News Release

Accelerating Trade Amid Market Volatility – Malaysia to Benefit

Kuala Lumpur, 14 June 2016 - With turmoil in the global markets dominating conversations around the world, international trade too is currently subject to a high degree of pessimism.

On one hand, this is understandable, as global trade has slowed in relation to growth in the world economy.[1] No longer does trade expansion outpace global Gross Domestic Product (GDP) by a multiple of two or three as in the years leading up to the last recession. On the other hand, what is often ignored is that global trade *volumes* have on average continued to grow, even as trade *values* in US dollar terms have in some cases contracted. This is in part due to declines in commodity prices, which have recently fallen to record-lows.

A further damper on trade confidence is the continued existence of traditional barriers to imports in many countries, often in the form of duties and red tape at the border. While there have been numerous free-trade agreements to reduce such measures over the years, many of these obstacles remain. And, there has been a steady stream of new barriers arising.

Fortunately, hope is on the horizon. "Businesses and governments should look beyond the recent weak performance in global trade and consider the underlying economic potential that's out there," asserts Douglas Lippoldt, Senior Trade Economist, HSBC Global Research.

"Pending reforms in trade policy should expand business opportunities that tap into this potential. When markets liberalise, competition heats up. Successful businesses respond by improving their offerings and becoming more productive. One way they do this is by seeking competitive inputs wherever they can be found, domestically or from abroad. Open markets then enable them to reap economies of scale and maximise returns. Cross-border trade is good for business." he explains.

International Agreements

Lippoldt stresses the importance of international trade agreements, which alleviate tariffs and other barriers to trade in goods and services. With regard to Malaysia, he cites numerous initiatives that could become game-changers for the nation's economy. These include the Trans-Pacific Partnership (TPP); Regional Comprehensive Economic Partnership (RCEP); ASEAN Economic Community (AEC); China's 'Belt and Road Initiative' (BRI); and the World Trade Organization's Trade Facilitation Agreement (TFA) and expanded Information Technology Agreement (ITA).

What is noteworthy about the above deals is their size and geographic scope. According to Lippoldt, TPP represents about 40% of the global economy; RCEP involves almost 50% of the world's population; BRI will benefit more than 60 countries that lie along land and maritime routes that connect Asia with Africa, the Middle East, Europe and Oceania[2]; and collectively ASEAN is the sixth-largest economy.

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[1] https://www.wto.org/english/news_e/pres15_e/pr752_e.htm
[2] http://english.gov.cn/beltAndRoad/

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HSBC Bank Malaysia Berhad
(Company No. 127776-V)

Registered Office and Head Office:
2 Leboh Ampang, 50100 Kuala Lumpur, Malaysia.
Web: www.hsbc.com.my

The expanded ITA will have a marked impact on Malaysia's electronics industry, as it will remove over time tariffs on more than 200 next-generation electronic products in most major markets. Covered products include video cameras, GPS systems, multi-component semiconductors, medical devices and touch screens, among others. Trade in these products is currently valued at US$1.3 trillion, annually, according to the economist.

"There are a number of trade liberalisation agreements well underway that will significantly benefit Malaysia — some of them already confirmed and others in the process of development," says Lippoldt. "These can help the nation unlock its economic potential, and spur growth throughout the region and beyond."

Services Trade

The economist highlights how trade is not only about the importing or exporting of raw materials or manufactured products — services also play an important role. Indeed, businesses not only require physical inputs, but also expertise and support in other areas that allow firms to be competitive, whether locally or internationally. These include services inputs like sales and marketing, financing, design, information technology, telecoms, human resources and logistics.

"By maintaining barriers to service trade, a country risks to deny its manufacturing-base access to globally competitive inputs, inputs that can enable local firms to better compete for business against rivals," Lippoldt explains.

The importance of services trade to the global economy cannot be underestimated. According to the United Nations Conference on Trade and Development, during 2014 services exports were valued at almost US$5 trillion globally, with the value of exported goods estimated to be US$18.5 trillion during the same year.[3]

The significance of services trade to the Malaysian economy is noteworthy. The World Bank estimates that the value of Malaysia's trade in services amounted to the equivalent of more than one-quarter of GDP[4] during 2014. And, as Malaysia continues to diversify its economy — as well as move its industrial-base further up the value chain — Lippoldt sees the role of services trade growing in prominence.

Financing Shortfall

Aside from barriers to goods and services trade, the economist pinpoints today's shortfall in trade financing. Research by the Asian Development Bank highlighted that by the end of 2015 the global trade finance gap stood at US$1.4 trillion, with almost US$700 billion of this figure attributed to Developing Asia.[5]

While the report cites the cost and complexity of compliance with regulations designed to stem financial crimes as a significant reason behind this funding shortfall, Lippoldt also attributes increased risk aversion on the part of some financial institutions as being another factor influencing this trend.

[3] http://unctad.org/en/PublicationsLibrary/ditctab2015d1_en.pdf
[4] http://data.worldbank.org/indicator/BG.GSR.NFSV.GD.ZS
[5] http://www.adb.org/publications/2015-trade-finance-gaps-growth-and-jobs-survey

“The Great Recession prompted a contraction in global trade. But there is perhaps US$1 trillion worth of trade in Asia that today is not getting financed,” remarks Lippoldt. “There is an enormous opportunity for businesses and governments in helping to close this gap, provided they take appropriate care. Such efforts can complement trade liberalisation measures.”

Increased Competition and Greater Diversification
A common misunderstanding on the part of some businesspeople and policy-makers is that imports are bad for economies, whereas the opposite is indeed true, argues the economist: “Imports have a significant role for economies. Openness to imports offers the broadest range of choice to consumers and businesses. Access to imports can allow the latter to focus on what they do best, buy in other inputs, and then produce the most competitive products feasible.”

Lippoldt asserts that the removal of trade barriers leads to greater numbers of market participants and increased competition, which is positive for economies. Furthermore, by allowing foreign companies to enter a particular market and conduct business on the same trading terms as local entities, this also leads to greater diversification of a country’s economic-base.

The economist cites Malaysia’s ‘open for business’ policies, which have helped move the nation’s industrial-base from a commodities-driven economy to one that includes higher value industries like financial services, pharmaceuticals, logistics and IT. He encourages nations across Asia to adopt further pro-trade policies in order to advance development in their economies.

“The opportunities that stem from trade agreements can be game-changing for some economies, as they have done - and will continue to do so - for Malaysia,” says Lippoldt. “Unleashing this potential requires businesses, governments and financiers to work together to remove these barriers, and thereby improve conditions for global trade,” he concludes.

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Media enquiries:
Marlene Kaur +603 2075 3351 marlenekaur@hsbc.com.my
Joanne Wong +603 2075 6169 joanne.p.m.wong@hsbc.com.my

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