TRADE LINKAGES BETWEEN MALAYSIA AND THE OIC MEMBER COUNTRIES: AN EMPIRICAL ANALYSIS ON PATTERNS, DETERMINANT FACTORS, AND PROSPECTS

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By

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ABSTRACT

International trade has always been playing a crucial role in the process of growth and development in Malaysia. This research attempts to analyze trade relations between Malaysia and The Organization of Islamic Cooperation (OIC) member countries for the period of 1997 to 2009. It is specifically aims to evaluate Malaysia-OIC trade pattern, identifies their determinants, and evaluate their future prospects. Towards these aims, the indirect quantitative analysis method and the panel data analysis using the gravity model of trade, exports, and imports are employed. The analysis of trade pattern reveals that the OIC countries have not used all their potential and resources available to establish a strong and effective intra-OIC trade. The gravity model estimates imply, among others, the importance of size effects, level of development, level of openness, and the FDI inflows in determining trade flows between Malaysia and the OIC member countries. The major determinants of Malaysia’s exports to OIC are the size of the economies, level of openness of the economy, inflation rates, and the exchange rates. On the other hand, distance factor is not significantly influence Malaysia’s imports whereas institutions is empirically proven to be a major determinant for the Malaysia-OIC of trade, exports, and imports. Findings from the aforementioned analyses are then to be constructed by employing the SWOT analysis to investigate future prospects of trade relationship between Malaysia and the OIC member countries. Based on the findings, some policy issues are highlighted and policy recommendations are developed, such as on fostering greater engagement with the OIC member countries in the African region, accelerating the effort to establish the Islamic Common Market (ICM), liberalizing the economy further, improving strategic sectors such as the Islamic Banking and Finance, and intensifying endeavors in curbing corrupt practices.

Keywords: International Trade, Gravity Model, Panel Data, Malaysia’s Trade
ABSTRAK


Katakunci: Perdagangan Antarabangsa, Model Graviti, Data Panel, Perdagangan Malaysia
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LIST OF ABBREVIATIONS

AFTA – ASEAN Free Trade Area
APEC – Asia-Pacific Economic Cooperation
ASEAN – Association of Southeast Asian Nations
BNM – Bank Negara Malaysia
BO – Business Opportunities
CARSICM – Center of Advanced Research & Studies of the Islamic Common Market
CIA – Central Intelligence Agency
COMCEC – Standing Committee for Economic and Commercial Cooperation of The Organization of Islamic Cooperation
CM – Common Market
CU – Custom Union
DOTS – Direction of Trade Statistics
EMU – Economic Monetary Union
EPP – Entry Point Projects
ETP – Economic Transformation Programme
EU – European Union
FDI – Foreign Direct Investment
FTA – Free Trade Agreement
GCC – Gulf Cooperation Council
GTP – Government Transformation Programme
ICM – Islamic Common Market
IDB – Islamic Development Bank
IMD – Institute for Management Development
IMF – International Monetary Fund
KPI – Key Performance Indicators
LAS – League of the Arab States
LDC – Least Developed Country
MENA – Middle East and North Africa
MI – Middle-Income
MITI – Ministry of International Trade and Industry
NAFTA – North American Free Trade Agreement
NEM – New Economic Model
NKEA – National Key Economic Area
NKRA – National Key Result Area
NTP – National Transformation Policy
NVP – National Vision Policy
OE – Oil-Exporting
OIC – Organization of Islamic Cooperation
OPEC – Organization of Petroleum Exporting Countries
PPP – Public-Private Partnership
PTA – Preferential Trade Agreement
SESRTCIC – Statistical, Economic, and Social Research and Training Centre
   For Islamic Countries

SME – Small Medium Enterprise

SRI – Strategic Reform Initiative

TC – Transition Countries

TPS-OIC – Trade Preferential System – Organization of Islamic Cooperation

UAE – United Arab Emirates

UDEAC – Central African Customs and Economic Union

UN – United Nations

UN COMTRADE – United Nations Commodity Trade Statistics Database

WDI – World Development Indicators

WIEF – World Islamic Economic Forum

WTO – World Trade Organization

10MP – 10th Malaysia Plan
CHAPTER ONE
INTRODUCTION

1.1 Background

International trade has always been playing a crucial role in the process of growth and development in Malaysia, especially in transforming the economy from a low income to upper-middle income category. In 1992, Malaysia has achieved an upper-middle income status from low income economy. The significant role which trade has played in transforming the Malaysian economy can be seen primarily in the ratio of exports to gross national product (GNP) from 1965 to 1996, where it has increased from 48.2 per cent to 100.3 per cent (Ariff, 1998).

Low income country, according to the World Bank’s definition, is a country of having a per capita gross national income (GNI) in the year 2005 of USD875 or less; while upper-middle income country is between USD3,466 and USD10,725 (Todaro and Smith, 2009). In line with the 1993 System of National Accounts (SNA), the World Bank has replaced the gross national product (GNP) terminology or concept into the new one called gross national income (GNI). GNI is defined as the total output of both domestic and foreign claimed by residents of
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REFERENCES


