclusive future in the disruption age. (www.nst.net)

II. RESEARCH OBJECTIVES

- a. To examine whether the Investment tax allowance is helpful to increase business activities of SMES.

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- b. To investigate whether the Export credit refinancing is helpful to increase business activities of SMES.
- c. To examine whether the Export credit insurance is helpful to increase business activities of SMES.
- d. To examine whether the Reinvestment allowance is helpful to increase business activities of SMES.

The scope of the study is based on SMEs which directly involved in international trade activities in the IMT-GT regions.

III. LITERATURE REVIEW

Malaysia remains attractive because of its new Leadership, highly diversified economy, strong manufacturing foundation, developed infrastructure and connectivity, proactive government policies and multilingual and skilled work force. The formation of Indonesia, Malaysia, Thailand growth triangle (IMT-GT) in 1991 has enable the region to experience continuous economic growth. IMT-GT was formed with the aim to enhance socio economic development in the region. The objective could be achieved if the members involved maintain their economic growth and multiple the economic activities among the region. With the population of the IMT-GT approaching to 15 million population no doubt the economic growth in the region will multiple the per capita income of the region.

Local Incentives for Exporters

Malaysian government has been very active and understanding to promote activities across the IMT- GT region. Various incentives and tax relief was introduce to this region, very little is known on the helpfulness of these incentives provided to the business activities in the region. Previous research conducted shows that limited studies was conducted in this region. The review of literature on Small and Medium Enterprise indicate that limited studies was conducted to study on the helpfulness of the incentives provided by the Malaysia government to enhance the business activities in the region.(Ahmad, S., et. al 2017). The study on the helpfulness of the Malaysian government incentives to business activities in the region is so important to explain why not many business organization in Malaysia are reluctant to participate in international trade in the region. The local government authorities that are involved in assisting the SMES are The Small and Medium Industries Development Corporation (SMIDEC), The Malaysian External Trade Development Corporation (MATRADE), The Malaysian Export Credit Insurance Berhad (MECIB), The Malaysian Industrial Development Authority (MIDA).The Export-Import Bank of Malaysia Berhad (EXIM Bank).

Incentives for Investment

The Malaysia government provide Malaysian business organization with various types of incentives to motivate them to go for international market and to continuously reinvest in Malaysia. Some of the tax incentives provided by Malaysia government are categorized into direct and indirect taxes. These tax incentives are such as Promotion of Investment Act 1986, Income Tax Act 1967, Custom Act 1967, Sales Tax 1972, Excise Act 1976 and Free Zones Act 1990. These Act hopefully will encourage more investors to invest in the manufacturing, agriculture tourism, research and development and environmental preservation activities.

The industry that enjoy tax exemption and incentives are ,Manufacturing Sector, Agricultural Sector, Aerospace Industry, Biotechnology industry, Tourism Industry, Environmental Management, Research & Development,

Medical device industry, Training, Approved Service Projects, Shipping & Transportation Industry, Multimedia Super corridor and Information Technology.

Figure 1 illustrates the volume Index of Wholesale & Retail Trade from the month of August 2017 to August 2018. Based on year on year it clearly indicates that the performance of the subsector is increasing every month. Chart 1 shows that South Korea is the biggest Trade partner followed by Indonesia, Hong Kong Taiwan, Thailand, Japan, United States, European Union, Singapore and China.

Malaysian Current Economic Scenario

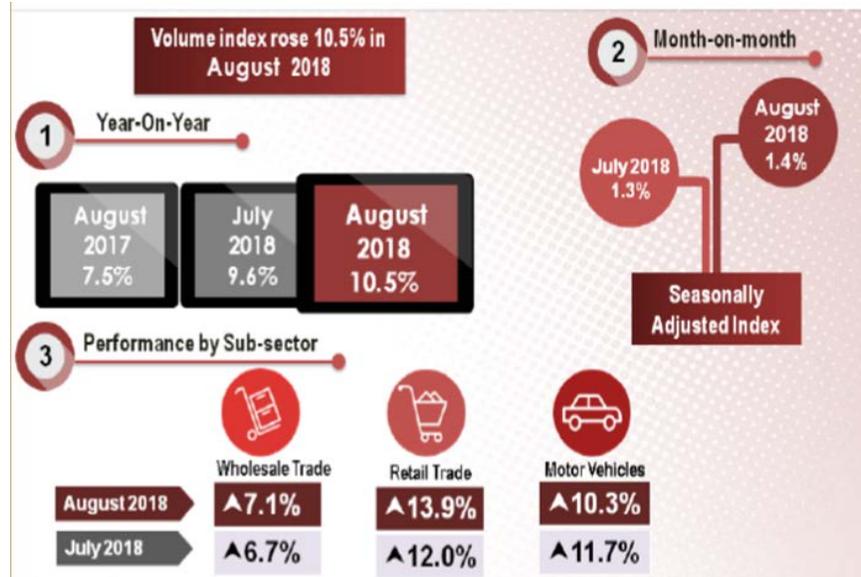


Figure 1: Volume Index of Wholesale & Retail Trade

Source: Department of Statistics, Malaysia.

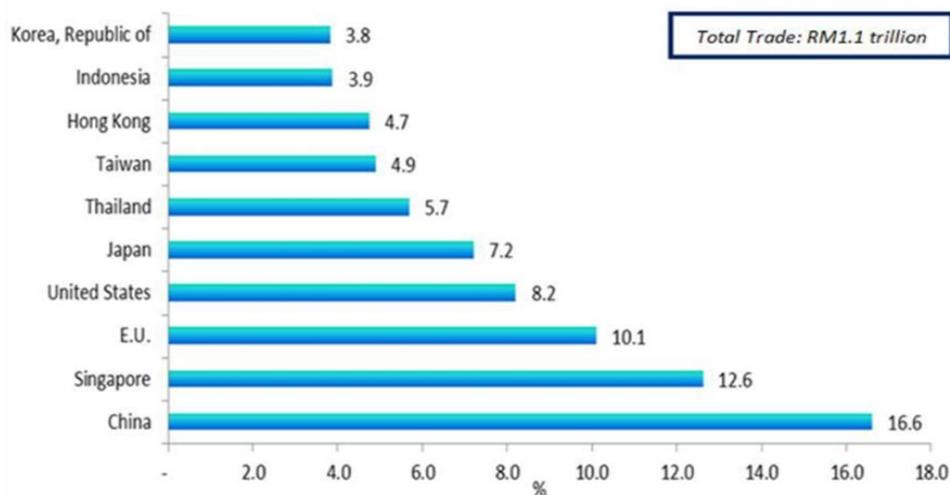


Chart 1: Malaysia Total Trade by Major Countries from Jan-Jul 2018 base on Percentage Share

Source: Department of Statistics, Malaysia.

Chart 2 indicates that among ASEAN nations Singapore is the highest import destination that is about 46.3 %, followed by Thailand 21.8 %, Indonesia 18%.

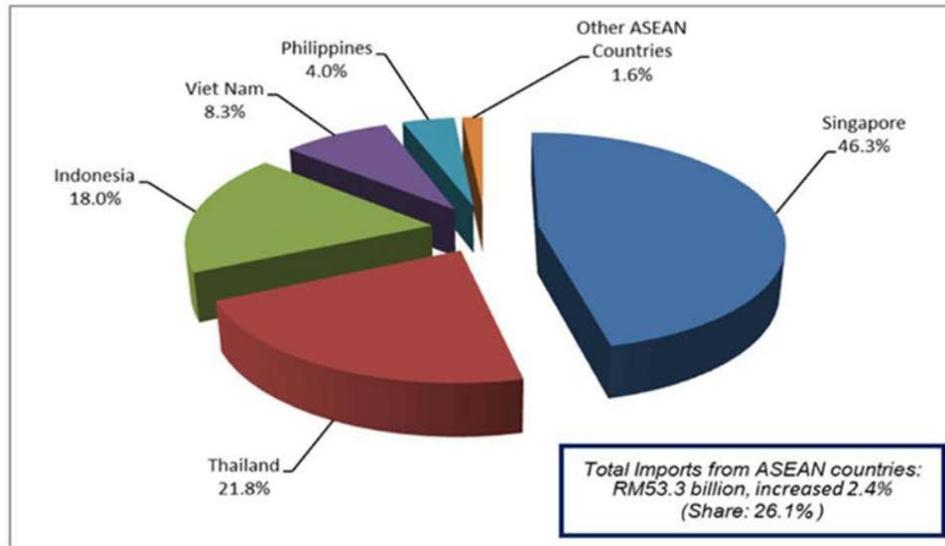


Chart 2: Import Destination among ASEAN from Jan-July 2018

Source: Department of Statistics, Malaysia

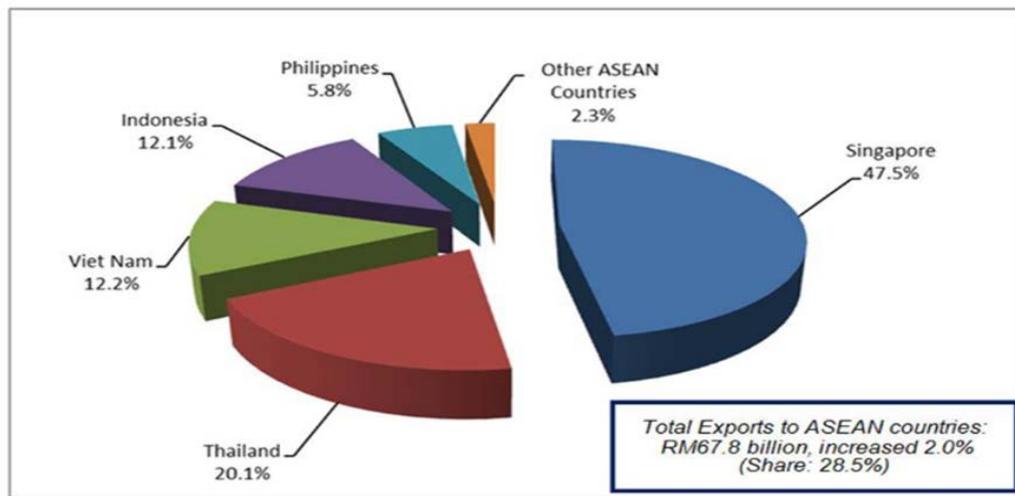


Chart 3: Malaysia Export Destination among ASEAN from January to July 2018

Source: Department of Statistics, Malaysia

Chart 3 shows that Singapore 47.5 % is the biggest export destination for Malaysia followed by Thailand 20.1%, Vietnam 12.2% and Indonesia 12.1%.

Market Liberalization

Malaysia registered total trade volume of RM 162.01billion in August 2018. An increased of 5.1 % from RM 154.14 billion in August 2017. The major trading partners are China, Hong Kong Taiwan, Saudi Arabia, the

Republic of Korea, ASEAN, the United States of America (USA) and the European Union. Malaysia's imports recorded a new high of RM 80.2 billion, increased by 11.2%. A trade surplus of RM 1.61 billion. Malaysia is now engaging in a new generation of regional agreements including the Regional Cooperation Economic Partnership (RCEP), and the European Union Free Trade Agreement (EUFTA). These agreements will help to attract foreign direct investment, spur innovation and technological upgrading, and further open up market access for Malaysia's exports of goods and services. These initiatives can also bring benefits through reforms in new areas that were not included in past agreements, such as competition policy, government procurement, investment-state disputes, and investment policies. (World Bank Report June 30th, 2016). The World Bank reported that the region new trade agreements can advance Malaysia's reform agenda in four key areas:

- a. **Services:** Malaysia still trails many countries in East Asia in terms of the contribution of services to GDP and exports. An efficient services market can enhance Malaysia's competitiveness.
- b. **Investment:** Improved investment policies can help attract a new wave of FDI that supports economic diversification. The region new trade agreements provide additional investment safeguards for domestic firms investing abroad.
- c. **Competition:** A more open and level playing field in the domestic economy facilitates the entry of new firms, helps productive companies grow, and promotes innovation and job creation.
- d. **Small and Medium Enterprises (SMES):** SMEs in Malaysia represent 97.3 per cent of firms and accounted for 35.9 per cent of GDP in 2015, but account for only 17.8 per cent of exports.

Trading Problems in Malaysia

Ahmad, S., et. al. (2017) contended that there are 20 pressing problems for SMES to be competitive in the international market. It include; late delivery, need export financing facilities, high freight charges, lack of transportation, legal requirements, competition from China and India, lack of raw materials for expansion, unable to target the right market, too many government regulations, changes in government regulations, lack of R&D, high cost of raw materials, problem with custom declarations, constraint by quota system, low profit, lack of product acceptance, international piracy and hijacking, difficulty getting health certificate, limited range of products for export, and export duty.

This study examines on the impact of international trade policies offered by the Malaysian government and its statutory bodies to enhance trade activities in the region. The focus of the study is to investigate the helpfulness of the local government incentives and the performance of business activities among the region. More specifically the study attempted to determine the level of helpfulness among local government incentives and trade activities in the region.

Small and Medium enterprise in Malaysia

Malaysia government has redefined the meaning of Small and Medium Enterprise (SME) on the month of January 2014. The new definition requires higher sales turnover to be classified as SMES. Table a below illustrate the new definition for SME in Malaysia. Besides giving a clear guideline what SMES are Table a clearly illustrate the list of eliminated companies from SMES. The eliminated companies include, Public listed Company, Multi-

National corporations, Government linked companies, Minister of Finance incorporated companies, State owned enterprises and the subsidiaries of all the eliminated corporation. (SMECORP 2014).

Table a New definition of SME 2014

	MANUFACTURING SECTOR		NON-MANUFACTURING SECTORS		EXCLUDE: <ul style="list-style-type: none"> ● Public listed companies on the main board ● Multinational corporations (MNC) ● Government-linked companies (GLC) ● Minister of Finance Incorporated (MOF Inc.) companies ● State-owned enterprises ● Subsidiaries for all of the above entities Source: SME Corp.
	ANNUAL SALES TURNOVER	FULL-TIME EMPLOYEES	ANNUAL SALES TURNOVER	FULL-TIME EMPLOYEES	
MICRO	< RM300,000	OR < 5	< RM300,000	OR < 5	
SMALL	RM300,000 < RM15 million	OR 5 < 75	RM300,000 < RM3 million	OR 5 < 30	
MEDIUM	RM15 million ≤ RM50 million	OR 75 ≤ 200	RM3 million ≤ RM20 million	OR 30 ≤ 75	

Source SME Corporation Report 2014

IV. RESEARCH METHODOLOGY

The study was conducted cross-section. The data was gathered at one point of time. The variable in this study was measured at the individual level analysis which means that every respondent was treated as an individual data source. Self-administered questionnaires was used to collect the data.

Sampling Frame and Sample

This study was confined to selected small and medium-sized enterprises

(SMES) in the manufacturing sector in the Perlis, Kedah, Perak, Penang, Kelantan. In this study, a small and medium-sized enterprise (SME) was defined as a manufacturing firm with an annual turnover of less than RM25 million and as one which actively managed by its owner or owners. Based on this definition, 3500 SMES were identified from the MATRADE listings of exporters.

The data was collected through mail survey. Through telephone conversations and a follow-up letter, the participation of the selected firms is confirmed. Structured questionnaires were then mailed to the top management of the 3500 firms selected. Out of the total number of 3500 questionnaires sent, 300 are usable, yielding a response rate of 8.57 percent.

Questionnaires

The structured questionnaire adopted in this study consists of two sections.

The first and second sections of the questionnaire which consists of 12 items were used to obtain the general information concerning the background of the respondents (8 items) and the firm's characteristics (4 items). The questions in sections 3, (4 items) were designed to capture the respondent's perceptions on the export incentives provided by the local authority.

Data Analysis

The data from the questionnaire was coded and entered accordingly into the SPSS statistical software. The descriptive statistics such as percentages and frequency distribution were used to analyze the data.

V. FINDINGS

Demographic Background

Table 1 illustrates the position in business. It clearly shows that 28 % of the respondents either manager or owner. While 40 % of the respondents are owner and CEO of the company.

Table 1: Position in Business

<i>Position in business</i>	<i>Frequencies</i>	<i>Percentages</i>
Owner/CEO	120	40
Owner & Manager	84	28
Manager but not Owner	60	20
Owner but not Manager	15	5
Others	21	7
Total	300	100

Table 2 illustrates on the respondents composition of ethnicity. Majority of the respondents are Chinese which comprises 76 %. Whereas the remaining of 20% are Malays and 4 % are Indian, others 8%.

Table 2: Respondents Ethnicity

<i>Ethnicity</i>	<i>Frequencies</i>	<i>Percentages</i>
Malay	60	20
Chinese	180	76
Indian	36	4
Others	24	8
Total	300	100

Table 3 illustrates the respondent's number of employees at business start-up. It shows that 28 % of the respondent's number of employees at business at start-up is more than 100 employees. While 72 % of the respondent's number of employees at business start-up is 100 or less.

Table 3: Number of Employees at Business Start-up

<i>Employees</i>	<i>Frequencies</i>	<i>Percentages</i>
<50	96	32
51-100	120	40
101-150	24	8
151-200	12	4
200<	48	16
Total	300	100

Table 4: Number of Employees at Last Fiscal Year

<i>Employees</i>	<i>Frequencies</i>	<i>Percentages</i>
<50	21	7
51-100	57	19
101-150	36	12
151-200	27	9
200<	159	53
Total	300	100

Table 4 illustrates the respondents' employees in last fiscal year. It shows that about 62% of the respondent's number of employees in last fiscal year is more than 150 employees. While 38 % of the respondents' employees in last fiscal year is 150 or less.

Table 5 illustrates the respondent's volume of business during business start-up. It shows that 23 % of the respondent's volume of business at start-up of business is RM 5,000,000 and below. While 43 % of the respondent's volume of business at business start-up is RM 5,000,001 and more but less than RM 10,000,000. While 34% is above RM 10,000,000.

Table 5: Volume of Business at Business Start Up

<i>Sales</i>	<i>Frequencies</i>	<i>Percentages</i>
5,000,000	69	23
5,001,000-0,000,000	129	43
>10,000,000	102	34
Total	300	100

Table 6: Volume of Business during Start-up (RM)

<i>Sales</i>	<i>Frequencies</i>	<i>Percentages</i>
<5,000,000	33	11
5,001,000-10,000,000	84	28
>10,000,000	183	61
Total	300	100

Table 6 illustrates the volume of business in the last fiscal year. It shows that 61% of the respondents business volume are above RM 10,000,000. While 28% between RM 5,000,001- 10,000,000 and 11% are less than RM5,000,000.

Table 7: Percentage of Export

<i>Class interval</i>	<i>Frequencies</i>	<i>Percentages</i>
1-10%	16	2
11-20%	18	6
21-30%	42	14
31-40%	150	50
More than 40 %	84	28
Total	300	100

Table 7 illustrates the percentage export sales. It clearly indicates that 50 % of the respondents' exports between 31-40%, 28 % of the respondent export more than 40% of their total sales of the products. While 14 % export between 21-30% of their products, 6 % exports between 11-20 % and 2 % exports between 1-10 percent from their total sales.

Table 8: Export Increment from 5 Years of Sale

<i>Response</i>	<i>Frequencies</i>	<i>Percentages</i>
YES	276	92
NO	24	8
Total	300	100

Table 8 illustrate the increment of sale which shows 92% experienced sales increment while 8 % did not experience any increment in the past five years.

Table 9: Investment Tax Allowance

<i>Response</i>	<i>Frequencies</i>	<i>Percentages</i>
Very helpful	270	90
Helpful	30	10
Total	300	100

Table 9 illustrates the helpfulness of Investment tax allowance it clearly illustrates that 90 % of the respondent perceived that it is very helpful, while 10 % perceived it helpful.

Table 10: Export Credit Refinancing EXIM Bank

<i>Response</i>	<i>Frequencies</i>	<i>Percentages</i>
Very helpful	120	40
Helpful	30	10
Not sure	60	20
Not so helpful	60	20
Not helpful at all	30	10
Total	300	100

Table 10 illustrates the helpfulness of Export credit refinancing by EXIM bank. It shows that the 50 % of the respondent company perceived that Export credit refinancing by EXIM bank is helpful. While the remaining of 50 % are either not sure or not helpful.

Table 11: Export Credit Insurance

<i>Response</i>	<i>Frequency</i>	<i>Percentage</i>
Very helpful	180	60
helpful	120	40
Total	300	100

Table 11 illustrates the helpfulness of Export credit insurance by Malaysia Export Credit Insurance Berhad (MECIB) It shows that the 100 % of the respondent company perceived that Export credit insurance is helpful.

Table 12: Reinvestment Allowance

<i>Response</i>	<i>Frequency</i>	<i>Percentage</i>
Very helpful	150	50
helpful	90	30
Not sure	12	4
Not so helpful	45	30
Not so helpful at all	30	10
Others	18	6
Total	300	100

Table 12 illustrates the helpfulness of. Reinvestment allowance. It shows that 80 % of the respondent company perceived that Reinvestment allowance is helpful. While 4 % are not sure of it and the remaining of 16 % feel that it is not helpful.

VI. CONCLUSION

Based on the findings as discussed earlier in this article, we can conclude that, the increase in business activities of SMES in the IMT-GT region depend on the export assistance given by the Malaysia government, such as Investment tax allowance, Export credit refinancing, Export credit insurance, Reinvestment allowance.

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