

## Market Talk 2007: New & Emerging Markets - Issues & Challenges

Source: Ministry of International Trade and Industry, Malaysia

### Malaysia's Trade with New and Emerging Economies

Malaysia's diversified trading base has given it the impetus to maintain its position as one of the top 20 trading nations of the world since 1999. Currently, Malaysia trades with 234 economies, compared to less than 100 in 1987. The growing number of trading partners is due to trade with new and emerging economies in ASEAN especially Cambodia, Myanmar, Laos and Vietnam (CLMV countries), West Asia, South Asia, Latin America, Central Asia, Africa and Eastern Europe.

Over the last decade, Malaysia's total trade with new and emerging markets continue to expand especially over a period of 1997 to 2006, where trade with:-

- West Asia has expanded from US\$2.56 billion in 1997 to US\$10.54 billion in 2006;
- South Asia, (US\$3.03 billion to US\$8.44 billion);
- Latin America (US\$2.43 billion to US\$4.35 billion);
- Africa (US\$1.34 billion to US\$3.33 billion);
- CLMV countries (US\$1.03 billion in 1997 to US\$3.65 billion);
- Eastern Europe (US\$0.91 billion in 1997 to US\$2.33 billion); and
- Central Asia (US\$16 million to US\$37.7 million).

Exports among the new and emerging markets, Malaysia's exports expanded most significantly over the same period to:

- Central Asia, which grew by 77.8 percent annually for the last decade;
- Eastern Europe (28.5 percent);
- South Asia (19.2 percent);
- CLMV countries (18.7 percent);
- Africa (16.3 percent)
- West Asia (16.2 percent); and
- Latin America (13.9 percent)

The exports to these regions accounted for 12.6 percent of Malaysia's total exports in 2006. Major products exported in 2006 to these economies include:

- E&E products (comprising 24 percent of Malaysia's total exports to these markets);
- Petroleum products (14.5 percent);
- Palm oil (13.6 percent);
- Chemicals and chemical products (5.8 percent); and
- Machinery appliances and parts (4 percent)

The fast pace of growth of Malaysia's exports to these markets is due to:

- Greater attestation and wider acceptability of the quality of Malaysian products;
- Cost competitiveness of Malaysian products in providing value for money;
- Increasing awareness of Malaysia as a reliable source of products and services;
- Improvements in the logistics infrastructure both in Malaysia and worldwide; and
- Many Malaysian brands such as Lewre, Bonia, Mistral, Ekowood, Petronas, Maybank and Parkson are now accepted on equal footing with established foreign brands in these markets.

In addition to exports of merchandise, exports of services to these destinations have also expanded in recent years, especially in areas such as:

- Construction and related professional services;
- Outsourcing;
- Healthcare;
- Education;
- Islamic financial services; and
- Franchising

In the case of construction and related professional services, Malaysian companies have made strong headway in West Asia and South Asia. For example, the Malaysian companies have been involved in notable construction projects in West Asia such as:

- Burj al Arab Hotel, Emirates Towers and Dubai Airport Control Tower;
- Ritz Carlton Hotel, Khalifa Stadium, Qatar Airways Hanger and Qatar Science and Technology Park in Qatar ; and
- F1 track and the Al-Moayyed Towers in Bahrain.

Local construction companies have also been involved in other major projects in West Asia such as construction of bridges and highways. They have also secured infrastructure projects in Saudi Arabia, Libya, Turkey, India and Pakistan.

There has also been an increasing demand for the services of Malaysian companies in the areas of facilities management of ports and airports. For example, Malaysian Airport Holdings Bhd (MAHB) is part of a joint venture company formed to modernise and restructure the Indira Gandhi International Airport, Delhi. MAHB is also involved in the management of the new Hyderabad International Airport in India.

These successes clearly indicate the competitiveness and competency of Malaysian firms in construction and related professional services. To facilitate further expansion of exports, Malaysia will continue to strengthen the scope of its engagement with emerging economies.

## CHALLENGES

Challenges that Malaysian exporters face in exporting to new and emerging markets include:

- Finding the right strategy to gain, widen, and sustain market access within new and emerging economies and markets.
- Difficulty in establishing networking opportunities with the right buyers/partners;
- Prevalence of trade impediments and entry barriers in countries such as Latin America, India and Africa including:
  - High tariffs;
  - Compliance to specific national standards, which are not necessarily consistent with international standards;
  - Necessity to translate documentation and packaging into native languages;
  - Engaging local labour; and
  - Adherence to regulations involving specific permits and approvals.

Overlapping trading rules resulting from regional agreements. For instance, within the MERCOSUR regional group, foreign products must fulfil the 60 to 40 percent local content rule or be subjected to high import duties.

## THE WAY FORWARD

- Malaysian exporters need to establish greater collaboration and relationship with buyers, importers and key decision makers in new and emerging markets.
- Adopt strategies to compete effectively with low cost competitors by;
  - Taking advantage of low-cost base in developing countries to outsource certain processing activities (e.g China and India) while ensuring the final value-added processes such as packaging as well as branding is done in Malaysia before re-exporting.
  - Identifying cost reduction programmes within the value chain such as operating efficient warehouse facilities to reduce cost of delivery as well as the lead time for delivery and locating distribution centres in strategic areas particularly in commercial or industrial zones, which are close to the customer base to reduce transportation costs.
- Implement programmes to enhance Malaysia's country image and product branding to overcome the perception of consumers from developing countries that Western products are better. This can be done through a combination of advertising and promotion programmes and active participation of Malaysian exporters in global trade fairs.
- The Government, through agencies such as the Malaysia External Trade Development Corporation (MATRADE), constantly carries out activities to further enhance Malaysian exporters' market access as well as increase the

country's image and brand presence. In 2007, MATRADE plans to carry out 110 trade promotion programmes in West Asia, South Asia, Latin America, Central Asia, Africa and Eastern Europe.

- Companies should register with MATRADE in order to fully avail themselves of all the services that the agency can offer. There are 12,025 companies have already registered with MATRADE.

Many emerging markets are undergoing restructuring and liberalising their business environment to attract investors to participate in their development. These markets often have high rates of growth, and possess large markets and are rich in natural resources.

- Although there are inherent risks in investing in new and emerging markets, those that succeed can reap high rewards. These markets should therefore to be evaluated as providing business opportunities rather than ignored as high-risk and difficult. In this regard, new and emerging markets are experiencing higher FDI inflows. UNCTAD's World Investment Report 2006 estimates that FDI inflows into developing countries in 2006 rose by 10% to US\$368 billion or 30.7% of total global FDI.
- An increasingly important area of focus for emerging markets is the services sector of the economy. This sector can account for more than 50% of Gross Domestic Product and is the largest source of employment in many emerging markets.
- The 2006 UNCTAD World Investment Report indicated that that investment in the services sector, based on latest sectoral breakdown available for 2004, accounted for 62% of total FDI, while manufacturing accounted for 32.1%.
- Most of the FDI in these markets were in utilities, telecommunications, banking and real estate. However, investment is also growing in other sectors. Other areas of potential are in :
  - Construction
  - transport
  - IT and software
  - Distributive trade
  - healthcare
  - hotels and restaurants
  - business services
  - tourism
- In terms of global trade in commercial services, WTO data showed that developing countries imported US\$564 billion worth of such services in 2005. The potential for increasing trade and investment in the services sectors of emerging markets are thus high.

- Investors in new and emerging markets are advised to be careful before venturing into these markets. Projects should be carefully evaluated, including the local business and political environment. When in doubt, they are advised to consult Malaysian Missions abroad, including MATRADE Trade Commissioners.
  
- Outward investment in the services sectors have its challenges :
  - the regulatory environment could be complex
  - delivery of services in the sector need to take into account safety, security and quantum of the services provided
  - investors have to have a good understanding of emerging market's laws with respect to investment, including foreign exchange and banking regulations, immigration and foreign employment procedures, and real estate requirements

Emerging markets will usually have requirements for joint collaboration with local companies. Such collaborations are intended to promote a country's socio-economic objectives or to promote transfer of expertise and technology to the local partner. The choice of local joint venture partner is important as a good one will facilitate while a bad one will be a hindrance to the successful implementation of the project.