GCC ECONOMIC INTEGRATION CHALLENGE AND OPPORTUNITY FOR MALAYSIAN ECONOMY

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Abstract

Gulf Cooperation Council (GCC) is the largest economic group in the Middle East region and ranks at number 17th in the global economy. The establishment of GCC Custom Union in 2003 has attracted a number of economic groups such as European Union (EU) as well as individual countries to deal with the GCC as an economic group. As a custom union, it requires to the interested parties to deal with GCC as a bunch. Malaysia, apart from religious affinity, has significant economic relation with the group. The economic tie between Malaysia and GCC has been remarkable particularly on trade, oil sources as well as investment opportunities for Malaysia. At the same time, recent development shows that, the GCC nations also investing and participating in Malaysian economy and this contributing considerably its economic growth. Given this background, the objectives of this paper are first to analyse GCC economic condition from Malaysian perspective and secondly to highlight the economic co-operation at the intra-regional level between GCC and Malaysia. In doing so, this paper will particularly look into the trends, level and few other aspects of its trade and economic relation with the GCC members, and the benefit that gained by Malaysian investors as well as expatriates investing and working in this region. The findings of this paper will be analyzing toward the future relation between the GCC and Malaysia.

Key Words: Gulf Cooperation Council, Malaysian Economy, Economic Integration

1. Introduction

Since independence, Malaysia has been an active country in its involvement in international trade. Today, Malaysia is one of the major trading nations in the world (in which Malaysia ranks number seventeen). In fact, Malaysian economy has been highly dependent on external trade. To date, Malaysia's major trading partners are the United States of America followed by Singapore and Japan.

Apart from that, it is the national aim now to increase Malaysia's trade relation to the Middle East markets and strengthened the tie between the Muslim worlds which includes the Middle East countries. However, the development of trade relation between Malaysia and among the Middle East markets especially Gulf Cooperation Council countries in the current situation is relatively small compared to their 'traditional' trading partners.

In view of the fact that Malaysia is in the process of setting up the Islamic Financial-Hub and World Halal-Hub, Middle-Eastern Countries especially Gulf Countries are seen as a potential partner for trade exchange in both productions and services. On the other hand, several GCC's financial institutions have been established in Malaysia since a couple of years and vice-versa, which create more opportunities for both GCC's and Malaysian's companies to run up their business in the regions.

On the other hand, the GCC's policy which is called as a 'look to the east' brings a good opportunity to the ASEAN economy particularly Malaysia. This, economically, might strengthen the trade relation ties between the two economic blocs. As the increasing oil prices and rapid growth of the gulf region, Malaysia could expand their expertise and share the experience with the Gulf. Beside that, trade activity is the largest prospect for the both parties to expand their growth.

2. GCC – Gulf Cooperation Council

The Gulf Cooperation Council (GCC) is a regional conference consists of 1.3 billion population or one-sixth of the world's population in 2003. The establishment of Gulf Cooperation Council is a manifestation of the cooperation and integration among the Arab Gulf region. It started after the withdrawal of British Colonisation from the Gulf Region in 1969. The Gulf Cooperation Council is a regional organisation, which share common economic and political objectives.

Apart from the common characteristics and similar perspectives which unite the peoples of the Arabian, their geographical and economic circumstances also importantly contributed to the formation of the

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cooperation. The GCC countries comprise a consolidated stretch of land covering the entire Arabian Peninsula from the gulf sea to the dessert land, except Yemen in the south.

With the strong effort by the six nations' leaders in the gulf region, in May 1981 they asserted the establishment of Gulf Cooperation Council treaty and its charter, including the basic policies and objectives of the Council. The council is originated by six nations in the gulf region including United Arab Emirates, State of Bahrain, Kingdom of Saudi Arabia, Sultanate of Oman, State of Qatar and State of Kuwait.

The main objective of the Gulf Cooperation Council is to strengthen political relationship between the Gulf countries as well as to enhance their economic relation (GCC, 2007). These include their cooperation on economic reform, cultures, trade, customs, tourism, legislation, administration, as well as promoting scientific and technical progress in industry, mining, agriculture, water and animal resources (GCC, 2007).

Generally, the GCC countries consist of 2 percent of world total land area, and combined population of 35.1 million peoples in 2006. Their population growth as recorded by World Bank is 3.0 percent per annum and UAE has recorded higher percentage of population growth with on average 6 percent since year 2000. In term of sources, GCC countries are enriched with petroleum and gas and they hold 53 percent of proven oil reserves worldwide, produce 24 percent of world oil, and also account for 40 percent of oil exports.

2.1.1 GCC Economic Condition

Gulf Cooperation Council (GCC) is the most attracted group economically and politically. It is known as the largest oil producer in the world with the largest pool of proven reserves. At the same time, the GCC states also have large gas reserves. With the abundance of oil and gas resources in the region, all the six states share almost the same economic background.

Although most of the countries have been driven by oil-based production, most of the GCC countries except Oman experienced several years of negative growth rate during the 1980s. This period, was consequently effected by the declining of oil prices which contributed to a widening of aggregate budget deficits to 4 percent of GDP as well as a slow economic growth in the region. This is shown by the table 1 below, except for the Qatar due to data availability; most of the countries suffer low economic growth in the early of GCC formation.

In the early 1990s, although there was a Gulf War, most of the countries recorded quite strong growth. During these years, as an increasing of oil prices, the economic in the region had dramatically changed. Their GDP growth performances had improved with all the states enjoyed positive growth, for instance Saudi Arabia experienced an average 4.5 percent over the 5 years.

Table 2-1: GCC Countries Economic Growth Rates (GDP*)

Year	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE	GCC average	OIL Prices (OPEC Basket) USD
Average 980s	0.03	-0.87	8.26	1.75	-0.61	1.62	1.70	-
1990	4.60	-25.40	8.40	2.70	8.30	17.80	2.73	22.26
1991	4.60	-41.20	6.00	-0.80	9.10	2.40	-3.32	18.62
1992	7.80	81.50	8.50	9.70	4.60	3.50	19.27	18.44
1993	12.90	33.80	6.10	-0.60	0.00	1.10	8.88	16.33
1994	-2.10	8.60	3.80	2.30	0.70	8.10	3.57	15.53
1995	11.70	1.40	4.80	2.90	0.20	7.00	4.67	16.86
1996	0.20	-2.70	2.90	4.80	3.40	5.80	2.40	20.29
1997	1.60	1.20	6.20	24.00	2.60	8.60	7.37	18.68
1998	4.80	3.20	2.70	8.40	2.80	1.40	3.88	12.28
1999	4.30	-4.90	-0.20	3.20	-0.80	4.40	1.00	17.47
2000	5.30	4.70	5.50	7.30	4.90	12.30	6.67	27.6
2001	4.60	0.70	7.50	6.30	0.50	3.50	3.85	23.12
2002	5.20	5.10	2.60	7.30	0.10	1.80	3.68	24.36
2003	7.20	13.40	2.00	5.90	7.70	11.90	8.02	28.1
2004	5.40	6.20	5.60	11.20	5.20	7.40	6.83	36.05
2005	7.10	3.20	3.80	6.50	6.00	5.60	5.37	50.64
2006**	7.10	6.95	9.00	4.50	8.00	4.20	8.90	61.08

SOURCE: UNITED NATIONS STATISTICAL DATABASE (UNSD)[3].

* Annual percentage growth rate of GDP based on constant US$ 1990 prices (UN estimates). ** Data for 2006 is real GDP growth rate and was obtained from Middle East Economic Digest (MEED). Oil prices are obtained form OPEC basket prices[4]

In the early 21st century, the performance of the GCC economies has dramatically improved. The highest growth rates in year 2003 and 2004 were recorded, with almost of the GCC had experienced GDP growth more than 6 percent per annum; in fact some of the countries such as Kuwait, UAE and Qatar had recorded 11 percent, 13 percent and 20 percent growth respectively. Obviously, the improvement of economic growth of the GCC states in the years 2000 to 2005 was influenced by the oil-price boom which began in 2002.

2.1.2 Trade openness

Based on the World Bank data, the GCC states economies are generally accepted as open trading economies. The trade openness in the GCC states in 2004 ranges from 77.57 percent in Saudi Arabia and 164 percent in United Arab Emirates (see table 3.7. detail). However, it is worth to note here that, although in 2004 UAE was the highest trade openness in the region, Bahrain, in the 20 years period on average has been the highest trade openness. In fact in year 1980 to 1982 Bahrain's trade as a percentage of GDP were more than 200 percent.

Table 2-2: GCC Trade Openness (1980 – 2005)

Year / Country	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
1980	239.35%	112.65%	100.31%	n/a	90.89%	112.41%
1985	191.61%	96.42%	87.01%	n/a	66.71%	89.65%
1990	210.16%	103.01%	74.83%	n/a	72.23%	107.60%
1995	152.46%	94.32%	79.59%	87.67%	65.45%	131.99%
2000	153.83%	86.62%	90.53%	89.61%	68.55%	128.65%
2005	n/a	98.01%	n/a	101.71%	87.07%	170.64%
Mean	239.35%	96.86%	87.26%	89.02%	72.02%	123.37%

Source: World Bank, World Development Indicators (WDI) November (2007), ESDS International, (Mimas) University of Manchester.

2.1.3 GCC Economic Integration

GCC group, apart from the political reason, in one way or another is to facilitate the economic integration among the member states. In the early establishment, back to 1980's, they had agreed to establish the GCC's 'Unified Economic Agreement' which was approved by all the GCC supreme council and it had been implemented in January 1982 until 2001. With regard to the agreement, the GCC Free Trade Area had been implemented (GCC, 2003).

After more than 15 years of implementing the Economic Agreement, GCC summit at Muscat in 2001 has endorsed new Economic Agreement. The GCC's supreme council has agreed to adopt a new Economic Agreement in order to sustain their cooperation after a few period of stagnation in implementing the old agreement's objectives specifically in 1980's and 1990's (Rutledge, 2006). With the new and revised agreement, GCC's supreme council agreed in implementation of several strategies of integration. These include the creation of the customs union, GCC Common Market, Monetary Union, and etc.

2.1.4 GCC Custom Union

As mentioned, at December 2001 summit, GCC Supreme Council has approved the establishment of GCC States' Custom Union which has officially started since 2003. The GCC Custom Union is established purposely to enhance economic cooperation between them specifically in the trade activity between the countries by reducing tariffs and duties as well as removing trade barriers (Gulf Cooperation Council. Majlis al-A`lá., 2003).

To realise the implementation of GCC custom union, since 2001, all the six Member States had been working hardly towards unifying their tariffs structures by adopting across-the-board Common external customs tariff (CET) of five percent on all foreign imports.

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[3] Data for GDP annual growth rate, 1990 prices, US$ (UN estimates) obtained from http://unstats.un.org/unsd/databases.htm

[4] Data for oil prices obtained from http://www.opec.org/home/basket.aspx.

2.1.5 GCC Single Market and Monetary Union

With regard to the new agreement, Gulf Cooperation Council is seen as the fastest growing regional economic bloc in the world. GCC has been successfully implementing free trade agreement between them as well as creating custom union which are terribly difficult to achieve in other economic regions. These achievements have been led by the similarities in their factor endowment as well as their political unity which aims to form a strong and viable economic tie in the region.

Regarding to the economic integration agenda, GCC is now moving forward to build a foundation to establish GCC Common Market and Single Monetary Union. GCC monetary union, which is a part of the GCC economic integration, is scheduled to come into force in 2010. The intention to create their own currency union shows the member's states commitment to achieve economic union. It is very fruitful for the GCC common market when the implementation of a single currency in the region comes into reality. A single currency in the region is expected to reduce a transaction cost for foreign exchange, eliminate exchange rate risk, and promote pricing transparency. As a result, the implementation of monetary union would increase business competition, thus promoting trade, investment and growth in the GCC countries.

Liberalised market, huge population, high economic growth, comparatively advantage, and limited local manufacturing finished products are the main characteristic of the GCC economy. As an integrated economy in the Middle Eastern region, GCC presents significant opportunities for exporters all over the world including Malaysia. In term of market size, Saudi Arabia and UAE are the biggest market opportunity whilst other countries are considered as small market relatively.

2.1.6 Inter regional GCC relation.

Gulf countries are seen as very attractive economies in the world with the high reserve of black gold and highly political interest. Therefore, it is agreed that Gulf countries are the most interesting region and seen as a valuable economic partner for some economic regions as well as other countries in the world. Therefore, there are number of economic regions and individual countries are highly willing to get in touch with Gulf countries in particular with the trade activities and oil resources.

European Union for example, is now negotiating with the GCC to develop free trade agreement which called GCC-EU FTA. In fact, EC (European Community was the form of the EU) and GCC had been signed a co-operation agreement from 1989 to 2001, and in 2001, a revised agreement has been replaced the 1989 agreement. The old agreement's objective was to facilitate and to strengthen market access specifically trade relation between two parties (Chirullo and Guerrieri, 2002). As a custom union, both GCC and EU have to deal collectively rather than make an individual agreement. From the GCC-EU free trade area which is under negotiation, GCC is expected to have a greater access for fuel market distribution in the EU and a new market for textiles and light machinery.

However, in the recent development, GCC countries tend to negotiate a free trade agreement with United States (US) as an individual entity rather than as a group. Some of the countries like Oman and Bahrain have signed free trade agreement with US in 2004 and 2006 respectively. While, UAE is still negotiating with the US since 2004 and the negotiation expiration was due in 2007, till now, no decision yet to be announced. It is widely felt that, the GCC countries would sign the trade agreement collectively to get a better deal.

In terms of relation to other countries, Dar and Presley (2001: 1175) state that GCC member states show different degree in both inter-regional and intra-regional economic integration. They found that, Bahrain and Oman are the well integrated countries among the GCC members. Both nations, empirically, have been involving in trade within the other GCC members' states significantly well and they also actively open up new market with the new trading partners from the developing world compared to other GCC countries which tend to prefer trading with industrial countries. China and India are the two major growing industrial economies that GCC countries looking forward to expand their trade relation with.

On the other hand, GCC trade and economic relation with the ASEAN economics are less significant compared to other regions and countries. However, both regions are looking forward to strengthen their relation in various aspects including political and economic (Yong, 2006). Although, oil and gas are the main sources of imported goods from GCC to ASEAN, the ASEAN countries have different interest in the Gulf Countries as some of the ASEAN states do not need much imported oil from the region as they are the oil-producing countries (Malaysia, Brunei, and Indonesia). But other ASEAN countries like Singapore, Thailand and Philippines are the major ASEAN countries oil-importers from Gulf region as they are non-oil producers (Parreñas, 1998).

2.1.7 Direction of Trade

GCC trade direction is significantly influenced by the global economic circumstances and changes. Since the growing of China's, India's and other Asian's economies, the GCC's trade with these economies has also become highly significant and the trade direction has moved away from US and Europe to south and Far East economies. For the last ten years, we can see that, GCC trade volume from GCC to Asia has increased significantly. In term of GCC imports from Asia, it has increased from 11.30 percent in 1980 to 27.64 percent in 2006, whilst the imports from the US to GCC has slightly declined from 16.7 percent to 11.39 percent (see table 2).

Table 2-3: GCC Direction of Trade (1980 - 2006)

Share of GCC Imports by Origin

Origin / Year	1980	1985	1990	1995	2000	2005	2006
ASIA	11.33%	12.80%	15.30%	20.51%	20.69%	26.65%	27.64%
European Union	37.53%	36.64%	34.13%	34.15%	33.26%	32.88%	31.62%
Middle East	8.83%	9.45%	10.37%	11.13%	11.61%	10.45%	10.88%
United States	16.70%	13.12%	12.96%	14.62%	12.98%	11.12%	11.39%
RoW	25.61%	27.98%	27.24%	19.60%	21.47%	18.89%	18.47%

Share of GCC Exports by Origin

Origin / Year	1980	1985	1990	1995	2000	2005	2006
ASIA	14.80%	18.83%	19.83%	25.20%	33.78%	36.53%	37.10%
European Union	36.79%	22.44%	15.28%	11.32%	11.30%	12.18%	9.84%
Middle East	5.23%	7.97%	11.40%	8.68%	7.12%	8.92%	8.91%
United States	11.70%	4.50%	14.32%	9.29%	10.59%	9.66%	8.79%
RoW	31.49%	46.25%	39.16%	45.52%	37.20%	32.71%	35.36%

Source: International Monetary Fund (IMF), Direction of Trade Statistic (DOTS), November (2007) , Economic and Social Data Survey (ESDS) International, University of Manchester.

Although the GCC imports from Europe shows a declining trend over the years, it still contributes a huge portion of the GCC imports. In fact, Europe is the largest import's sources for the GCC followed by Asian which comprises 31.62 percent and 27.64 percent in 2006. In the mean time, Middle Eastern region, in which GCC states are located at, did not contribute huge imports volume to the GCC countries. For the last, imports from Middle Eastern countries were only 10 percent in average.

On the other hand, GCC export directions, as expected were largely directed to the most growing economic region (Asia), with considerable amount of 37.1 percent in year 2006, whereas only, 9.84 percent and 8.91 percent to the EU and the US respectively. The increasing number of GCC exports to the ASIAN region is due to the rise of oil demand from the several fastest developing countries in Asia, especially China and India.

Surprisingly, although Europe and GCC have strong relationship especially on cooperation agreement and the import from this economic region is substantially significant, the export from GCC to European Union shows another way around. In 1980, Europe was the largest exports partner with the GCC and it has turned around when the volume of exports from GCC has declined considerably since the mid 1980's.

2.1.8 Trade with Asian Leading Economies

GCC trade trends to Asian countries are much influenced by the Asian economic growth, exchange rates volatility and oil price development; however, the directions of trades from GCC to Asian are different through out the countries. Table 3 and table 4 demonstrate the GCC trade trends to selected Asian economies including the exports and imports trend respectively from GCC to the selected ASIAN countries and the other way around.

From the table 3, it reveals that among the Asian countries, Japan has been the major importer for the GCC countries since 1980, with the total amount of US87 billion in 2006. Saudi Arabia has contributed the largest portion of exports to Japan compared to the other Gulf economies especially in 2006. The total amount of Saudi's exports to the Japan in year 2006 was almost US$33 billion.

In terms of the South East Asian's imports from GCC, it is clear that Singapore remains the major ASEAN trading partner of GCC states. The total exports from GCC to Singapore have been doubled compared to other states in the region except Thailand. Most of the Singaporean's imports from GCC are utilised for its refinery complexes, the largest in Southeast Asia, in order to distribute the oil and gas to other countries in the region in spite of their own usage. However, "the refinery complexes are no longer being expanded as the country concentrate more on services and highly specialized activities rather than processing and manufacturing" (Wilson, 1998: 26).

In addition, the reason behind of the large import of crude oil from GCC to South East Asian is due to the different quality of crude oil produced from the Gulf region. According to Parreñas (1998: 22), the Gulf countries produce lower quality crude oil compared to oil-producer among the South East Asian countries. The GCC produces mostly sour (light and heavy) grade with more desulphurization capacity. Therefore, there is huge demand for light sour grade of crude oil from GCC to Asian countries in order to upgrade it into sweet crude oil.

Table 2-4: GCC Countries' Exports Direction to Leading ASIAN economies (US$ million)

Country / Year	1980	1985	1990	1995	2000	2005	2006
Japan	33,144	18,413	20,368	21,130	38,266	68,222	87,790
Korea, Rep of	4,865	511	3,532	7,591	19,173	37,921	44,828
China	183	37	141	1,117	5,923	18,215	24,148
Singapore	6,478	2,388	4,393	4,445	7,897	16,318	19,087
Thailand	1,513	373	744	1,791	4,253	12,207	14,818
India	1,084	1,760	2,473	3,348	3,017	6,874	8,639
Pakistan	1,304	1,376	1,062	1,122	3,370	6,463	8,124
Indonesia	1,288	888	192	629	2,401	4,066	4,872
Malaysia	688	452	180	247	1,272	2,947	4,283

Source: Direction of Trade Statistic (DOT), International Monetary Fund (IMF), November (2007), ESDS International, (Mimas) University of Manchester.

The GCC's imports from Asia to certain extent show similar trends with the exports' trend to Asia, where the giant economies in Asia, including Japan, India, Korea as well as China share high proportion in GCC's market. However, in the 2006, China dominated the GCC market's sharing and consequently affected Japan's share in GCC market. In the mean time, imports from South East Asian especially Malaysia and Indonesia have recorded highest increase and it illustrates the effort by the Islamic Development Bank to promote trade with other Muslim Countries has been significantly succeeded (Wilson, 1998: 27).

Table 2-5: GCC's Imports from Leading ASIAN economies (US$ million)

Year / Country	1980	1985	1990	1995	2000	2005	2006
Japan	9,138	8,600	6,671	5,996	7,643	15,067	17,157
China	589	447	1,141	2,714	3,844	15,346	20,227
India	774	719	962	2,319	3,062	12,353	15,251
Korea, Republic of	1,226	1,232	1,493	2,464	3,125	6,720	7,598
Singapore	699	480	562	476	831	4,880	4,835
Thailand	245	332	729	901	905	2,840	3,783
Malaysia	134	140	369	869	883	2,952	3,631
Indonesia	28	120	401	1,070	1,140	1,751	2,097
Pakistan	326	293	304	490	621	1,813	2,238

Source: Direction of Trade Statistic (DOT), International Monetary Fund (IMF), November (2007), ESDS International, (Mimas) University of Manchester.

Despite the increasing number of trade volume between the GCC countries and Asia, there is no formal dialogue between the two regions, either between GCC and Association of South East Asian (ASEAN) or GCC and Asia Pacific Economic Cooperation (APEC). However, the formal relations are only at certain level such as relation with Muslim countries in Asia like relations with Iran, Pakistan, Bangladesh, Malaysia and Indonesia. Importantly, this bilateral relation has not been in trade relation, they have been focusing on political relation and finance relation (Wilson, 1998: 26). With the current trade progress between the two regions, "both now have the opportunity to reopen a new era of cooperation. Like the ancient Silk and Spice Routes, increased trade and investment flows are helping to restore the ancient links" (Tong, 2008: 20-23) . As has been suggested by Dar and Presley (2001: 1177), intra-GCC trade is positively linked with developing countries and they suggest to the GCC countries to seek a greater alliance with trade partners from Asia.

Although, the direction of trade between GCC and Malaysia is relatively small compared to other economic rival in the South-East Asian, GCC countries which are part of Muslim countries are becoming important to the Malaysia as it is now giving more efforts to strengthen trade within the Muslim world. On the other way round, Malaysia becomes a new business destination for Saudi Arabia's trade as The Kingdom has introduced "a new age of Arab-Asian cooperation (Woertz and Markaz al-Khal¯ij lil-Ab.h¯ath., 2007: 60). From this point of view, it might say that, both Malaysia and GCC have huge opportunity to enhance their relation in both politics and economics cooperation.

3. Malaysian Economic Background

With the average of 6 percent for its Gross Domestic Product (GDP), Malaysia is respected as among of the strongest economies in Southeast Asia. Historically, Malaysian Economic was contributed by natural rubber and tin resources as a primary sector for GDP, public sector as well export revenues. In the early 1957, when it became independent and known as The Federation of Malaya, the industrial sectors were very marginal and primarily depended on – unprocessed (raw) rubber and tin exports.

Malaysian economy that was highly dependent on the primary sector for its GDP, employment and export revenues, nevertheless, has changed to that of a diversified economy with the industrial sector as the engine of growth, along with more commercialized agriculture and modern services sector. This was the result of a series of well-planned development strategies since the independence in 1957.

In order to diversify Malaysian major income, a series of long-term development plans which called as Outline Perspective Plan (OPP) have been initiated since 1971 and now there have been 3 Outline Perspective Plan (OPP) implemented. Generally, all the objective of all the economic plans are to ensure that Malaysian Economy might stand well and purposely to diversify its economic from dependency on traditional economic activities to the modern economics. Consequently, the structure of Malaysian Economics has totally changed compared to 50 years ago specifically on the industrialisation sector as well as its modernisation on agricultural sector.

3.1 Malaysia's trade outline

Since Malaysia's major income has been largely contributed by its export oriented activities, an outline of the country's trade is presenting here. It has been more than 30 years, Malaysia's trading partner are largely from United State, Japan and Singapore in which it combines almost 40 percent of Malaysia's trade share[5]. From the table 4, it is clear that, Indonesia is the only Muslim Countries that Malaysia trade more, yet the geographical factor plays important role in this relation. It is not something surprise if, the Middle Eastern Countries and Muslim Countries do not include as a Malaysia's top ten trade destination.

Table 3-1: Malaysia's Top 10 Trading Partners (2007)

COUNTRY	Share (%)
United States Of America	13.4
Singapore	13.2
Japan	10.9
People's Republic Of China	10.6
Thailand	5.1
Republic Of Korea	4.3
Taiwan	4.1
Hong Kong	3.8
Indonesia	3.5
Germany	3.4
Others	27.5
TOTAL TRADE	**100**

Source: Malaysia External Trade Development Corporation, (MATRADE) www.matrade.gov.my/foreignbuyer/Msiatop10.htm#3

Apparently, electric and electronic productions are the Malaysia's major products that have been traded as well as petroleum and gas. Although Malaysia is a oil exporter, in which, its consumption is far fewer from its productions, crude oil, petroleum and gas are the main products that Malaysia imports from worldwide especially from Arab Countries. This happens because of the crude oil quality produced in Malaysia is far better than other country especially from the Middle Eastern and Malaysia is most likely to export its crude oil to get better off. In the mean time, imported crude oils from Middle East are refined in Malaysia and re-exported to other countries such as Indonesia, Bangladesh etc[6].

3.2 Malaysia Economic relation with GCC

Apart of the religious affinity, Malaysia and GCC have significant relation economically and politically. This can be seen throughout their participation in strengthening their relation over the recent years. In the mean time, Malaysia is keen to have strong bilateral trade with the GCC and considering to discuss further on Free Trade Agreement (FTA) between them (Bernama, 2007).

3.2.1 Trade relation

As a major trading nation, Malaysia realises that trade plays an important role in the country's economy and overall development. To remain its competitiveness and economically stable, the expansion of trade is significantly vital, therefore the country must continuously seek new markets for its products.

As has been mentioned, the volume of trade between Malaysia and GCC countries is considerably small, and the full potential of their large markets has yet to be fully explored. So while Malaysian leaders urge the OIC to promote more trade amongst its member states (Mahathir 2003b; Kazi Mahmood 2003b), the government makes its own efforts to promote trade with certain individual OIC members.

As a result, commercial ties between Malaysia and several Muslim countries have expanded in recent years particularly with the GCC countries. In fact, among the Muslim countries, GCC group remains Malaysia's major trading partner in the recent year. Statistically, trade between Malaysia and Gulf Cooperation Council's countries has been growing since 1999, reaching the US$ 3 billion mark in 2003 and in 2006, total trade between Malaysia and GCC had reached US$ 8 billion. United Arab Emirates and Saudi Arabia has been contributing more than 70 % of total trade between Malaysia and the GCC economic group (see table 7).

Table 3-2: Recent trade between Malaysia and GCC (2005 and 2006)

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[5] http://www.matrade.gov.my/foreignbuyer/Msiatop10.htm#3

[6] Interview with Mr Dzulkifly Mahmud, Director, West Asia Section, MATRADE, Kuala Lumpur, 18 November 2008.

Country	2006 US$(million)					2005 US$(million)				
	Exports	Imports	Total Trade	Trade Balance	% of Total Trade	Exports	Imports	Total Trade	Trade Balance	% of Total Trade
Total	**3,300.77**	**4,710.91**	**8,011.68**	-1,410.14	100	**2,660.95**	**3,242.09**	**5,903.04**	-581.14	100
United Arab Emirates	2,269.74	968.93	**3,238.67**	1,300.81	40.42	1,846.98	749.99	**2,596.97**	1,096.99	43.99
Saudi Arabia	530.31	2,329.78	**2,860.09**	-1,799.47	35.70	473.17	1,547.76	**2,020.93**	-1,074.60	34.24
Qatar	186.41	79.71	**266.13**	106.70	3.32	95.95	54.03	**149.98**	41.92	2.54
Kuwait	159.94	307.35	**467.28**	-147.41	5.83	122.16	272.16	**394.32**	-150.00	6.68
Oman	99.81	884.51	**984.32**	-784.69	12.29	81.00	509.99	**590.99**	-428.98	10.01
Bahrain	54.56	140.63	**195.19**	-86.07	2.44	41.69	108.16	**149.84**	-66.47	2.54

Source: Ministry of Trade and Investment (MITI), Malaysia.

3.2.2 Investment

Since 1970's, Foreign Direct Investment has been an important instrument for the Malaysia's economic development, and it has contributed significantly as an engine of growth. In the mean time, Malaysia has also been actively participating in investing to the other country particularly in Muslim countries (Chowdhry, 2007).

However, nowadays, Foreign Direct Investment (FDI) becomes crucially important as Malaysia embarks on a number of major projects for which new investments are being sought internationally and regionally. Middle eastern investors, particularly from rich countries such GCC countries, are becoming increasingly interested with the country as a business and investment destination.

In the year 2007, Malaysia has announced its new mega project which called Malaysia's Iskandar Development Region (IDR), situated in the southern state of Johore that needs high investment. Surprisingly, a number of GCC countries' companies include Millennium Development Company (MDIC), Kuwait Finance House (KFH), and Mudabala Development Company, which has established a consortium agreed to inject $1.2 billion to the new project (Investment, 2007).

Another major investment that has been announced is a $1.4 billion for Malaysia's oil and gas, property and Islamic banking industries. This investment has been made by a consortium led by Qatar General Insurance and Reinsurance Company (QGIR) and Gulf petroleum. The most recent investment to the Iskandar Development Region (IDR) has been made by Mubadala Real Estate and Hospitality in the region realty project which comprised US$600 million. To date, there are number of Gulf investors especially from UAE, Saudi Arabia and Qatar companies are keen to invest in this new economic region in the Southern Malaysia as the location – near to Singapore and Malaysia World class port; Tanjung Pelepas Port – strategically promises the investors to boost their profit.

From the recent development, apparently, Malaysia has been successfully in attracting GCC investors to put their money in its economic development specifically in the new economic project (IDR). Indeed, Gulf's investors, have a major contributor for the project's development. Apart from a government incentive and country's attractive, this new emergence of huge GCC investment in this country has been also contributed by the financial facilities, especially the Islamic Finance institutions which have been widely established in Malaysia either local Islamic Banking or foreign Islamic Bank particularly from GCC countries (Haider, 2007). This might facilitate Muslim Investors from middle-eastern countries to enhance their investment in the country.

Table 3-3: Tourist Arrivals in Malaysia from Selected Markets (1999-2002)

3.2.2.1 Malaysia as a World Halal[7] HUB

Apart of the high- economic region, Malaysia has also initiated to set up the country as an International Halal Hub. In the recent Economic Development Plan, government has allocated more than RM100 million for the development of halal food industry by establishing Halal Parks as a part of Malaysia's Halal Hub framework. Malaysia, now, is looking forward to facilitate a one-stop centre / platform for activities related to halal. These activities include inspection, certification, R & D, analysis, legislation, enforcement, sampling and laboratory facilities, marketing, management, consumerism, reference, education, information technology and networking.

The demand for halal products is ever increasing and expected to continue with the increasing Muslim population all over the world. Muslims awareness on their obligation to consume products based on Islamic requirements also contributes greater demand for halal food and non-food products. Importantly, the halal market does not focus on Muslim countries only; however, non-Muslim countries also have huge potential for the halal products.

The establishment of International Halal Hub in Malaysia might strengthen Malaysia's Trade within the Islamic Countries and on the other hand may attract huge investment from rich Muslim Countries particularly the Gulf countries. In the mean time, Malaysia also has a Showcasing Mart in Dubai that promotes products from Malaysian SMEs to buyers in the region and promoting Malaysian processed Halal foods and beverages.

3.2.3 Tourism

Over the past few years, Malaysia has seen huge number of middle-eastern tourists particularly from rich Gulf state and this encourages Malaysia's tourism industry. According to Khalid (2004), the tourism sector in Malaysia experienced declining number of tourist after the 9/11 events and badly affected by the terrorism propaganda in the recent 3 years. Bali's bombing; Southern Thailand issue and other Islamic militancy issues in the recent years have also contributed significant drop in tourist from the western countries. Therefore, strengthening ties with the Muslim countries is seen as a practical strategy to stimulate the country's tourism sector.

Country of Residence	2001	2002	2003	2004	2005	2006	2007	% Change 2006 - 2007
Saudi Arabia	39,957	45,007	20,077	39,432	53,682	67,679	78,298	16
Bahrain	0	0	0	0	0	-	6,874	n/a
Oman	7,284	8,432	5,703	7,983	9,228	11,905	19,525	64
Kuwait	7,428	10,470	3,599	12,063	11,506	13,369	17,650	32
UAE	13,762	14,124	6,047	21,161	29,606	35,118	38,170	9
Qatar	0	0	0	0	0	-	11,782	n/a
Singapore	6,951,594	7,547,761	5,922,306	9,520,306	9,634,506	9,656,251	10,492,692	9
Syria	18,205	21,109	16,776	8,367	5,613	5,772	7,481	30
USA	145,827	127,920	131,071	145,094	151,354	174,336	204,844	17
United Kingdom	262,423	239,294	125,569	204,409	240,030	252,035	276,213	10
Japan	397,639	354,563	213,527	301,429	340,027	354,213	367,567	4

Source: Tourism Malaysia (http://www.tourism.gov.my/corporate/research.asp?page=facts_figures)

[7] Halal is a Qur'anic term meaning 'permitted, allowed or lawful'. Halal when used in relation to food and other consumer goods, means "permissible for consumption and used by Muslims'

Since 2001, Malaysia has been actively promoting tourism within the Muslim Countries. Malaysian government, through Ministry of tourism has highly strived to promote Malaysia as a tourist destination to the Middle Eastern tourists especially from the Gulf countries. Consequently, the efforts have been quite successful, as indicated in recent statistic (see table 8). The table shows the increasing number of visitors from the Middle East between 2001 and 2007 and the Gulf Countries have contributed considerable percentage of tourists' growth. In fact, the data show that, tourists from GCC countries have increased almost 100 percent during the 7 years period. It shows that Malaysia has become a favourite holiday destination for many tourists from the part of the world.

3.2.4 Islamic Financial services

Islamic banking and finance have taken place enormously in both GCC's and Malaysia's financial system. With the growing demand of the Islamic financial services from Muslim investors, traders as well as consumers, numbers of banking and financial institutions from Malaysia have been launched in the GCC countries and the other way around. Bahrain, the Islamic financial hub in the GCC region is the main target for Malaysian bankers such as CIMB Islamic Bank and Maybank to operate their service in providing Islamic finance services in the region.

On the other hand, some of the GCC Islamic banking have also operated their services in Malaysia. Ar-rajhi bank and Kuwait Financial House (KFH) are among the well-known GCC's bank providing Islamic banking services in Malaysia.

3.3 An analysis of bilateral trade linkages (trade intensity index)

It is believed that bilateral trade linkages may be analysed through trade intensity indexes pertaining to total trade, exports and imports. These essentially seek to establish the relative importance of trading partner in relation to the trade with the rest of the world as an export, import or a market for overall trade. The analysis in this section uses these intensity indices to estimate the extent of bilateral trade linkages between Malaysia and GCC countries over the period 1990 – 2007, and to identify the pattern of changes in them across the time.

The analysis of these trade intensity indices shows that Malaysia's trade intensity with GCC countries individually as well as trade with GCC as a group were not very high (with an average of 0.7 in 1990 - 2007), and there is no significant trend (Table 9 highlights the trade intensity indices between Malaysia and GCC countries). The table exhibits that in the early 1990s trade intensity between Malaysia and GCC group were only around 0.5 and were not even more than that figure. However, the Asian financial crisis that also hits Malaysia in 1997 was not affected trade intensity with its trading partner in the GCC countries. It is observed that the total trade intensity of Malaysia with GCC increased from only 0.53 in 1997 to 0.85 in 2000.

Surprisingly, the beginning of the new millennium showed different story for the trade relation between Malaysia and GCC. The September, 11, trade diversification strategy that Malaysia implemented since 2003 and due to enhancing strategy in trade relation between Muslim countries, there has been a constant increase in trade intensity, to 1.016 in 2007. It is believed that this increasing trend is expected to continue, as Malaysia is consistently looking for a new trading partner and GCC countries globalise further.

Individually, trade intensity between Malaysia with the each GCC countries shows similar pattern. Except for the Oman and UAE, the rest of the GCC countries seem to be not attracted for the Malaysia to trade more as they indicate below 1, and this may be interpreted as they do not prefer to trade more with the countries. The trends therefore represent an "over representation" of UAE and Oman as trading partner for Malaysia vis-à-vis rest of the world, and trade index value for Malaysia with Bahrain, Kuwait, Qatar and Saudi Arabia suggests and under-representation of these countries compared to Malaysia's trade to the rest of the world. It is also believed that, as a re-exports hub in the GCC region is also contributed to high trade intensity between Malaysia and United Arab Emirates. From the table, its shows that, trade intensity for the UAE has been around 0.8 – 1.4 during the last two decades.

Table 9: Bilateral Trade intensity index between Malaysia and GCC countries

Year	Tij w.r.t: GCC	Tij w.r.t: Bahrain	Tij w.r.t: Kuwait	Tij w.r.t: Oman	Tij w.r.t: Qatar	Tij w.r.t: KSA	Tij w.r.t: UAE
1990	0.509	0.578	0.411	0.247	0.493	0.459	0.697
1991	0.501	0.362	0.229	0.309	0.181	0.432	0.808
1992	0.528	0.528	0.317	0.381	0.205	0.482	0.770

1993	0.529	0.459	0.190	0.314	0.373	0.524	0.753
1994	0.569	0.435	0.341	0.759	0.275	0.452	0.888
1995	0.579	0.679	0.453	0.311	0.206	0.429	0.992
1996	0.554	0.392	0.309	0.213	0.214	0.452	0.977
1997	0.530	0.574	0.225	0.254	0.260	0.444	0.892
1998	0.687	0.710	0.385	0.350	0.379	0.498	1.196
1999	0.707	1.024	0.488	0.731	0.268	0.520	1.093
2000	0.805	0.862	0.346	2.057	0.317	0.601	1.141
2001	0.852	0.899	0.405	2.293	0.370	0.695	1.032
2002	0.705	0.736	0.352	1.698	0.272	0.538	0.942
2003	0.834	0.741	0.376	2.528	0.217	0.600	1.138
2004	0.877	0.852	0.355	1.902	0.209	0.706	1.241
2005	0.921	0.940	0.621	1.861	0.341	0.745	1.210
2006	1.036	0.999	0.632	2.357	0.435	0.877	1.292
2007	1.016	0.904	0.852	1.337	0.441	0.754	1.489
Average	0.708	0.704	0.405	1.106	0.303	0.567	1.031
Variance	0.033	0.046	0.026	0.766	0.009	0.018	0.045

3.4 Future relations: opportunities challenges

Over the years, Malaysia has been well involved with active bilateral and multilateral ties with both developed and developing countries at the regional and international levels; there is no reason to the current government to change that policy. In short, pragmatism will continue to dominate Malaysian foreign policy in matters pertaining to Malaysia's interest abroad.

In addition to that, the country's ties with the Muslim world and its strategy to expand its economic relation with the Muslim countries might assist to boost Malaysia's bilateral relation with the GCC countries. Statistically and empirically show that, Malaysia and GCC economic ties have been sustained by the current investment, oil, trade and expatriate dynamics, there are also huge opportunities for the both parties to expand their relation and economic ties.

3.4.1 Area to expand

There are several key aspects that both parties may strengthen their economic relations and cooperate firmly in order to boost Muslim world cooperation. On the other hand, there are also some aspects that both countries are comparatively advantage to each other. These include Halal Food services, Islamic Banking and Finance services, tourism sector, Bio-fuel industries, constructions, petrochemical industries and educational sector.

3.4.2 Free trade agreement

Free Trade Agreement between the GCC and Malaysia seems as a potential instrument to the both parties to increase their trade. Malaysia is keen to negotiating further for the GCC-Malaysia FTA; however, it should consider the ASEAN negotiation with the GCC. Therefore, the free trade agreement should be either GCC-Malaysia or AseanGCC (AGCC) – Malaysia.

3.4.3 Security

Although, there is a suggestion to Asian countries to improve their relation beyond the economic ties to strategic, politics and security dimension (Woertz and Markaz al-Khal¯ij lil-Ab.h¯ath., 2007), Malaysia, apart from the OIC membership shows no interest to go beyond the economic relation. However, the security instability issue in the Gulf Region, in one way another, may influence Malaysian businessmen in doing their business relation with GCC countries. The security and stability of the Gulf region, and the Middle East at large, is no doubt one of the major constraints in enhancing future dynamic economic relation with Malaysia.

3.4.4 Competition

The development or enhancement of these economic relations must not be viewed as a replacement to other ongoing economic relations (e.g. that between Malaysia and its traditional partner, ASEAN countries etc). These relations must be strengthened within the OIC framework and the need of trade diversification for both Malaysia and GCC countries. However, there is no doubt that, in the era of globalisation, free market competition is the main challenge for the Malaysia to attract more businessmen and investors from the GCC countries.

4. Concluding remark

The growing economic link between the GCC countries and Malaysia represents an increasing economic tie among the Organisation of Islamic Conference countries (OIC). In the meantime, as GCC countries are expanding their economic and strategic relation with Asia, Malaysia is seen as a potential market to the GCC countries to explore and expand more in order to diversify their trade partners in Asian countries and vice-versa. Nonetheless, the development of Malaysia – GCC economic relation faces few challenges which must be recognised and addressed.

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