

AN APPRAISAL OF MALAYSIA-CHINA TRADE
RELATIONS FROM THE MERCANTILIST PERSPECTIVE

By

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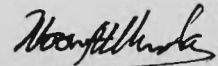
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ABSTRAK

Meskipun kemunculan China sebagai kuasa ekonomi dunia menunjukkan kesan positif dari aspek peningkatan peluang perniagaan, ia juga membawa ancaman terhadap negara-negara lain terutamanya dalam isuimbangan perdagangan. Defisit perdagangan yang dihadapi oleh Malaysia dalam perdagangan dengan China mencerminkan amalan merkantilisme China bagi mencapai surplus perdagangan dengan menerapkan instrumen hambatan non-tarif untuk mengurangkan kelantangan eksport produk Malaysia ke China. Oleh yang demikian, tujuan utama kajian ini adalah untuk menganalisis masalah defisit perdagangan yang dihadapi oleh Malaysia kepada China dari perspektif merkantilisme politik ekonomi antarabangsa di mana terdapat empat jenis hambatan non-tarif yang dipraktis oleh China untuk menyekat kemasukan eksport Malaysia. Ini termasuk, Sistem Sertifikasi Produk Wajib, Pentadbiran Lesen Import Automatik, Standard Pengujian dan Keperluan Pelabelan, dan Keperluan Kuarantin. Dalam menganalisis hambatan non-tarif ini, Analisis Impak Kuantiti telah digunakan. Ini melibatkan analisis terhadap kuantiti eksport produk Malaysia ke China dari tahun 2000-2008 dalam menentukan adakah amalan hambatan non-tarif China mempunyai kesan terhadap eksport Malaysia. Berdasarkan penemuan, hambatan non-tarif China mempunyai kesan negatif pada kuantiti produk yang di eksport oleh Malaysia ke China. Sementara itu, untuk menghadapi masalah hambatan non-tarif China, kajian ini mengesyorkan realisasi Perjanjian Perdagangan Bebas ASEAN-China dan diikuti oleh Perjanjian Perdagangan Bebas dua hala diantara Malaysia dan China.

ABSTRACT

Despite the emergence of China as a world economic power indicates a positive impact of rising trade opportunities, it also provides threat to other countries especially in the trade balances issue. The trade deficit encountered by Malaysia's in its trade with China certainly reflects China's mercantilist practices which are to achieve favorable trade surplus by applying the instrument of non-tariff barriers in reducing the volumes of Malaysia's export to China. Thus, the main objective of this study is to appraise the problem of trade deficit faced by Malaysia to China from the international political economy perspective of mercantilism in which there are four types of non-tariff barriers that being practices by China to limit the entry of Malaysia's export. These include, Compulsory Product Certification System, Automatic Import Licensing Administration, Standard, Testing and Labeling Requirement, and Quarantine Requirement. In analyzing these non-tariff barriers, Quantity Impact Analysis has been used. This involves the analysis on the quantity of Malaysia's export of products to China from year 2000-2008 in order to determine whether China's non-tariff barriers practices have effect on Malaysia's exports. Based on the findings, China's non-tariff barriers possess negative effects on the quantity of Malaysia's exports to China. Meanwhile in order to face this problem of China's non-tariff barriers, this study further recommends the realization of ASEAN-China Free Trade Agreement and followed by bilateral Free Trade Agreement between Malaysia and China.

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LIST OF ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
ACFTA	ASEAN China Free Trade Agreement
AQSIQ	Administration of Quality Standards and Quarantine
AILA	Automatic Imports Licensing Administration
ARF	ASEAN Regional Forum
CAR	Central African Republic
CCC Mark	Compulsory Product Certification System
DROC	Democratic Republic of Congo
FOCAC	China-Africa Cooperation Forum
JETC	Joint Economic and Trade Commission
MITI	Ministry of International Trade and Industry
NTBs	Non-Tariff Barriers
QR	Quarantine Requirement
ROC	Republic of Congo
SADC	South African Development Community
STLR	Standard, Testing and Labeling Requirements
SPS	Sanitary and Pyhtosanitary Agreement
FTA	Free Trade Agreement
US	United States
USTR	United States Trade Representatives
WHO	World Health Organization
WTO	World Trade Organization

CHAPTER 1: INTRODUCTION

This study examines China's mercantilist instrument of non-tariff barriers (NTBs) that affects Malaysia's exports to China. In recent years, China's trade practices has been under scrutiny and attracted much criticism especially from the United States and also European countries. They accused China for its unfair and unethical trade protectionism policies that caused billions of loses in trade deficits. This reflects on the foundation of a mercantilist nation that solely focuses towards the maximization of national wealth at the expense of other countries. Therefore mercantilism's concept has always been about trade domination through the accumulation of trade surpluses.

Due to China's superior economic performance, the competition among countries to gain business opportunities with China is intensified. In addition to China's mass population, its business prospects took into consideration on the firm economic growth of average 9 per cent for the past two decades. Even Malaysia was unable to resist the magnetic force and is now keen on enhancing trade relations with China especially since the accession of China into WTO in 2001.

Over the years the trade relations between these two countries grew significantly with average growth rate of 23 per cent from the year 1990-2000 and reached almost 25 per cent in 2008 accounted from total trade of US\$ 190.2 billion (Chart 1.1). Presently, China is Malaysia's fourth major trading partner and export destination for seven successive years since 2001 (MITI, 2008). In 2008, Malaysia's exports to China

improved by US\$ 17.6 billion while imports from China reached US\$ 19.6 billion and currently Malaysia is China's seventh largest source of imports and sixteenth largest export destination.

Chart 1.1: Malaysia-China Total Trade 1990-2008



(Source: Department of Statistics Malaysia, various issues)

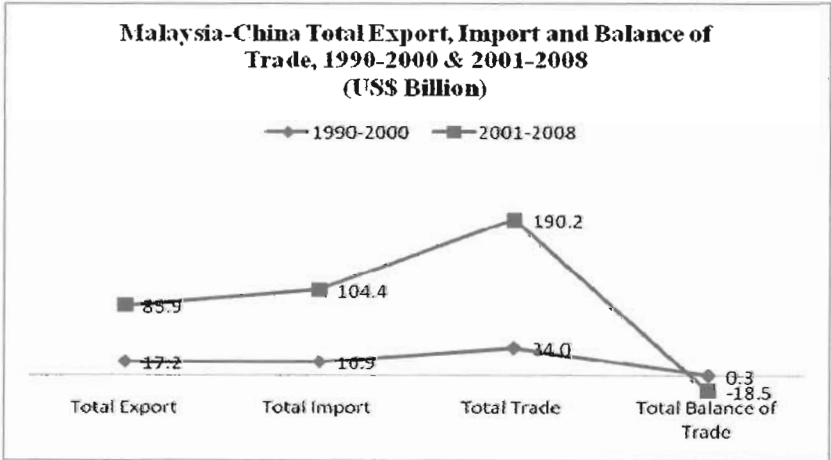
The progress of this trade relationship is obviously unquestionable as proved by the increasing amounts of trade. However, due to the nature of China's mercantilist practices of promoting exports and limiting imports, accumulating trade surplus over its trading partner as to maintain national interest, raises the ambiguity of China's sincerity especially when Malaysia's overall trade balance with China from 2001 until 2008 has been in deficit status.

1.1: Problem Statement

The expansion of trade between Malaysia and China is significant. It keeps on increasing rapidly each year plus with China's superior economic condition that provides even better

prospects for Malaysia. However, Malaysia’s overall trade balances with China since 2001 until 2008 has been in negative totaled US\$ 18.5 billion. If these are compared with those in previous decade or during 1990 until 2000, Malaysia could record US\$ 0.3 billion of trade surplus (Chart 1.2). Reflecting upon it, just within a decade Malaysia has been losing ground in terms of balance of trade to China, in which Malaysia’s imports from China has exceeded in a huge sum, as it is compared to Malaysia’s exports to China. This scenario has led the researcher to further investigate the trade relations between Malaysia and China especially when China’s trade practices have come at the expense of Malaysia’s trade.

Chart 1.2: Malaysia-China Total Export, Import and Balance of Trade, 1990-2000 & 2001-2008



(Source: Department of Statistics Malaysia, various issues)

1.2: Research Questions

The research questions are as follows:

- i. Under which international political economy perspectives that is best reflect China's intention of achieving trade gains in its trade relations with Malaysia?
- ii. Does China's mercantilist instrument of non-tariff barriers (NTBs) have consequences on Malaysia's exports?

1.3: Research Objectives

The research objectives are as follows:

- i. To evaluate the trade relations between Malaysia and China from international political economy perspective of mercantilism.
- ii. To examine the effects of China's mercantilist instrument of non-tariff barriers (NTBs) on Malaysia's exports.

1.4: Research Significance

Commonly, researches on trade deficit issues focus solely from the economic perspective. This research however intends to apply the standpoint of international political economy,

with the justification lays upon the importance of appraising China's mercantilist practice towards Malaysia. Furthermore, this research also intends to provide information on the development of political and trade relations between these two countries.

1.5: Theoretical Framework

Generally international political economy perspective comprises three theories, which include liberalism, structuralism, and mercantilism. Liberalism in its tenets emphasizes capitalist market system, promoting cooperation among actors that contain countries and international institutions, and promoting individual rights. The cooperation among countries under liberal's view is positive; indicating interdependence among each other in trade will result in mutual benefits or gains. Structuralism in the meantime, emphasizes on class relationships and the structural means of exploitation, in which one class dominates another. This can be seen through the domination of developed countries (core) on less-developed countries (periphery). As for mercantilism, the main concern is towards the country itself, as a primary actor in international relations. Due to the anarchic condition of international system, mercantilist view country as a single entity that needs to accumulate wealth and power in order to ensure its survival. Thus, cooperation among countries exists only to maximize individual gain rather than mutual benefits.

Reflecting from above, this study will further use the theory of mercantilism in analyzing the trade relations between Malaysia and China. The theory of mercantilism

under the international political economy perspective has been always regarded as the significant mainstream of international political economy since the beginning of modern nation state's formation until the current period of globalized world that transcends all boundaries. Looking upon the core foundation of mercantilism, states' purposes in generating wealth and power are given serious consideration as for mercantilists strictly believe that by accumulating more wealth it will contribute to a substantial amount of power in which the element of power is vital in preserving national interest mainly on security and sovereignty issues. Therefore mercantilism can be defined as "states efforts to promote export and limit imports, thereby generating trade surpluses to create wealth and power" (Balaam & Veseth, 2005, p. 27). The dogma of mercantilism in overall considered state as the primary actor in the international political economy arena and in order to achieve or maintain dominance, is compulsory for a state to obtain power which is only possible through the accumulation of wealth.

Meanwhile there are two types of strategy commonly used by a mercantilist state in order to achieve its primary goal of trade surplus: market manipulative mechanism and also government to government manipulative mechanism. The former functions on how a mercantilist state uses the force of market in imposing or achieving its mercantilism agenda towards another state that sometimes can be regarded as an indirect approach and instruments such as currency manipulation, dumping, and non-tariff barriers (NTBs) will be used. The latter however involves a direct connection between one government to another government, in which the mercantilist state will approach another state through

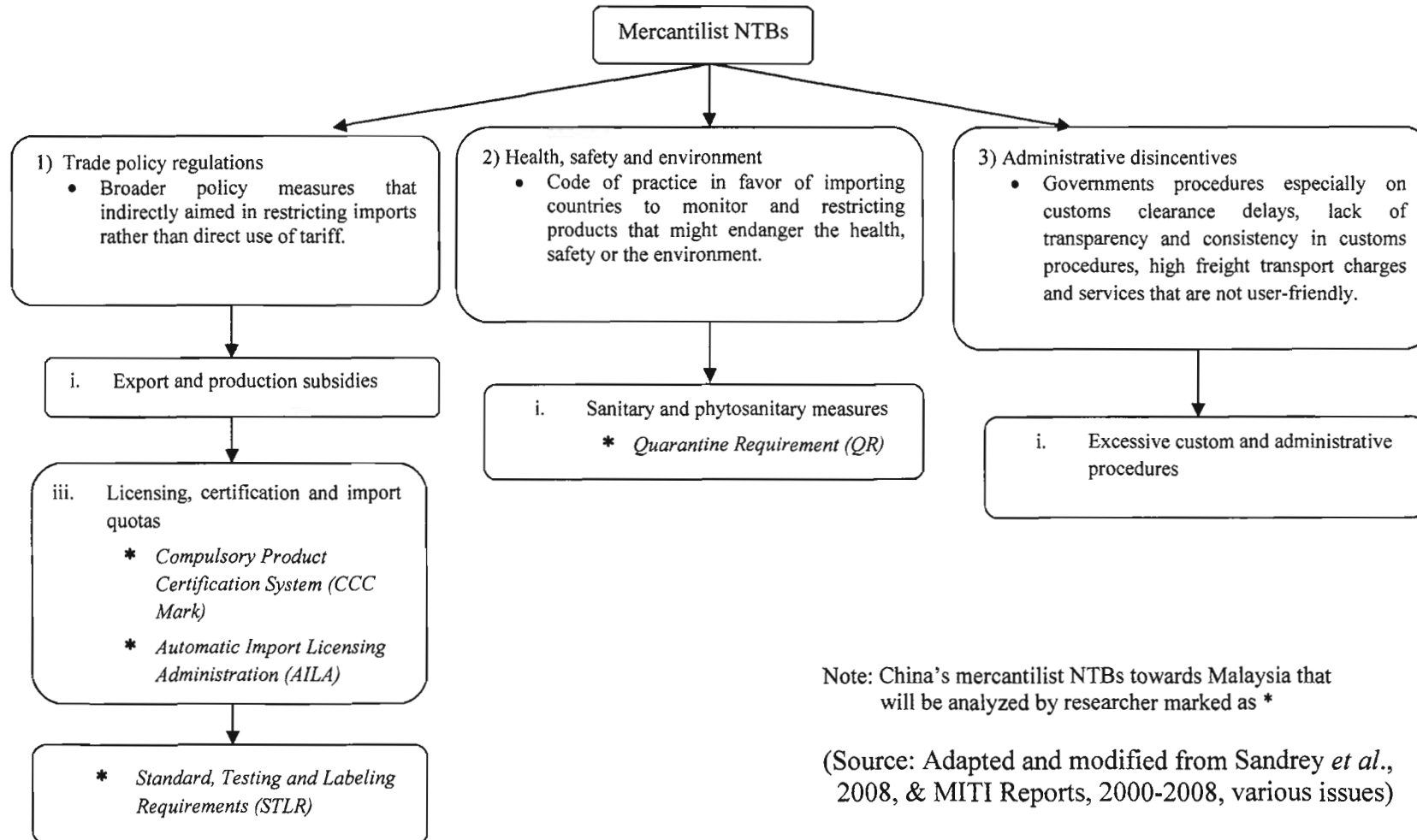
various diplomatic and economic policies or even by using multilateral arrangements in order to gain access over resources and creating market for its exports.

From this as for the research framework, the researcher has identified and will use the mercantilist's market manipulative mechanism especially through the instrument of non-tariff barriers (NTB's) in order to appraise the problem of trade deficit faced by Malaysia in its trade relations and is reflected in Chart 1.3.

1.5.1: Non-Tariff Barriers

The orientation of non-tariff barriers (NTBs) as indicated in Chart 1.3 can be considered as an instrument that indirectly involves in limiting or restricting the entry of imports largely practiced by states in order to gain advantages in trade surplus. At the same time this practice apparently cannot be regarded as a violation in international trade due to its indistinctive nature. This is defined by Ballam & Veseth (2005, p.35) as "a series of complex government regulations pertaining to health and safety standards, licensing and labeling requirements, and domestic content requirement have been known to either block or distort the sales or distribution of imported goods". This definition represents the core element of mercantilism in achieving positive trade balances. Meanwhile in order to provide a clearer view on types of NTBs and also to highlight the specific NTBs used by China towards Malaysia, they have been categorized into three distinctive groups as shown in Chart 1.3.

Chart 1.3: Categories of Mercantilist Non-Tariff Barriers



Note: China's mercantilist NTBs towards Malaysia that will be analyzed by researcher marked as *

(Source: Adapted and modified from Sandrey *et al.*, 2008, & MITI Reports, 2000-2008, various issues)

i. Trade Policy Regulations

Trade policy regulation in general represents various policy measures that are introduced by countries in order to inhibit the entry of imports. Since World Trade Organization (WTO) regulations prohibits direct use of tariff, these types of policy measures that cannot be identified as tariff have become a norm of practice for countries in gaining positive trade balances. For instance, export and production subsidies reflect on the incentives given by a country to its domestic producers or manufacturers are aimed to reduce the products price and thus will appear cheaper than other countries' productions therefore encourages exports than imports. Meanwhile, licensing, certification and import quotas reflect on the obligation to attain specific requirement imposed by an importing country to the exporting country before the products can be marketed in the importing country. Comprised with complicated procedures this is also aimed on limiting the entry of import which can be seen on China's Compulsory Product Certification System (CCC Mark), and Automatic Import Licensing Administration (AILA) that functions as a barrier to Malaysia's exports of products into China. In addition to this, the Standard, Testing and Labeling Requirement (STLR) indicates the rules needed to be followed by exporting countries before their products can enter China, and despite the existence of common general international guidelines, China continues to follow its own standards that foreign exporters are obliged to follow and this obviously points towards the intention of limiting imports especially from Malaysia.

ii. Health, Safety and Environment

Health, safety and environment concern also being utilized in order to limit the entry of imports since this will grant importing country the position to impose ban or restriction by reasoning that the products might contain risk in endangering health, safety and environment. Such provision is provided under the World Trade Organization (WTO) Sanitary and Phytosanitary Agreement (SPS), indicates sanitary and phytosanitary measures on food safety, animal and plant health standards and to be “applied only to the extent necessary to protect human, animal or plant or health” (Sandrey *et al.*, 2008). This condition however, is easily being manipulated by countries such as China in the form of Quarantine Requirement that has obliged Chinese importers to obtain quarantine inspection permit from China’s Administration of Quality Standards and Quarantine (AQSIQ) before animals or plant based products can be allowed to access into China.

iii. Administrative Disincentives

Another type of NTBs that functions different from policy regulation and health concern fall under administrative disincentives. This largely practiced by governments through customs enforcement especially in delaying clearance of products that waits for permission in port of entry. In addition to this, complicated bureaucratic procedures and high freight transport charges also hinder and slow down the process of imports from other countries.

Overall, the theoretical framework is based on mercantilism's market manipulative mechanism and specifically through the instrument of NTBs. There are four types of China's NTBs analyzed by researcher which includes Compulsory Product Certification System (CCC Mark), Automatic Import Licensing Administration (AILA), Standard, Testing and Labeling Requirements (STLR) and Quarantine Requirement (QR) in determining the effect of these NTBs towards the exports of Malaysia's products to China.

1.6: Research Methodology and Scope

China's NTBs orientations are assessed by using Quantity-Impact Analysis (QIA) that involves analysis on the quantity of Malaysia's exports of products to China. This QIA is a method of NTBs analysis adapted and modified by researcher from Jagger & Low (1977). They argued that that "a quantity analysis is preferable to a price analysis in that it comes closer to telling us what we really want to know about the effects of an NTB: that is, by how much it reduces trade" (Deardoff & Stern, 1997, pp. 17-18). Therefore, since the researcher's intention is only to analyze the findings from the perspective of international political economy other factors such as the currency rate, price and also tariff that commonly used in analyzing trade deficits have been compromised in order to look upon the effect of China's NTBs towards Malaysia's products in quantity by applying a simple comparison method on the export quantity of each products from the year 2000-2008.

The products which have been listed below represent major products categories that in sphere of Malaysia's main exports to China and these products are chosen by researcher based from the various publications of MITI reports (2000-2008). However, these reports only have general information regarding the products that are being affected due to China's trade practices. Thus, for research purposes these products have been further clustered and classified according to the Harmonized System (HS) 4 digits codes in order to provide a detailed analysis regarding the effect of China's NTBs with the scope of analysis ranged from year 2000 until 2008.

The lists of products are as follows:

- Electrical and electronic products
- Machinery and machinery tools
- Safety glasses and glassware
- Information technology equipment
- Medical equipments
- Household appliances and apparatus
- Aluminum products
- Flat rolled products of iron or iron alloy steel products (hot and cold rolled), including bars and rods
- Paperboard
- Polymer of ethylene
- Inner rubber tubes for tires
- Crude petroleum and petroleum oil
- Waste materials
- Furniture
- Processed foods
- Animals and plants

1.7: Research Limitation

Since this research is intended to appraise Malaysia' trade deficit from the international political economy perspective, a simple comparison method of export quantity is used rather than specific economic or econometric model. Meanwhile other factors such as the price, tariff and also exchange rate in analyzing trade deficits have been compromised. In short, the analysis only focuses on Malaysia's export quantity rather than the country's export values.

CHAPTER 2: LITERATURE REVIEW

This segment represents the views from various scholars in order to provide a strong understanding of this research and consists of three parts:

- Previous studies on the challenges encountered by Malaysia from its trade relations with China.
- Views on China's mercantilist strategies that include government to government manipulative mechanism and also market manipulative mechanism.
- Elaboration on China's NTBs orientation based from stance of three different countries, the US, Australia and South Africa.

2.1: Previous Studies

This part focuses on the challenges encountered by Malaysia from its trade relations with China. Loke (2007) for instance has done an analysis on the comparative advantage between Malaysia and China in selected manufacturing goods with the main aim to explore on whether the comparative advantage of Malaysia in goods has been changed drastically since China's entry into World Trade Organization (WTO). In general, the findings clarify that China possessed better performance than Malaysia with Malaysia's advantage in labour intensive manufactures has been declining over recent years.

“Malaysia has lost its comparative advantages in most of the products in the category of moderately capital and skill-intensive manufactures, while China on the contrary, has begun to acquire comparative advantages in the same product groups” (Loke, 2007, p. 13).

Meanwhile Yeoh & Ooi (2007) concentrates on ASEAN China Free Trade Area (ACFTA) with the consequences for Malaysia. Their concern was towards the realization of ACFTA and its effect to local manufactures. So far they were rapidly being effected due to China’s advantage in labour-intensive industries and also others manufacturing industries that China obviously possess the competitiveness. In another study, Devadason (2007) concluded that despite Malaysia has been facing trade deficit in its trade relations with China, the concern should be focused on quality rather than the quantity of products since the competition for market share in China will be based on goods exported on the quality ladder.

By highlighting on these studies it’s clearly hinted that Malaysia has been facing setback from its trade relationship with China. Since the focus of these studies covers selected products in which Malaysia is trailing behind with China, the effect of ACFTA towards Malaysia’s local manufactures and also on the importance of export quality, the researcher intends to analyze the trade deficit faced by Malaysia from the mercantilist perspective. The trade deficit reflects on the NTBs practices by China that affects exports of Malaysia’s products into China.

2.2: Government to Government Manipulative Mechanism

Based on mercantilist strategies, Holslag (2006) analyzed on China's mercantilism practices towards Central Africa region which includes countries such as Burundi, Central African Republic (CAR), Republic of Congo (ROC), Democratic Republic of Congo (DROC), Gabon, Rwanda and Uganda. In this regard, the author identified that China's mercantilist strategies practices the element of government to government manipulative mechanism in order to gain advantage over the region. This can be seen from the instruments of state to state visit by China, especially when President Hu Jintao himself held over 32 diplomatic visits while in various times, high-ranked Chinese officials such as ministers and vice-ministers accounted for 34 diplomatic missions in the above countries, with the primary intention of promoting business relations.

Moreover, an assortment of multilateral arrangements such as the African Union, South Africa Development Community (SADC), Southern African Development Cooperation, and China Africa Cooperation Forum (FOCAC) granted more opportunities for Chinese officials in exploring economic benefits in the region. Meanwhile as claimed by its officials, the participation of China in these multilateral arrangements is undeniably vital with the intention of providing assistance in developing the African countries, helping them to construct a stronger economic condition and also to reduce the problem of debt. For these purposes, few objectives are arranged according to priority beginning with food security, infrastructure development, trade promotions, and Action Plan on Investment.

In the first objective, local governments will be guided through financial and policy incentives in order to develop agricultural sectors since African countries constantly encounter difficulties in producing sufficient food supplies for domestic consumption whilst on the other hand Chinese enterprises are also encouraged to invest in diverse agricultural projects throughout the region. Secondly on infrastructure development, areas such as transportation, telecommunication, energy, water supply and electricity will be focused for upgrades as these areas hold the key for economic progress. The third and fourth objectives focused more towards trade and investment issues respectively involving import-tariff reduction for African products entering China's market and the latter regarding the simplification of procedures for Chinese firms that wish to invest in Central African countries.

By looking from the instrument of state to state visit and also multilateral arrangement together with its objectives obviously raises the question of how this can be considered as mercantilist practices or strategies because China's diplomatic mission and also multilateral participation toward these countries are based on the intention of providing assistance in addition gaining access to raw materials and this is known as a common practice in the realm of international relations. In order to prove the existence of China's mercantilist practice, Holslag (2006) has looked upon the impacts that clearly strengthen his argumentation:

- i. The quantitative trade surplus is counterweighted by qualitative trade deficit: China's infusion of manufactured goods and its technical

expertise represent a larger value added than the region's export of raw materials;

- ii. The control-over-the-well policy impedes Central African states to foster economic sovereignty: By seizing ownership of local resources China implicitly vows to disown African societies of their potential ability to manage these themselves and also inhibits them to profit substantially from the rising trend in commodity prices;
- iii. Chinese products compete with the scarce local manufactured goods out of the market: The practice of sabotaging local businesses by selling the products too cheaply;
- iv. Increasing Chinese engagement merely generates new jobs: Chinese enterprises' principle aim is to employ compatriots, not only the highly skilled cadres, but the manual worker as well predominantly recruited in homeland. Furthermore, credits provided by Chinese banks to African governments frequently contain clauses stipulating that a substantial share of the project has to be carried out by Chinese workers and;
- v. China is replacing old debts it has remitted with new ones and stimulates Central African government to buy its own services: The PRC uses cheap loans to convince administrations to contract its companies for infrastructure developments. For instance the Imboulou Dam in ROC, which mainly constructed by Chinese personnel, was financed by a loan of 200 million USD loan, repayable within 15 years with an interest of 0.2 percent.

(Holslag, 2006, pp. 161-163)

From the points given above, it does clearly verify the notion of China's mercantilist practices towards countries in Central Africa that has been possible through various government to government diplomatic missions and also from the arena of multilateral arrangements.

In similar awareness, another scholar Hawkins (2005) had scrutinized on China's mercantilism practices towards the countries in Latin America, establishing a 'neo-colonial pattern' of trade relationships in order to gain access over the regions raw materials plus to secure the market for China's manufactured products. For such purposes, the mercantilist approach of government to government mechanism was performed using bilateral visits, which can be observed from Presidents Hu Jintao's excursion to countries like Brazil, Argentina, Chile and Venezuela in year 2004. By this diplomatic tour, memorandum on 'strategic partnership' was agreed and further granted China with the opportunity in achieving its mercantilist ambitions.

Overall by reflecting on Holslag (2006) and also Hawkin's (2005) viewpoints, the strategy of government to government manipulative through diplomatic visits has been practiced by China in order to gain access into the African and Latin American countries. This enables China not only to secure the needs for natural resources but also creating markets for its cheaper products which obviously put constrains on the export of local productions.

2.3: Market Manipulative Mechanism

On the other hand Bivens & Scott (2006) has focused on the trade deficit faced by US towards China for the past three decades in which China has been practicing mercantilist means of market manipulative mechanism to accumulate foreign reserves. This has been possible through the instrument of currency manipulation, a tactic in keeping the value of yuan lower than the dollar, therefore will ensure Chinese made products cheaper to U.S

consumers. This was further strengthened by Locke (2010, para 4), stating that “China’s deliberate policy of pegging makes American import of Chinese goods artificially cheap and gives American companies opening factories in China an artificial subsidy. That’s good for China but bad for America and helps explain our soaring trade imbalance with China. An extraordinary 83 percent of America’s non-oil trade deficit is with China”.

Meanwhile Paulson (2006) emphasized that due to China’s currency manipulation agenda, the effects not only visible on United States’s economy but also on other countries including developing nations that visibly loses their capability on exporting labor intensive products, whilst in the same time Chinese enormous utilization of natural resources especially petroleum has resulted in oil price increasing and apparently contributes to the global inflation.

In a nutshell, China’s market manipulative mechanism’s tactic of currency manipulation has resulted US in facing soaring trade deficit that endangers not only the American’s economy but also other countries too since most of the countries around the globe are intertwined with the US economy.

2.3: China’s Non-Tariff Barriers Orientation

Meanwhile respective of this section, China’s NTBs application will be appraised from the views of other nations such as the US, Australia and also South Africa, indicating on the practices and consequences due to this subject matter. Beginning with

US, as reviewed by the United States Trade Representative (USTR), the NTBs application reflects the problems faced by US exporters in penetrating Chinese market:

- i. Excessive Chinese government intervention in the market through an array of trade distorting measures. This is a reflection of China's historic yet unfinished transition from a central planned economy to free market economy governed by rule of law. Some Chinese government agencies and officials have not yet fully embraced the key WTO principles of market access, nondiscrimination and transparency. Differences in views and approaches between China's central government and China's provincial and local governments have also continued to frustrate economic reform.
- ii. Arbitrary practices by Chinese customs and quarantine officials delay or halt shipments of agricultural products into China, while sanitary and phytosanitary standards with questionable scientific bases and lack of transparency in regulatory regime frequently cause confusion for traders in agricultural commodities.
- iii. Regard to Sanitary and Phytosanitary (SPS) measures, China's inspection and quarantine agency, the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), have imposed inspection-related requirements that have led to restrictions on imports of many US agricultural products. Importers need to obtain a Quarantine Inspection Permit (QIP) prior to signing purchase contracts for nearly all traded agricultural commodities, and AQSIQ sometimes slows down or even suspends issuance of QIPs at its discretion.
- iv. China continues to block many US processed food products from entering Chinese market by banning certain food additives that are widely used in other countries and have been approved by the World Health Organization (WHO).
- v. Chinese customs officers have wide discretion in classifying a particular import, and lack of consistency makes it difficult to anticipate border charges. On valuation, some US exporters are complaining that many Chinese customs officials are still improperly using 'reference pricing', which usually results in a higher dutiable value.

- vi. Selective and unwarranted inspection requirements for agricultural imports, the use of questionable SPS measures to control import volumes and manipulation of technical regulations and standards to favor domestic industries.

(Sandrey, Smit, & Edinger, 2008, pp. 16-18)

Subsequently, China's NTBs application also can be observed from the Australian Bureau of Agricultural and Resource Economics Report 'Agriculture in China: Development and significance (as cited from Sandrey, Smit, & Edinger, 2008, pp. 19-21):

- i. State trading enterprises, which are most notably active in grain trading, restrict the imports of certain agricultural goods in China. This is the case as these enterprises hold the exclusive rights to import particular goods, and domestic firms need to enter into import contracts through such state trading enterprises. These trading enterprises can obtain imports at world prices and can exclusively control the domestic Chinese import market they can have a monopoly position and their prices, when resold domestically, are higher than world prices.
- ii. As part of the WTO Sanitary and Phytosanitary Agreement (SPS), China sets technical standards (inspection, quarantine, etc.) on imported agricultural products for SPS reasons. Such protocols, even though they should not be trade discriminating, can act as NTBs when, under these SPS measures, products which do not meet certain conditions will be restricted upon entry. Chinese regulations have been questioned, and at times it has been reported that Chinese SPS measures have not complied with those of the WTO. Discrepancies between central and provincial agencies on import requirements subsist, and these involve administrative hold-ups and the lack of technical capacity and drawbacks in standardizing testing facilities. Overall, China's import inspection protocols are not consistent with the international standards.
- iii. All importers of goods into China must pay Value-Added Tax (VAT). Rather than being neutral and equitable, VAT has acted as a non-tariff barrier for Chinese agricultural imports, as its application to domestic producers is often not identical to that of imported goods, with

administrative complexity clouding the process. Even when the same VAT rates apply, the way this is calculated differs, with a protective bias on domestic producers.

South Africa in the meantime tinted China's NTBs approach concerning its fruit exports to the Chinese market and as for this a survey has been conducted by Ron Sandrey and Hannah Edinger (as cited from Sandrey, Smit, & Edinger, 2008, pp. 30-31), highlighting the restraints encountered by South African exporters:

- i. Generally high phytosanitary standards and strict protocol: Strict SPS standards and high protocols on fruit quality which are regarded as unnecessary by survey respondents were seen as the main barrier and a disincentive for South African fruit exporters to export to China. The lack of a phytosanitary agreement between South African and China for specific products further inhibits exporters from penetrating the Chinese market. Respondents also felt that due to this lack of phytosanitary agreements between South Africa and China, a lot of shipments destined to China do not follow a direct route to China but instead are routed through Hong Kong. This channel (the gray channel) has given rise to smuggling and poses challenges to exporters who adhere to legal procedures and channels. In particular, the phytosanitary import requirements make it difficult for citrus varieties to be exported to China.
- ii. Logistics and cold sterilization requirement: Officials exporting channels to China require the cold treatment of fruits, and exporters considered that some aspects of this prerequisite unnecessarily increase the cost of the logistics chain. The process is essential to keep the freshness of the product from producer to retailer, to maximize product quality in the final market, and to control certain pests such as the fruit fly. The drawback of the transit cold treatment (in addition to the increased cost of exporting and the necessary paper work and data collection) is to have fruit that is strong enough to handle the required cold treatment. Overall cold sterilization hampers the quality of fruits, and some products such as soft citrus (easy peelers) are more temperature sensitive.

- iii. Registration of the orchards and associated documentation: Any citrus fruit that originates from an unapproved orchard, production unit or packing house, storage facility or cold treatment facility is prohibited to enter China at the first port of entry. The registration is annual and has to be approved by the South African Department of Agriculture.

Based on the analysis of these three respective countries, China's NTBs practices largely can be seen from the sanitary and phytosanitary issue that affects the export of these countries into China. Despite the existence of general WTO rules on SPS measures, China's ignorance in setting and compelling others to follow its own national standard obviously represents ambiguity of its commitment towards WTO and furthermore inhibits smooth flow of exports into China.

Overall, China's orientation of mercantilist strategies of government to government manipulative mechanism and market manipulative mechanism as discussed above certainly fortify the intention on achieving trade gains, meanwhile the explanation on NTBs practice by China based on three different countries obviously clarify the trade menace China posed to its counterpart countries.

CHAPTER 3: BACKGROUND OF POLITICAL RELATIONS

In this respective chapter, the political relations between Malaysia and China will be presented, covering the aspect of diplomatic relations on how it's actually evolved from the beginning to recent years. Next, the connection between Malaysia, China and ASEAN will be appraised in order to demonstrate the influence ASEAN possesses in further enhancing the relations between Malaysia and China.

3.1: The Political Relations

Historically the relations between Malaysia (Malaya before achieving independence) and China dated back to the Han Dynasty (206BC – 220AD) and later on the most important period was when fleet commander Zheng He from the Ming Dynasty (1368 – 1644) visited Malacca during the 15th century to establish political and diplomatic affair between these nations. This relationship consisted of mutual understanding and respect for each other until Malacca fell into the hands of Portuguese followed by Dutch and British imperial in the 18th and 19th century and therefore reduced the bilateral connections with China (Balakrishnan, 2006). Decades later, due to Cold War era from 1946 onwards, the relations between China and Malaya were further stranded (changed to Federation of Malaya in 1957 and Malaysia in 1963), where Tunku Abdul Rahman (1957-1970), the first premier was keen on maintaining pro-western and anti-communist policy. Following his words (cited from Ibrahim, 2005, p. 99):

We must not deceive ourselves that communism is merely local. Communism we know is an intrinsic part of an international conspiracy for world

domination and so all countries, which believe in democracy and human rights and liberty, must rally together and fight it. We have to face up to the threat of communism. This is why we in Malaya who value our freedom cannot neutral about communism.

Meanwhile Purcel (1967) stated “Tunku was a Malay and an uncompromising enemy of Communism, the USSR and Communist China” (cited from Ibrahim, 2005, p. 99). This is because before, during and after gaining independence, Federation of Malaya was severely in jeopardy due to communist insurgency activities; carried out by the Malayan Communist Party (MCP) under Ching Peng. During this moment the MCP had been obtaining constant moral assistance from China’s President Mao Zedong in order to create political and social turmoil throughout the country. However, this agenda became futile because in 1960 the MCP was defeated, forcing Ching Peng and other MCP members to conceal themselves before deciding to thrust aside their communist ideology and surrender to the Malaysian government.

This fragile relationship between Malaysia and China later on took a new step forward when Malaysia under her second premier, Tun Abdul Razak (1970-1976) adopted a non-aligned status policy, establishing connections with communist countries such as China that obviously had been his priority and therefore official diplomatic relations been successfully established on 31 May 1974. Nevertheless, doubtful on this connection was still remained on the mind of Tun Abdul Razak and his following predecessors Tun Hussein Onn (1976-1981) and also Tun Dr Mahathir Mohammad (1981-2003) as Kim (2004, p. 6) noted that:

During the cold war period i.e. from the 1950s to the 1970s Malaysia perceived China as an ideological and security threat, mainly because of the Maoist support of the communism revolutionary movements in Southeast Asia. In 1980, Mahathir openly criticized China's continued link with Malaysian communist insurgency and by implication that Beijing could pose a potential security threat to Malaysia.

However, Tun Dr Mahathir's perception on China began to change after he adapted Look East Policy focusing on Japan in order to reduce dependency towards western countries and ever since then only he realized that East Asian countries possess the prospect for larger economy markets. As China is Japan's neighbor his attention began to shift towards China that proved to be the lynchpin in further integrating closeness between Malaysia and China.

Dr Mahathir was pragmatic towards China because of her great number of population and her becoming a great power. For him, Malaysia could not ignore China. There was no way for Malaysia to get rid of China. It is a big country with 1.3 billion very hardworking and intelligent people. No matter what you do, they will be there. You cannot eliminate 1.3 billion people. So you have to learn how to live with China. It will become great power, even if it will not able to dominate the whole world. So, we have to find ways to live with China, as a neighbour and fellow member of the planet. (Ibrahim A. Bakar, 2005, p. 101).

The above-mentioned statement certainly defines the importance of China to Malaysia, with China's larger population, resources and credibility capable in providing Malaysia with economic importance and also in addition of strengthening national security since United States keenly supporting Singapore in the region. Tun Dr Mahathir's successor, Tun Abdullah Ahmad Badawi continued his predecessor's policy towards China resulting into better and enhanced relationships especially when he visited China during May 2004 to remark the 30th anniversary of Malaysia-China bilateral

relations on invitation by Chinese Premier Wen Jiabao. This unique bilateral relationship furthermore reached to a greater height under the administration of current Prime Minister Dato Seri Najib Tun Razak whom obviously shares the same view of his father Tun Abdul Razak regarding the importance of closeness with China.

On the other hand, if observed from China's perspective, this bilateral relationship paved progressively from the era of Deng Xiaoping (1978-1989) onwards to his successors Jiang Zemin (1993-1998) and Hu Jintao (2003 until now). Remarkably, the end of Cold War further strengthen the ties when Chinese leaders begun to trust the democratic government of Malaysia and this provided a constructive bridge in further escalating the mutual affairs despite ideological difference between both countries.

Yiping (2006, p. 3) noted that:

Sino (China)-Malaysia political and economic cooperation has been strengthen after the Cold War...political mutual trust has been promoted due to the frequent exchanges of visits that have been going between the leaders of the two countries and...in 1995 with the establishment of military attaché offices in both countries, China and Malaysia have witnessed growing contacts and exchanges of visits between their military circles.

For Yiping, the growth in both countries' relation was due to certain favorable conditions:

First, as developing countries sharing the same border, the two countries expect peaceful surroundings, regional and international, so that they can dedicate themselves to social and economic developments....second, leaders of both countries have been playing close attentions to the development in bilateral relations....third, the economic development has been good in both countries; especially the high growth rate of Chinese economy sustained solid foundations for the economic and trade relations between both sides (Yiping, 2006, pp. 8-9).

In similar concern, Samuel (2006) emphasized on China's three important policy, the Open-door policy (since 1980) , the Good Neighbor Policy (since 1990), and the Go-Global Strategy (since 2002) that proved to be effective in bonding bilateral relations between the two countries. These three policies concentrated in China's changing pattern of behavior towards other countries from the open-door policy when China began to open its economy and started actively but gradually involved in the international political affairs plus maintaining better and good relationship with other countries.

3.2: Malaysia, China and ASEAN

During the Cold War period, China in its foreign affairs remains cautious and suspicious, with the notion limited within bilateral ties only; act as unilateral in order to protect its national sovereignty and for such reasons the relationship with Malaysia despite having formal diplomatic links since 1974 was limited in minimal range. This pattern began to change gradually with the successful effort of Malaysian leaders, manage to pursue Chinese leaders about the idea of joining ASEAN, when China's Foreign Minister, Qian Qichen attended the opening session of 24th ASEAN Ministerial Meeting on July 1991 as a spectator and observing guest for Malaysia.

This event later on signifies a major twist when China officially joined the inaugural meeting of the ASEAN Regional Forum (ARF) in 1994, remarking new era of multilateral relationship between ASEAN and China especially in increasing and strengthening trade cooperation with Malaysia. However, the process for a strong bond of

cooperation between Malaysia and China moved slowly since China maintains its doubt towards the effectiveness and reliance of ASEAN.

China's involvement in ASEAN can be divided into 3 phases which explained the pattern of behavior on China's participation towards this institution (Chwee, 2005). The first phase can be identified as Passive Involvement (early 1990s until 1995) when China despite joining ASEAN in ARF, being precautionous and doubtful over multilateral arrangements, assuming ARF might be harmful to its national interest. Since ARF provides basis for an annual consultation on political and security issues, deeper commitment signals threat and possesses potential that might jeopardize its national sovereignty.

This was largely influenced due to the concern that this forum would be dominated and used indirectly by United States to involve in China's international affairs and also uncomfortable that ASEAN countries might use the forum to internalize 'Spratly Island's' dispute and take an united stance against China. Moreover, the Chinese leader's anxiety regarding the dilemma of military transparency, claiming the forum established with the notion of balancing its power and limiting its movement in the Asian region.

In the 2nd phase, categorized as Active Participation (1996-1999), China's sensitivity on ASEAN and ARF began to change, founds that ARF not harmful to its national sovereignty, and China started an active multilateral relations rather than bilateral. This was due to the institutional features of the ARF; especially the model of

'ASEAN Way' promotes consultative, consensus, and incremental approach, enabling China to participate more comfortably, and also the fact that ASEAN has not being dominated by superpowers, (e.g. US or Japan) convinced China in strong partaking towards ARF.

Meanwhile in the 3rd phase or Proactive Proposition (2000-present), remarks on China-ASEAN relations which obtained greater level when China proposed the idea of ASEAN-China Free Trade Area (ACFTA) and this largely reflects China's strategies in establishing special economic zones correspondence to its emergence as a regional and global trade giant. On November 2001, agreement has been reached among government leaders of ASEAN and China officials to establish ACFTA over next 10 years period. Compare to the early two phases, in this phase China supported well on the ASEAN and ARF, knowing that through this institution, benefits can be gained ranging from politic to economic, including investment cooperation, and also sources for energy and raw materials.

There are four key characteristics that influenced China's post cold war relations with ASEAN. Firstly, with the vanishing of ideological barriers, it provides means for the establishment of stronger diplomatic ties between China with all the ASEAN member states from 1991 onwards. Secondly, significance in economic links has created opportunities in comparative advantages among these states. Thirdly, the Spratly Island issue remarks the diplomatic ways applied by China and ASEAN in solving disputes and finally, the emergence of multilateralism slowly fortify the diplomatic relations between

China and ASEAN where Malaysia played the success key role in this multilateral affair (Chwee, 2005). Overall, with active participation by China in ASEAN it provided a greater connection between Malaysia and China in enhancing bilateral relations and at the same time providing both countries the advantages in various kinds of trade sectors.

In a nutshell, the bilateral relations between Malaysia and China over the years certainly has resulted into a better bond despite being ideologically different; meanwhile through ASEAN it even further paved the path for a secure and progressive relation among these nations.

CHAPTER 4: THE TRADE RELATIONS

This particular chapter emphasizes on the Malaysia-China trade relations, briefly touching its establishment from informal to formal trade connections throughout the period of 1957-2000, followed by the acknowledgement of Malaysia-China Joint Economic and Trade Commission which is responsible on further strengthening the trade ties between Malaysia and China and subsequently followed by concise information regarding investments by both countries. The latter part elaborates on the trade balances agenda, covering the period of 2001-2008 in determining the deficit gap faced by Malaysia in its trade relation with China.

4.1: An Overview (1957-2000)

Malaysia and China's economic relations begun gradually as Kim (2004) had divided the evolution of this economic relation into three periods respectively. In the first period known as pre-diplomatic recognition (1957-1973), trade activities were carried out only by private sectors using Chinese middleman in Singapore and Hong Kong, regarded as an informal trade connection since there's no direct trading channel between these countries due to the anti-communist policy by Tunku Abdul Rahman. In addition, the economic embargo by United States on China also hindered any positive possibilities for Malaysia-China official trade relations.

However in the second period or the recognition era (1974-1984), Malaysia under Premier Tun Abdul Razak whom succeeded Tunku Abdul Rahman, recognized China

and set in motion to seek ways in establishing direct trade connections between these two countries starting with the unofficial visit by Tunku Razaleigh, former head of Perbadanan Nasional in May 1971. Soon after Tunku Razaleigh's visit, China sent its international trade delegations to Kuala Lumpur a few months later and resulted in the establishment of direct trade relations between both countries with China purchasing 40,000 tons of rubber from Malaysia. Since then, the trade capacity between both countries increased enormously, from US\$ 0.03 billion in 1971 to US\$ 0.2 billion in 1974 and in 1980 reached US\$ 0.42 billion.

Meanwhile in the third period (1985 onwards), Tun Dr Mahathir's first official visit to China in November 1985 provided the benchmark and furthermore strengthen the trade relations between Malaysia and China. Trade value grew rapidly from US\$ 0.6 billion in 1987 to US\$ 0.9 million in 1988 and later on in 1990 increased to US\$ 1.3 billion. Beginning from 1990 onwards marked an enormous rise in trade rate due to the end of cold war that furthermore granted clear and positive path of bilateral trade relations. From 1991, the total trade figures kept on rising in the sense clearly represented an improved trade relation; total trade reached US\$ 1.6 billion and in 1992 overall trade accumulated of US\$ 1.8 billion. During 1994, these numbers doubled fold to US\$ 3.5 billion while six years later in year 2000 the total trade amounted to almost US\$ 6.3 billion.

Even though exports from Malaysia to China started slowly in 1991 and 1992, it picked up its pace in 1993 and reached US\$ 1.2 billion and increased further to US\$ 2 billion in 1994. Despite declines in growth of export in 1995 (US\$ 1.96 billion), 1996 (US\$ 1.92

billion), and 1997 (US\$ 1.4 billion) Malaysian's exports gradually rised to US\$ 2.04 billion in 1998, whilst from 1999 exports value deepened further with US\$ 2.3 billion and reached US\$ 3 billion in 2000. In the meantime, imports from China during these periods (1990-2000) also had been in fine progress; with average annual growth of 21.5% accumulated total sum of US\$ 15.5 billion, with trade balance had been in Malaysia's favor despite facing deficits in 1991, 1992, 1997 and 2000.

Chart 4.1: Malaysia and China Trade 1990-2000



(Source: Department of Statistics Malaysia, various issues)

4.2: Malaysia-China Joint Economic and Trade Commission

On November 1988, leaders from China and Malaysia signed the Agreement on the Establishment of the Joint Economy Trade Commission to seek an enhanced economic cooperation between these two countries. Therefore this commission also known as the Joint Economic and Trade Committee functions as an intermediate in dealing with trade

cooperation's and at the same moment, act as a forum to converse any trade-related inconvenience that might emerge from this trade relation.

The 1st Malaysia-China JETC was held in Beijing on August 1991 with Malaysia's delegation headed by Dato Seri Rafidah Aziz, former Minister of International Trade and Industry meanwhile China's delegation headed by H.E Li Lanqing, former Minister of Foreign Trade and Economic Cooperation. So far there were eight JETC meeting being held with each country taking turns to be the host while the ninth JETC will soon take place on June 2010 in Beijing (see table 1.5).

Since these JETC meetings being conducted, the economic relations grows rapidly with various kind of bilateral agreements and Memorandum of Understanding (MOU) signed by both countries (see table 1.6) that further strengthen the economic ties between both Malaysia and China.

Table 4.1: Malaysia-China Joint Economic and Trade Commission Meetings

Joint Economic & Trade Committee (JETC)	Date	Venue
First JETC	1-6 August 1991	Beijing, China
Second JETC	8-12 August 1992	Kuala Lumpur, Malaysia
Third JETC	25-27 July 1994	Beijing, China
Fourth JETC	3-4 July 1997	Kuala Lumpur, Malaysia
Fifth JETC	25-27 November 2001	Beijing, China
Sixth JETC	15-16 September 2002	Kuala Lumpur, Malaysia
Seventh JETC	24 May 2006	Beijing, China
Eight JETC	13 July 2007	Kuala Lumpur, Malaysia
Ninth JETC	14 June 2010	Beijing, China

(Source: Ministry of International Trade and Industry, various issues)

Table 4.2: Bilateral Agreements and Memorandum of Understandings Signed by Malaysia and China

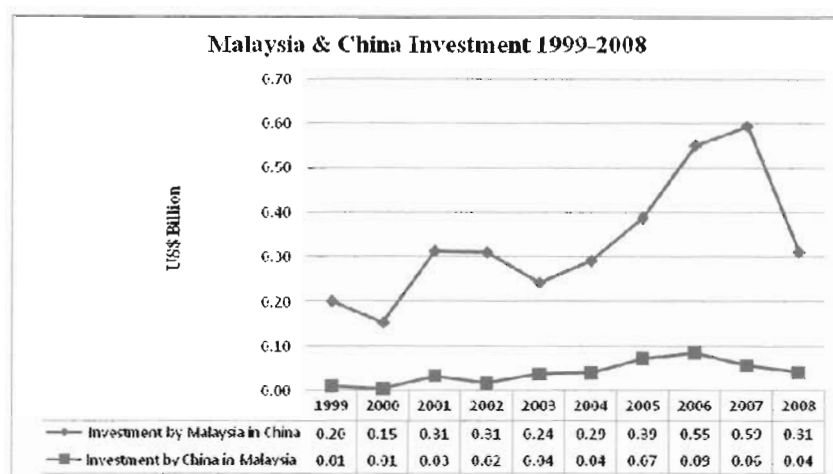
Bilateral Agreements and MOU's	Year
Avoidance of Double Taxation Agreement	Nov 1985
Maritime Transport Agreement	Sept 1987
Trade Agreement	April 1988
Investment Guarantee Agreement	Nov 1988
Air Service Agreement	March 1989
Agreement on Cooperation in Science & Technology	July 1992
Agreement on Agriculture Cooperation	Sept 2003
Memorandum on Recruitment of Chinese Workers	Sept 2003
Memorandum of Exchange on the Implementation of Malaysian Centre of Remote Sensing (MACRES)	Sept 2003
Memorandum on Cooperation in Tourism	Sept 2003
Memorandum on WTO TBT	May 2004
Memorandum Cooperation in Education	Dec 2005

(Source: Ministry of International Trade and Industry, various issues)

4.3: Investment

Currently, Malaysia is the 16th largest foreign investor in China, meanwhile in ASEAN 2nd after Singapore. Since year 1999 until 2008, the total investment by Malaysia in China reached US\$ 3.3 billion with the annual growth rate about 6% (see Chart 1.7) focusing on sectors covering electrical & electronic (E&E), glass related industries, automotive parts, textile & clothing industries, production & supply of utilities (electricity, water, gas), transport, warehousing, telecommunication and constructions. On the other hand, China's investment in Malaysia emphasized on manufacturing sectors with major areas including paper, printing & publishing, basic metal products, electrical & electronic (E&E), wood products and also transport equipments.

Chart 4.2: Malaysia & China Investment 1999-2008



(Source: Department of Statistics Malaysia, various issues)

Table 4.3: Major Chinese Companies Operating in Malaysia

	Chinese Companies Operating in Malaysia	Sectors/Products
1	Profit Point Manufacturing Sdn.Bhd	Latex examination gloves
2	Heron Pharmaceutical Sdn. Bhd	Chinese traditional medicine
3	Ji Kang Dimensi Sdn. Bhd	Hot rolled steel sheets/plates
4	HuaWei Technologies	R&D on telecommunication software
5	Little Swan Sdn. Bhd	Electrical and electronic appliances
6	Haier	Household electrical appliances
7	Pharmaceutical Sanjua Factory (M) Sdn. Bhd	Chinese pharmaceutical products

(Source: Malaysia External Trade Development, various issues)

Table 4.4: Major Malaysian Companies Operating in China

	Malaysian Companies Operating in China	Sectors/Products
1	Sime Darby China Ltd	Paint
2	Ramatex Apparel (Suzhou) Ltd	Yarn-fabrics & garments
3	Lion Group	Parkson departmental store
4	UMW	Oil & gas drilling pipes, tubes
5	Kenzen TPCO Ltd	Stainless steel welded pipes & fittings

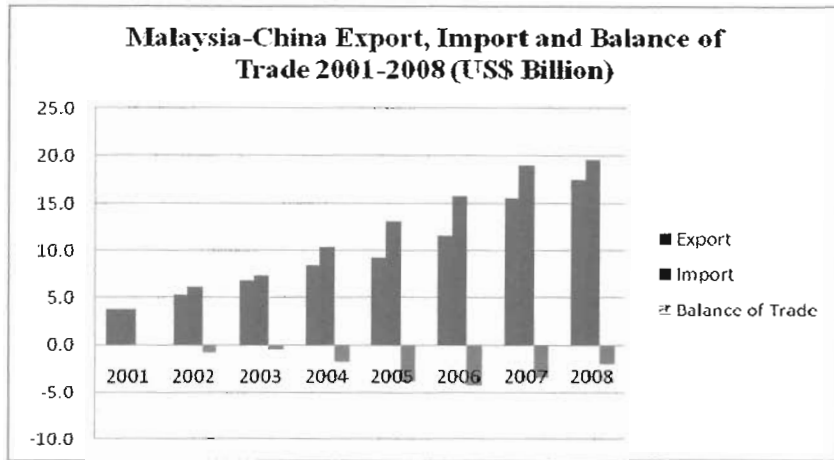
(Source: Malaysia External Trade Development, various issues)

4.4: Trade Balances (2001-2008)

Malaysia and China, two trading partners depending on each other in various trade cooperation as mentioned above, certainly clarify the positive bilateral relation between these countries where exports and imports activities are being carried out progressively. However despite this positive indication, the researcher attempts to identify who is actually winning and losing from the current context of this trade relationship. This will be focused mainly from the trade balance agenda, in which for the past seven years (2002-2008) Malaysia's trade with China has been continuously in deficit status which certainly further raises concern on China's mercantilist practices.

Chart 4.3 illustrates the total exports and imports since 2001 until 2008 in particular emphasizing on the trade deficit that encountered by Malaysia during this period. From the chart itself, at the beginning of year 2002 the trade deficit began to emerge (in 2001 trade balance was in Malaysia's favor with US\$ 0.1 billion of surplus) with exports valued at US\$ 5.3 billion whereas imports reached US\$ 6.1 billion with deficit of US\$ 0.9 billion.

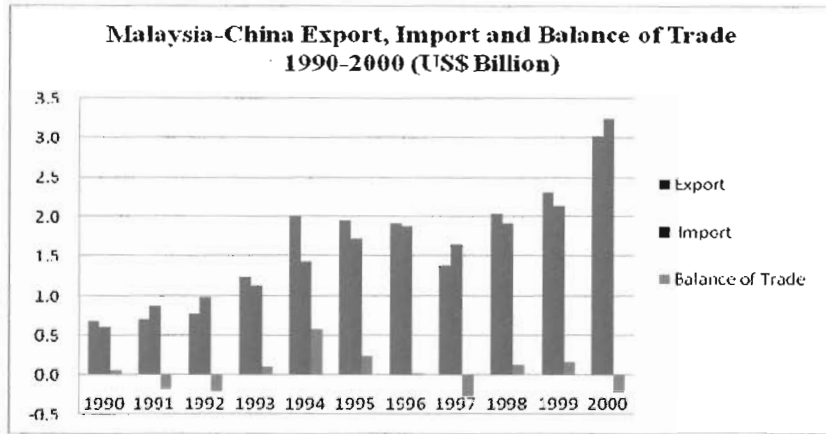
Chart 4.3: Malaysia-China Exports, Imports and Balance of Trade 2001-2008



(Source: Department of Statistics Malaysia, various issues)

Meanwhile despite only recorded US\$ 0.5 billion of deficits in year 2003, from year 2004 onwards huge gap on trade imbalance can be observed, amounted for US\$ 1.8 billion and later on in 2005 enormously accounted for US\$ 3.9 billion, an increase of US\$ 2.1 billion of deficits. This furthermore reached its climax during 2006, upholding the total deficit of US\$ 4.2 billion derived from higher imports value of US\$ 15.7 billion compared to exports which valued at US\$ 11.5 billion. In 2007 the deficit recorded lower than the previous year, a fall to US\$ 3.5 billion and in year 2008 amounted for US\$ 2.1 billion of deficits. These trade deficits, if compared to a decade before (1990-2000) was in stability as can be seen in chart below, with Malaysia recorded trade surplus in year 1993, 1994, 1995, 1996, 1998 and 1999, gaining advantage over China.

Chart 4.4: Malaysia-China Exports, Imports and Balance of Trade 1990-2000



(Source: Department of Statistics Malaysia, various issues)

In the meantime, the Chart 1.2 in problem statement of Chapter 1 provides a clearer picture of the trade deficits, comparing two different decades respectively covering total exports, total imports and total trade in addition with the total balance of trade value. By looking upon it, during the period of 1990-2000, overall trade balance was in Malaysia's favor amounted a surplus of US\$ 0.3 billion. However, from the period of 2001-2008, it clearly shows that the total trade balance points towards China's advantage, resulting in trade deficits of US\$ 18.5 billion for Malaysia.

In summing up, the trade relation between Malaysia and China reached a greater height ever since the establishment of formal diplomatic channel years ago, and resulted in various trade agreements and also provided investment opportunities. However, despite this positive indication, it also brought concern due to the trade deficit faced by Malaysia especially after the accession of China into WTO.

CHAPTER 5: RESEARCH FINDINGS ON THE EFFECT OF CHINA'S MERCANTILIST NON-TARIFF BARRIERS PRACTICES ON MALAYSIA'S EXPORT

Reflecting from the trade deficit faced by Malaysia to China over recent years it is clearly pointing towards the core tenets of mercantilism, ensuring favorable trade surplus at the expense of others (promoting exports and limiting imports). In the meantime, China's practice of NTBs, an instrument in the mercantilist market manipulative mechanism that employed in order to gain trade surplus in its trade connection with Malaysia, will be further discussed below and the NTBs are as follows:

- i. Compulsory Product Certification System (CCC Mark)
- ii. Automatic Import Licensing Administration (AILA)
- iii. Standards, Testing and Labeling Requirements (STLR)
- iv. Quarantine Requirement (QR)

5.1: Compulsory Products Certification System

The most controversial trade practices by Chinese government can be referred to its Compulsory Product Certification System (CCC Mark), introduced on 1st May 2002. This requires exporting countries to obtain CCC Mark before marketing their products into China and products that does not acquire or meet CCC Mark requirements will be held at border by Chinese Customs and penalties will be imposed. This CCC Mark was fully enforced on 1st May 2003 and beginning from this date onwards, apart from acquiring CCC Mark, exporting countries are also required to obtain a formal quality 'CCC

Certificate and Label' which means the products included in the CCC Mark catalogue will not be allowed into local markets without this certificates granted by the Chinese government.

Complications that arise from this were due to the process of obtaining the certificate, its procedure of sending Chinese experts to the exporting or country of origin to certify the factory and also the products. In reality, Chinese agencies that are responsible for conducting assessments lack resources in sending workers abroad, causing delays for exporting companies before their product can enter China. Furthermore, the factory or company involved has to be accountable for all the inspections cost and with this it hindered small and medium scale companies that cannot bear the charges. Meanwhile, companies with various products portfolio face higher expenditure since each product required different modes and phases of inspection. Other problems faced by exporting counties regarding CCC Mark include the:

- I. CCC Mark requires registration of products labels in the Chinese language, with the process consuming time (three months the least), affecting exporters capability to quickly respond to customers' orders and slight variation to the label, for instance 'net weight' per packaging necessitate separate applications and the application fee per label cost about US\$240;
- II. lack of clarity in the regulation for products that require the CCC mark;
- III. inconsistency in the application of a CCC Marks, as there been certain issues of China's domestic products that obliged to obtain CCC Marks as well as required by the Certification and Accreditation Administration are being sold without the mark; and

IV. Uprising list on number of products that are subjected to the CCC Mark and certification system that include:

- i. electrical and electronic
- ii. machinery and machinery tools
- iii. safety glasses and glassware
- iv. information technology equipment
- v. medical equipments
- vi. household appliances and apparatus

(Source: Compiled and modified from various publications of MITI Reports, 2000-2008)

Based on charts given from heading 5.1 to 5.3, it represents Malaysia's export volumes regarding list of products contained in caption IV above and in understanding the nature of these charts, there are certain criteria that need to be adhered:

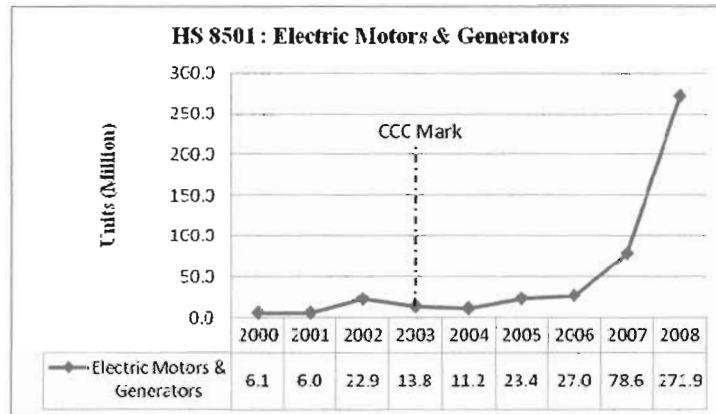
Criteria Type 1	Products display effective fall in export volumes soon after the implementation of CCC Mark in year 2003
Criteria Type 2	Products shows descend a year or two after CCC Mark took place
Criteria Type 3	Products even though recorded drop during 2003 or few years to come but then eventually shows growth in exports volumes due to the fulfillment of CCC Mark requirement on these related products by the manufacturer
Criteria Type 4	Products continuously plunge or do not portrayed sufficient growth since the effectiveness of CCC Mark in 2003
Criteria Type 5	Consistent with criteria Type 1 or Type 2 but does not consistent with criteria Type 3 or Type 4 since this irregularities could be caused by other factors such as: <ol style="list-style-type: none"> i. Consumer taste preference which is quite unpredictable at times; ii. The emergence of similar but cheaper products produced by other countries (e.g. competition); iii. The knee-jerk effect occurring when the implementation of the NTB caused demand to drop substantially at first before picking up pace afterwards (e.g. just like when an individual decrease her consumption of cappuccino at first when its price increases but later adjusts her budget and continue to consume the product as it is a necessity for breakfast); iv. Economic policies (unrelated to international trade) which discourage national consumption and investment to stabilize liquidity and inflation in the market (e.g. increase in taxes); v. World demand fluctuates due to uncertainty in energy prices (e.g. oil).
Criteria Type 6	Products that not being affected by CCC Mark implementation

* A combination of more than one criterion can be used on every product except for criteria Type 6

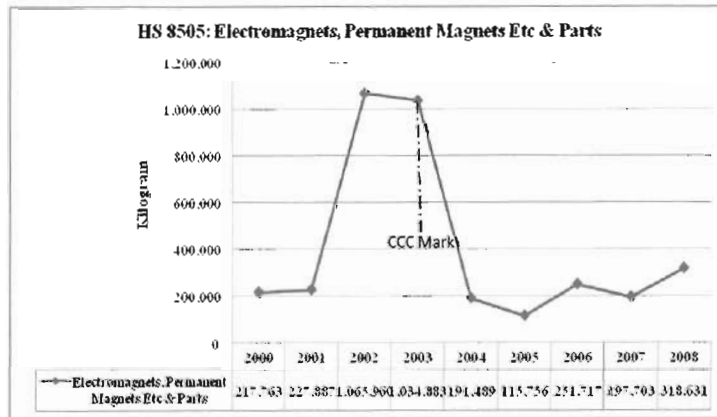
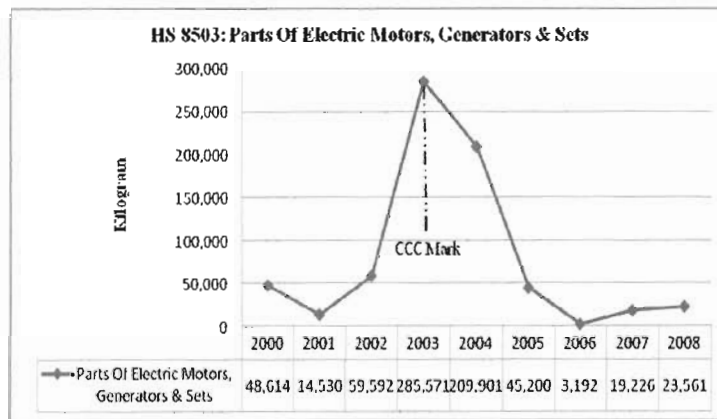
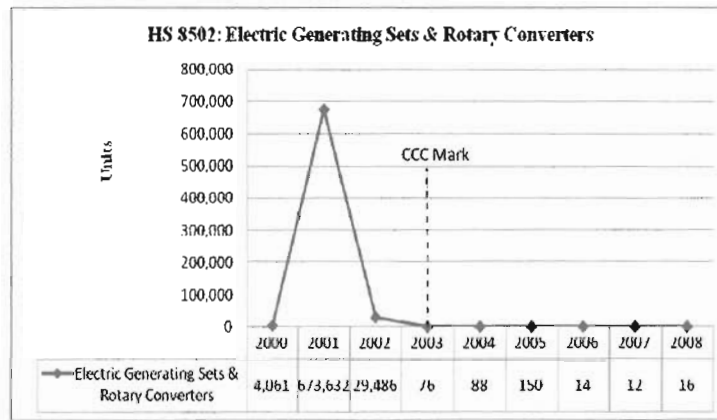
Electric and Electronic Products (see Chart 5.1)

HS Code	Item/Product	Type 1	Type 2	Type 3	Type 4	Type 5	Type 6
8501	Electric Motors & Generators	✓	-	✓	-	-	-
8502	Electric Generating Sets & Rotary Converters	✓	-	-	✓	-	-
8503	Parts of Electric Motors, Generators & Sets	-	✓	-	✓	-	-
8505	Electromagnets, Permanent Magnets etc & Parts	✓	-	-	✓	-	-
8519	Turntables, Record & Cassette Players etc	-	✓	✓	-	-	-
8520	Magnetic Tape & Other Sound Recorders	-	✓	-	✓	-	-
8522	Parts And Accessories For Items 8519 To 8521	-	✓	-	✓	-	-
8523	Prepared Unrecorded Media (No Film) for Sound etc.	-	✓	-	-	✓	-
8524	Records, Tapes & Other Recorded Sound Media etc	-	✓	-	-	✓	-
8528	Tv Recvrs, Incl Video Monitors & Projectors	-	✓	-	-	✓	-
8535	Electrical Apparatus for Switching etc, Ov 1000V	-	✓	✓	-	-	-
8537	Boards, Panels Etc Elec Switch and N/C Appar Etc.	-	✓	-	-	✓	-
8547	Insulating Fittings For Assembly	✓	-	-	-	✓	-

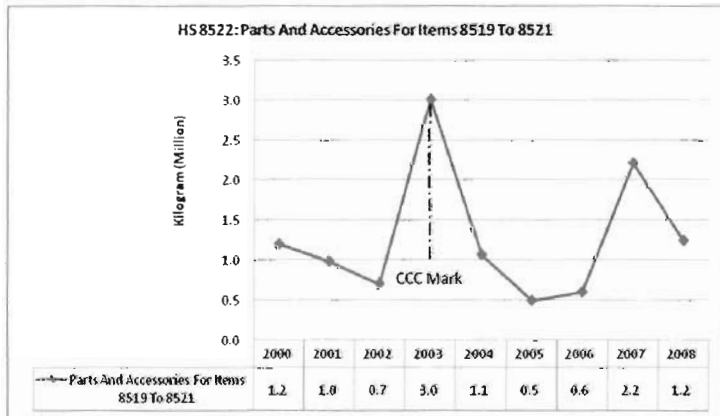
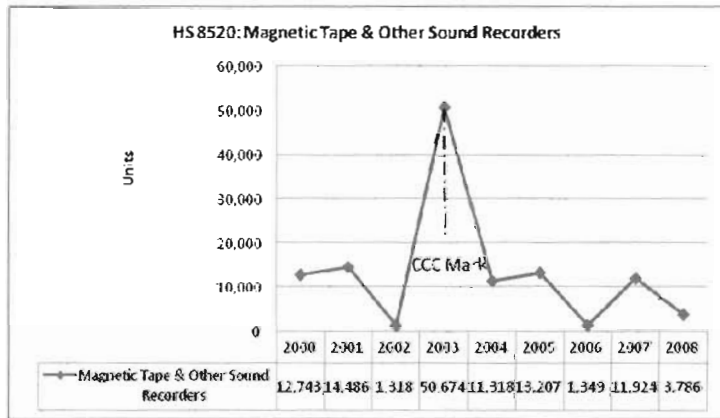
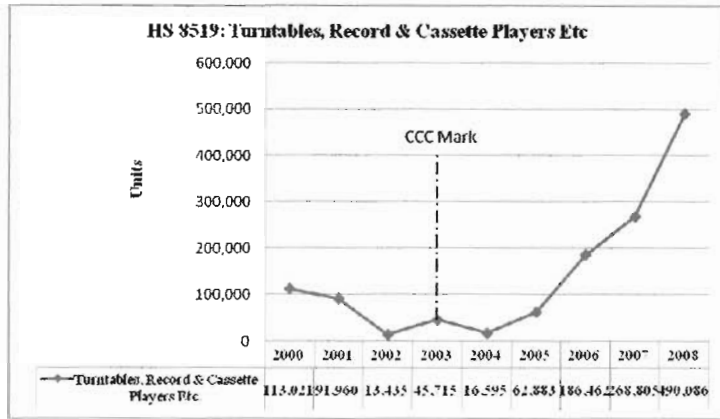
Chart 5.1: Electric and Electronic Products



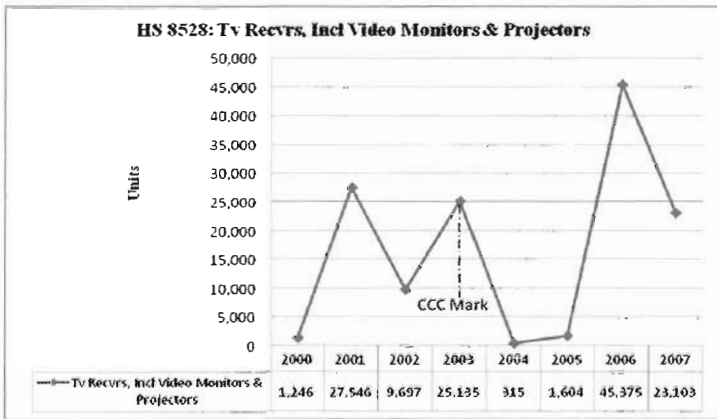
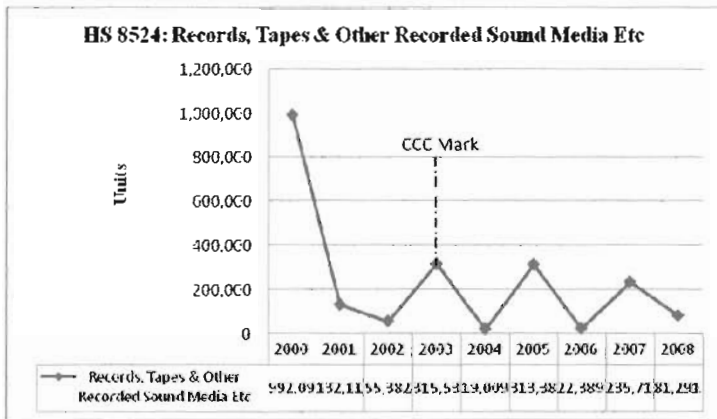
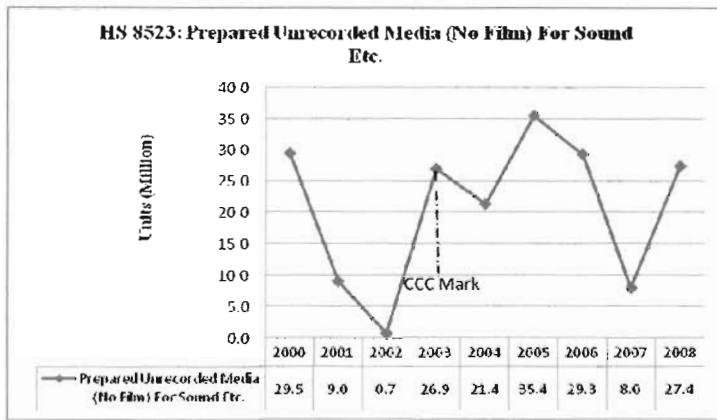
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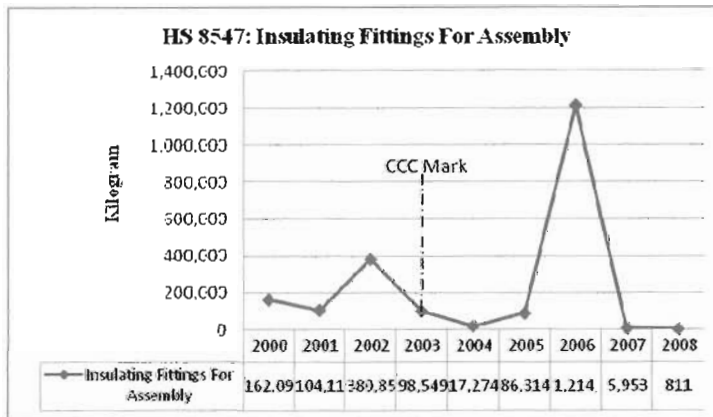
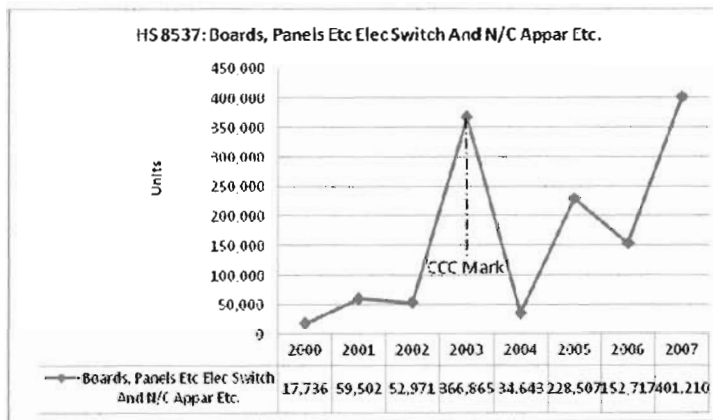
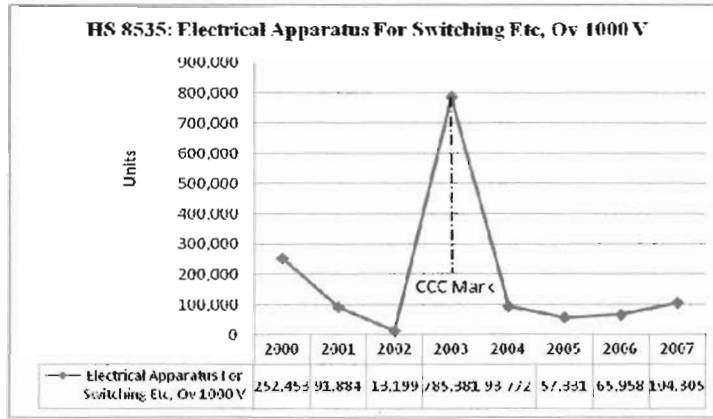
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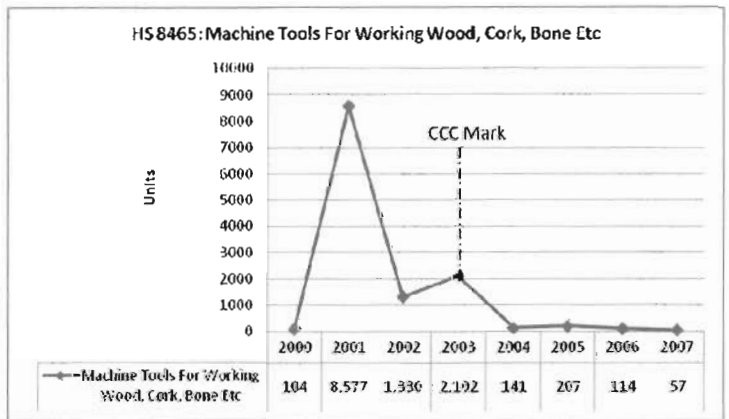
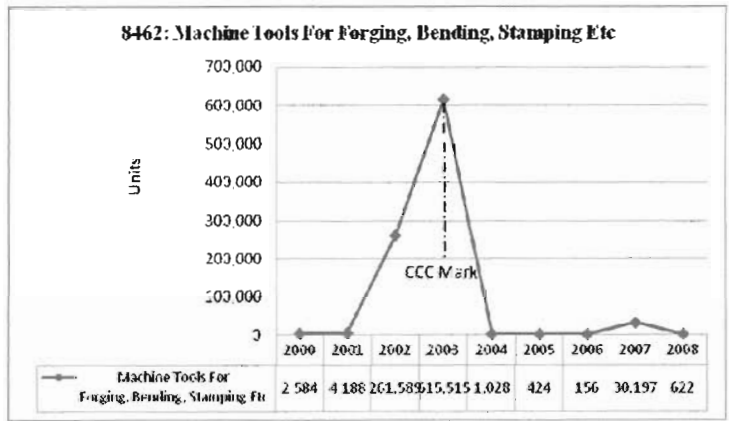
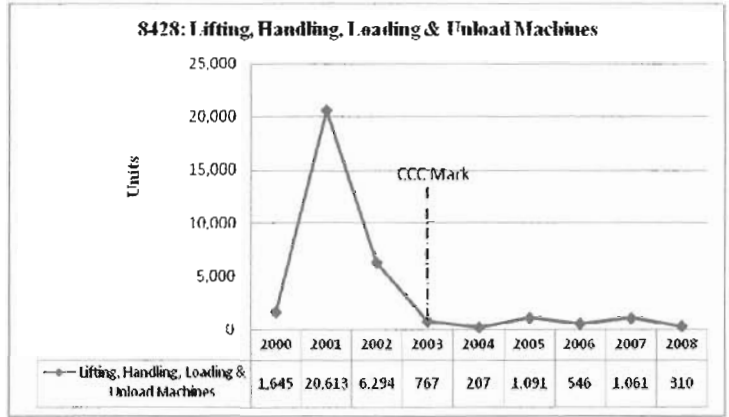
(Source of Charts: Department of Statistics Malaysia, various issues)

Most of the products on this product category belong to Type 2. Records, tapes & other recorded sound media etc, parts of electric motors, generators & sets, magnetic tape & other sound recorders, among others, show decline in volume within a year or two after the implementation of CCC Mark. Other products indicate a combination of criteria types and some even exhibit a drastic increase recently. Generally speaking however, the initial effect of the CCC Mark implementation on the trade quantity of electric and electronic products tends to be negative.

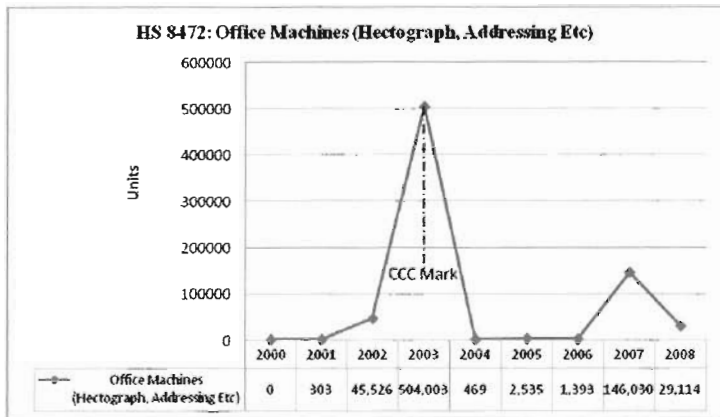
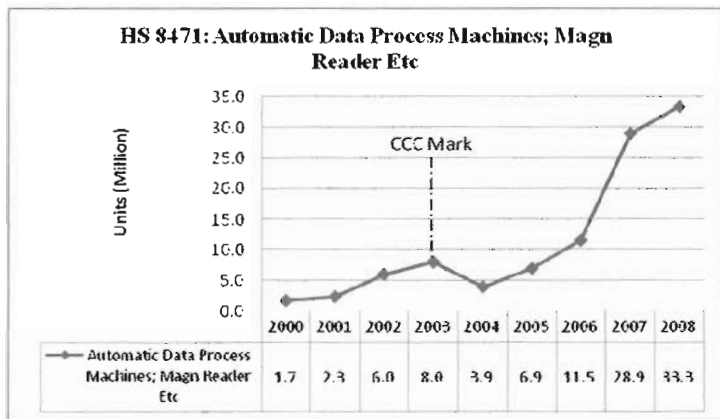
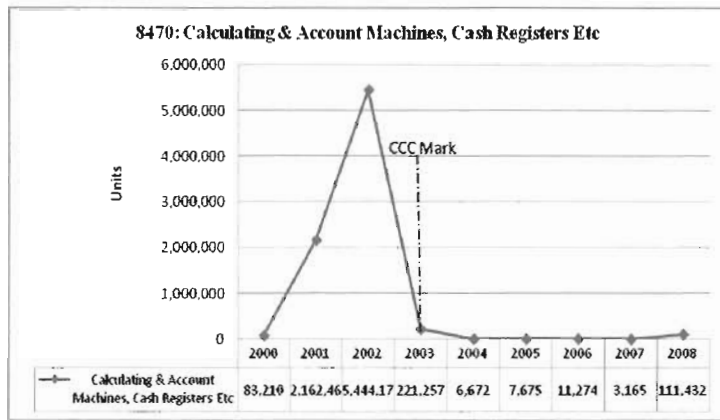
Machinery and Machinery Tools (see Chart 5.2)

HS Code	Item/Product	Type 1	Type 2	Type 3	Type 4	Type 5	Type 6
8428	Lifting, Handling, Loading & Unload Machines	✓	-	-	✓	-	-
8462	Machine Tools for Forging, Bending, Stamping etc	-	✓	-	✓	-	-
8465	Machine Tools for Working Wood, Cork, Bone etc	-	✓	-	✓	-	-
8470	Calculating & Account Machines, Cash Registers etc	✓	-	-	✓	-	-
8471	Automatic Data Process Machines; Magn Reader etc	-	✓	✓	-	-	-
8472	Office Machines (Hectograph, Addressing etc)	-	✓	-	-	✓	-

Chart 5.2: Machinery and Machinery Tools



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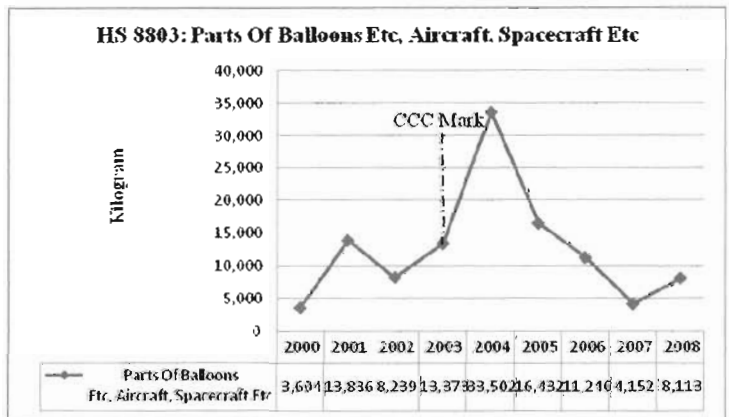
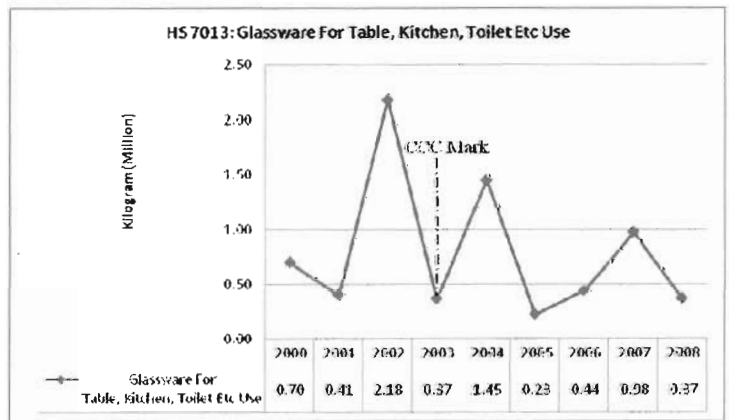
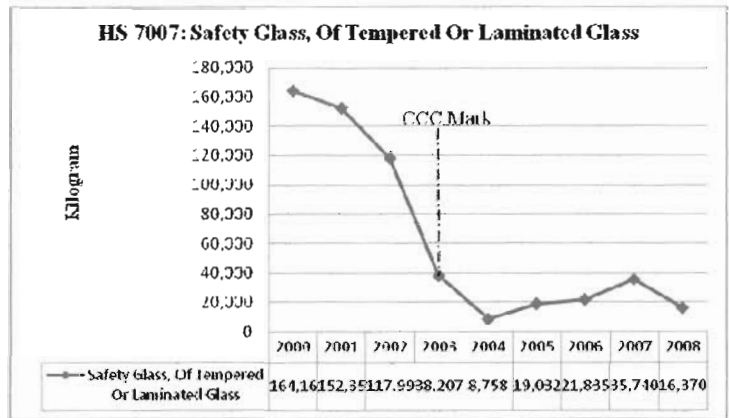
(Source of Charts: Department of Statistics Malaysia, various issues)

Most of the products on this machinery and machinery tools category are balanced between Type 1 and Type 2, with products such as machine tools for forging, bending, stamping etc, calculating and account machines, cash registers etc, and office machines (hectograph, addressing etc) shows major drop due to the CCC Mark implementation.

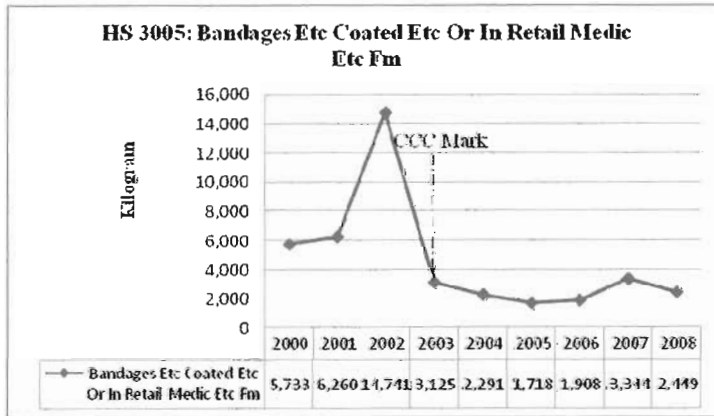
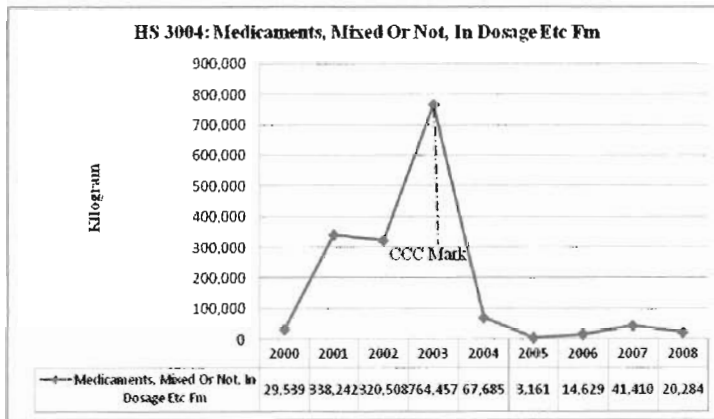
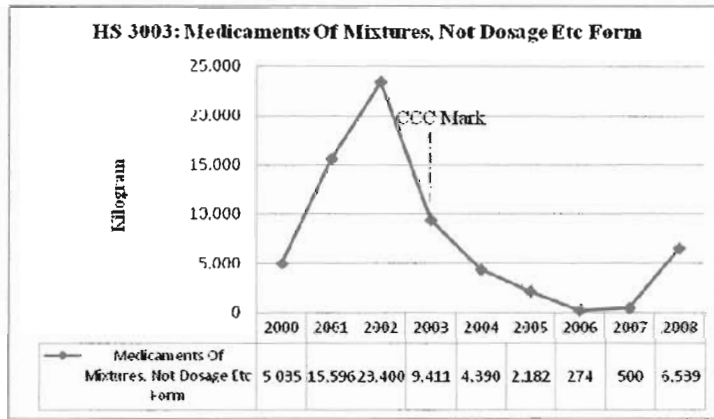
Other Products under CCC Mark (see Chart 5.3)

HS Code	Item/Product	Type 1	Type 2	Type 3	Type 4	Type 5	Type 6
7007	Safety Glass, ff Tempered Or Laminated Glass	✓	-	-	✓	-	-
7013	Glassware for Table, Kitchen, Toilet etc Use	✓	-	-	-	✓	-
8803	Parts of Balloons etc, Aircraft, Spacecraft etc	-	✓	-	✓	-	-
3003	Medicaments of Mixtures, Not Dosage etc Form	✓	-	-	✓	-	-
3004	Medicaments, Mixed or Not, In Dosage etc Fm	-	✓	-	✓	-	-
3005	Bandages etc Coated etc or In Retail Medic etc Fm	✓	-	-	✓	-	-
3924	Tableware & Other Household Articles etc, Plastics	-	-	-	-	-	✓
4818	Toilet Paper & Similar Household, Sanitary Items	-	-	-	-	-	✓

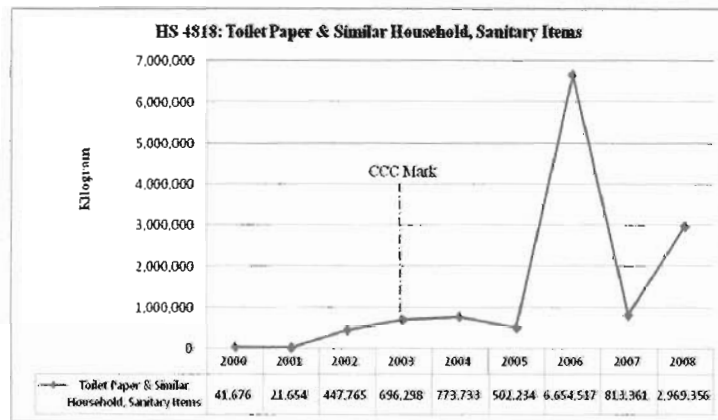
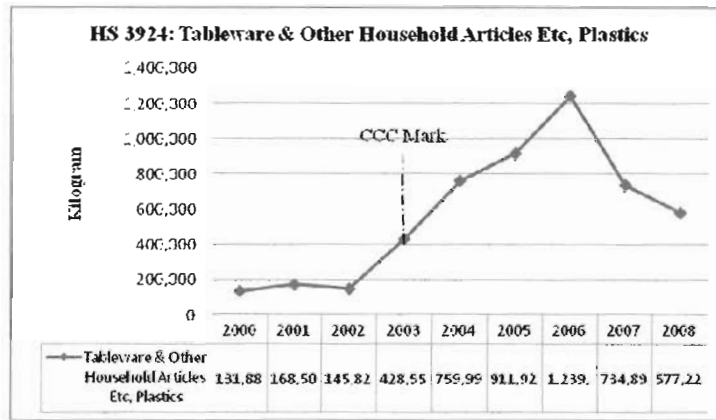
Chart 5.3: Other Products under CCC Mark



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(Source of Charts: Department of Statistics Malaysia, various issues)

Products under this category largely belong to Type 1 that include safety glass, of tempered or laminated glass, medicaments of mixtures, not dosage etc form, and bandages etc coated or in retail medic portrayed consistent fall in export since 2003 while tableware and other household articles etc, plastics, and toilet paper and similar household, sanitary items indicate Type 6 since these products does not affected by the implementation of CCC Mark.

5.2: Automatic Import Licensing Administration

From year 2006, the Tariff-Rate Quotas (TRQ) on imports of palm oil and vegetable oils have been gradually abolished by the Chinese government, replacing it with ‘Automatic Import Licensing Administration’ entailing importers to obtain an import license before any import activities on these products can be done. In order to do so, it required Chinese importers to:

- I. Register with the Administrative Department of Industry and Trade.
- II. Possess a business license (granted for trading specified goods) or productions license.
- III. Pass the most recent annual inspection test by the Administrative Department of Industry and Trade, and the most recent annual inspection of foreign enterprises.
- IV. Comply with food safety and hygiene regulations.
- V. Does not involved or possess any criminal record (for the past three years) relating to Customs, foreign exchange, industry and commerce, taxation and also quality inspection.

(Source: Compiled and modified from various publications of MITI Reports, 2000-2008)

The procedures above-mentioned even though does not portrait doubtfulness, but in reality these procedures provide burdensome and ambiguity especially when the number of products that are required to possess import license keep on increasing. At first it is only limited to imports on palm oil and vegetable oil, but later on the products list grew further ahead that includes:

- i. Aluminum products
- ii. Flat rolled products of iron or iron alloy steel products (hot and cold rolled), including bars and rods
- iii. Paperboard
- iv. Polymer of ethylene
- v. Inner rubber tubes for tires
- vi. Crude petroleum and petroleum oil

This practice has raised concern on countries that actively being China's trading partner especially Malaysia as the largest exporter of palm oil and also from the list of products mentioned earlier that certainly are in sphere of Malaysia's export interest to China. Looking from charts given from heading 5.4 to 5.8, it represent Malaysia's export volumes regarding list of products in sphere of AILA above and has been classified into certain types of criteria:

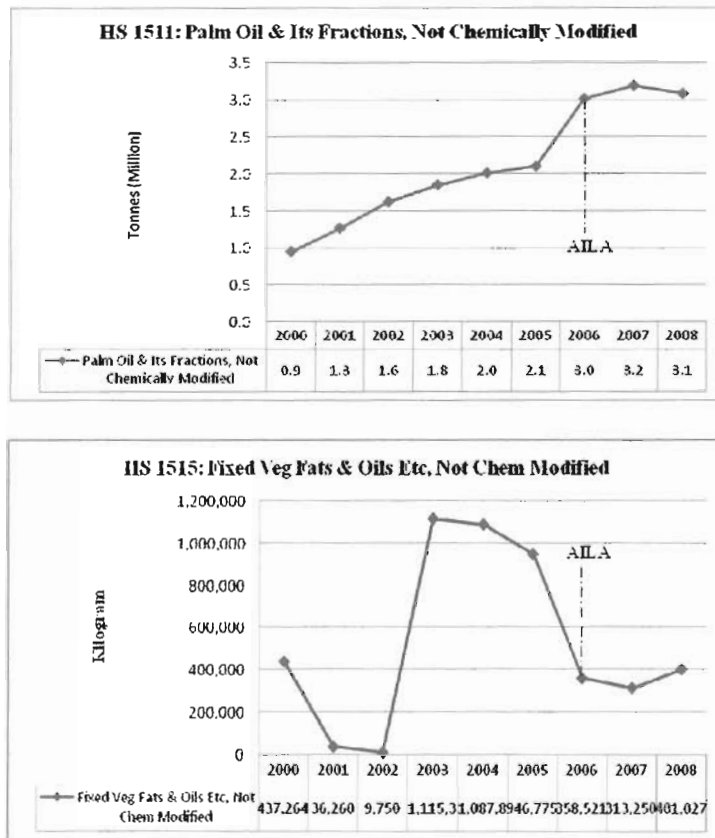
Criteria Type 1	Products display effective fall in export volumes soon after the implementation of AILA in year 2006
Criteria Type 2	Products shows descend a year or two after AILA took place
Criteria Type 3	Products even though recorded drop during 2006 or few years to come but then eventually shows growth in exports volumes due to the fulfillment of AILA requirement on these related products by the manufacturer
Criteria Type 4	Products that continuously plunge or do not portrayed sufficient growth since the effectiveness of AILA in 2006
Criteria Type 5	Consistent with criteria Type 1 or Type 2 but does not consistent with criteria Type 3 or Type 4 since this irregularities could be caused by other factors such as: <ol style="list-style-type: none"> i. Consumer taste preference which is quite unpredictable at times; ii. The emergence of similar but cheaper products produced by other countries (e.g. competition); iii. The knee-jerk effect occurring when the implementation of the NTB caused demand to drop substantially at first before picking up pace afterwards (e.g. just like when an individual decrease her consumption of cappuccino at first when its price increases but later adjusts her budget and continue to consume the product as it is a necessity for breakfast); iv. Economic policies (unrelated to international trade) which discourage national consumption and investment to stabilize liquidity and inflation in the market (e.g. increase in taxes); v. World demand fluctuates due to uncertainty in energy prices (e.g. oil).
Criteria Type 6	Products that not being affected by AILA implementation

* A combination of more than one criterion can used on every product except for criteria Type 6

Palm Oil and Vegetable Oil (see Chart 5.4)

HS Code	Item/Product	Type 1	Type 2	Type 3	Type 4	Type 5	Type 6
1511	Palm Oil & Its Fractions, Not Chemically Modified	-	✓	-	-	-	-
1515	Fixed Veg Fats & Oils Etc, Not Chemically Modified	✓	-	-	✓	-	-

Chart 5.4: Palm Oil and Vegetable Oil



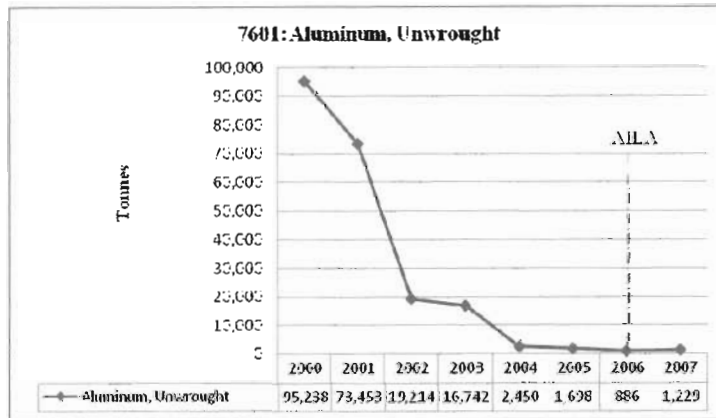
(Source of Charts: Department of Statistics Malaysia, various issues)

AILA’s impact on palm oil and its fractions, not chemically modified was minimal with only slight drop in 2008, while fixed vegetable fats and oils etc, not chemically modified clearly indicate major fall in 2006 due to this AILA implementation.

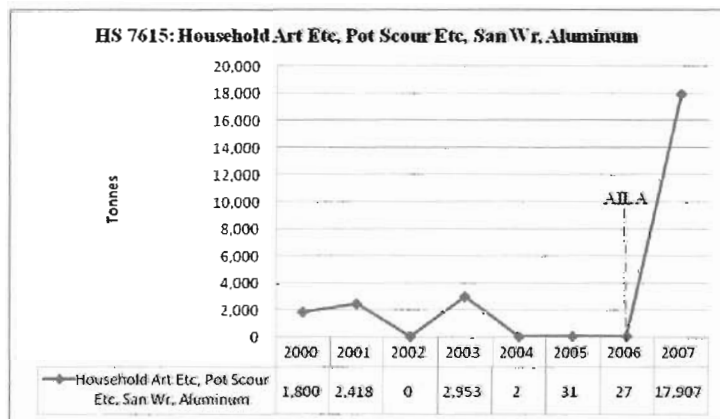
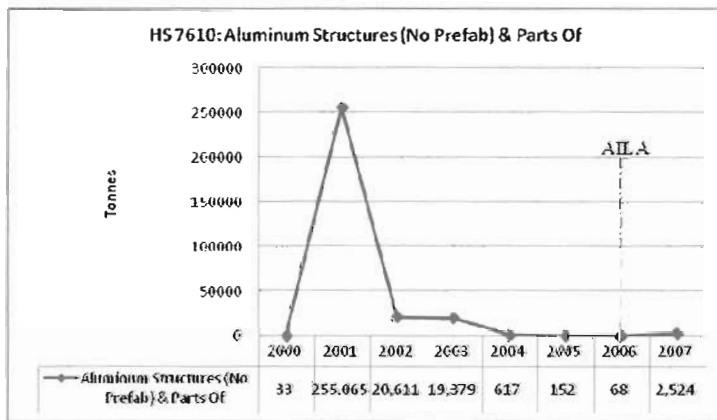
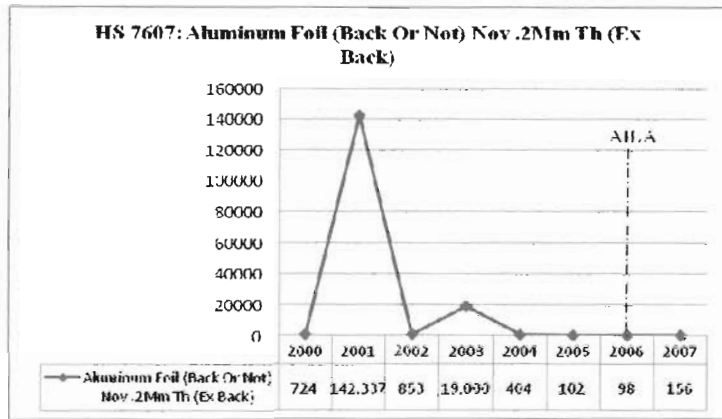
Aluminum Products (see Chart 5.5)

HS Code	Item/Product	Type 1	Type 2	Type 3	Type 4	Type 5	Type 6
7601	Aluminum, Unwrought	✓	-	✓	-	-	-
7607	Aluminum Foil (Back or Not) Nov .2Mm Th (Ex Back)	✓	-	✓	-	-	-
7610	Aluminum Structures (No Prefab) & Parts of	✓	-	✓	-	-	-
7615	Household Art etc, Pot Scour etc, San Wr, Aluminum	✓	-	✓	-	-	-
7616	Articles of Aluminum	✓	-	✓	-	-	-

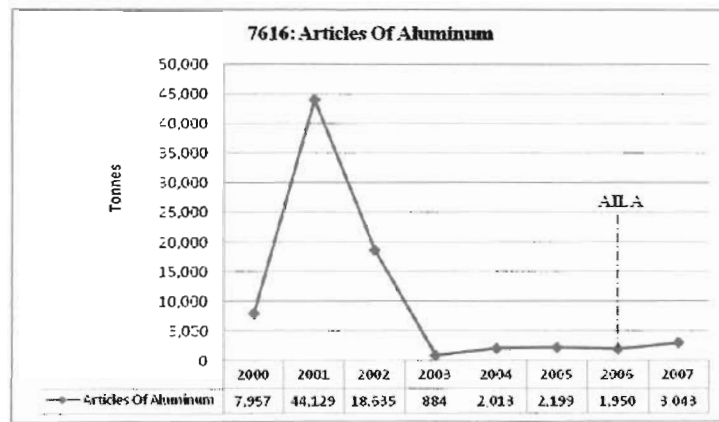
Chart 5.5: Aluminum Products



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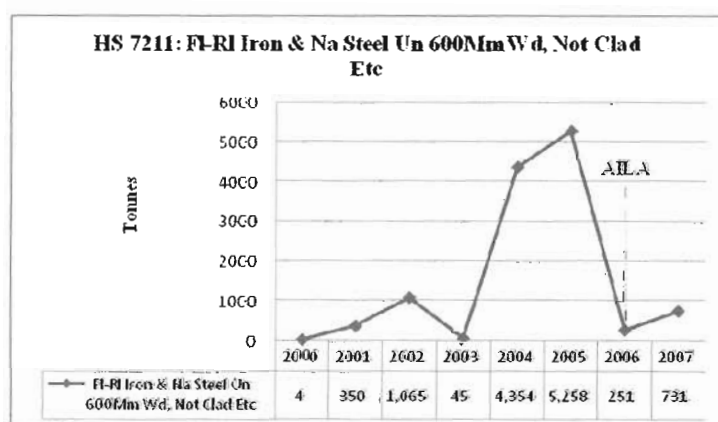
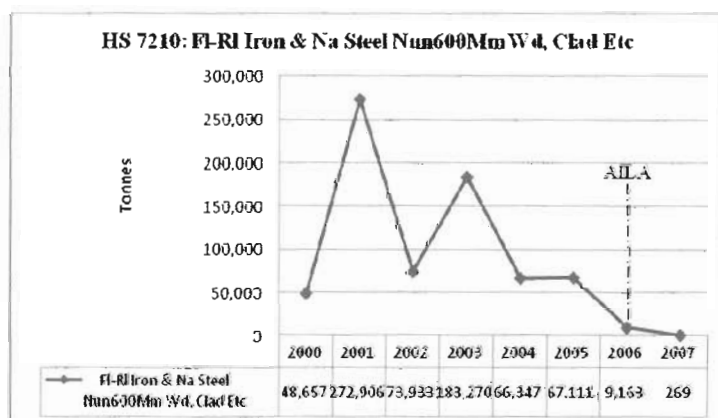
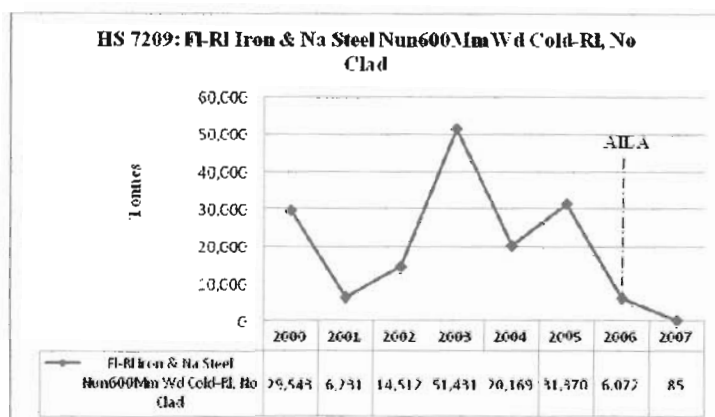
(Source of Charts: Department of Statistics Malaysia, various issues)

All products on this category fit in Type 1 with the drop for these products during 2006 are only at minimal range in addition to the increase of the quantity in subsequent year. Generally these products' demand were already in low capacity from the year 2000 and 2001 while household art etc, pot scour etc, san wr, aluminum recorded massive increase in export quantity during 2007.

Iron and Steel Products (see Chart 5.6)

HS Code	Item/Product	Type 1	Type 2	Type 3	Type 4	Type 5	Type 6
7209	Fl-Rl Iron & Na Steel Nun600Mm Wd Cold-Rl, No Clad	✓	-	-	✓	-	-
7210	Fl-Rl Iron & Na Steel Nun600Mm Wd, Clad etc	✓	-	-	✓	-	-
7211	Fl-Rl Iron & Na Steel Un 600Mm Wd, Not Clad etc	✓	-	-	✓	-	-

Chart 5.6: Iron and Steel Products



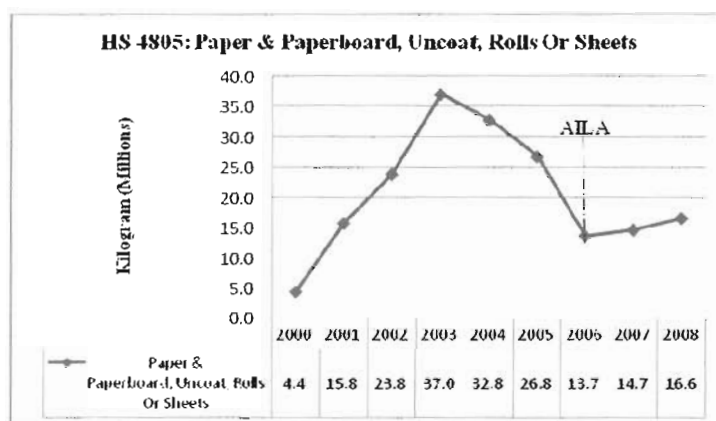
(Source of Charts: Department of Statistics Malaysia, various issues)

All iron and steel based products belong to Type 1 which indicate severe fall in export quantity due to the AILA implementation in 2006 and also do not portrayed sufficient growth since then.

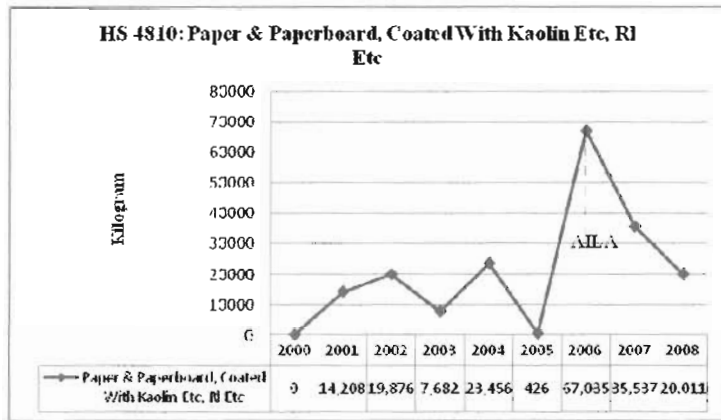
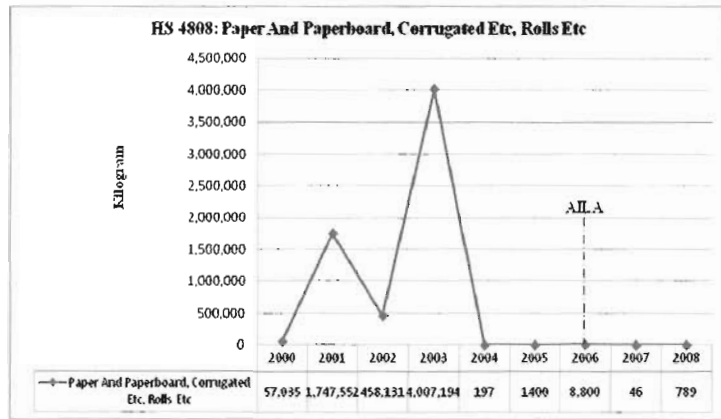
Paperboard Products (see Chart 5.7)

HS Code	Item/Product	Type 1	Type 2	Type 3	Type 4	Type 5	Type 6
4805	Paper & Paperboard, Uncoat, Rolls or Sheets	✓	-	-	✓	-	-
4808	Paper and Paperboard, Corrugated etc, Rolls etc	✓	-	-	✓	-	-
4810	Paper & Paperboard, Coated with Kaolin etc, RI Etc	-	✓	-	✓	-	-

Chart 5.7: Paperboard Products



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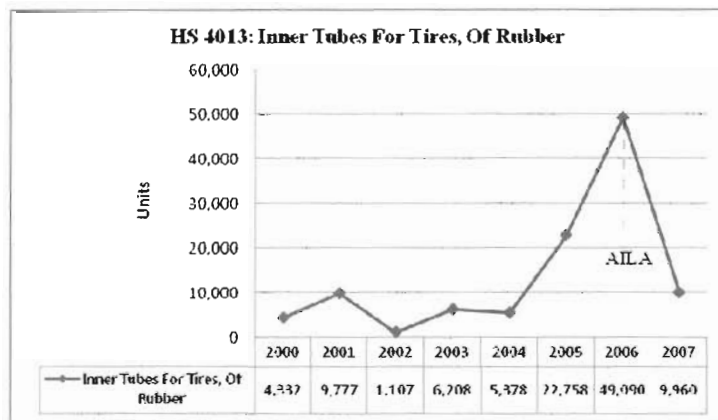
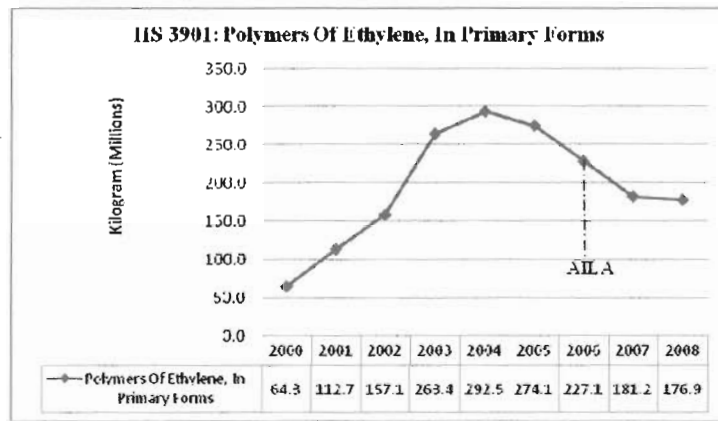
(Source of Charts: Department of Statistics Malaysia, various issues)

For paperboard products such as paper and paperboard, uncoat, rolls or sheets, paper and paperboard, corrugated etc, rolls etc, and paper and paperboard, coated with kaolin, etc, ri etc indicate severe plunge due to the AILA in 2006.

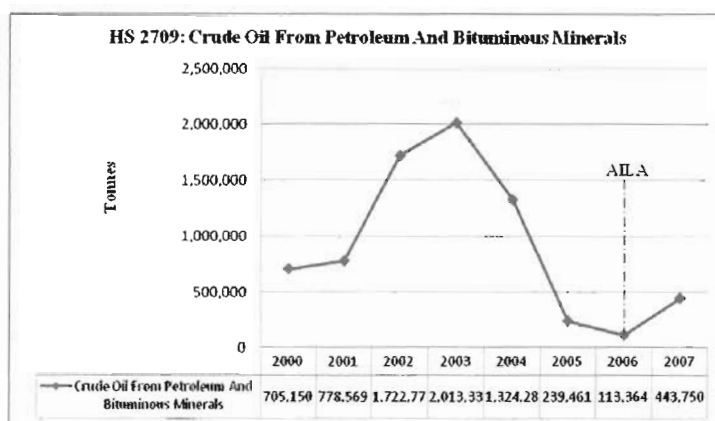
Other Products under AILA (see Chart 5.8)

HS Code	Item/Product	Type 1	Type 2	Type 3	Type 4	Type 5	Type 6
3901	Polymers of Ethylene, in Primary Forms	✓	-	-	✓	-	-
4013	Inner Tubes for Tires, Of Rubber	✓	-	-	✓	-	-
2709	Crude Oil from Petroleum and Bituminous Minerals	✓	-	✓	-	-	-

Chart 5.8: Other Products under AILA



Continued



(Source of Charts: Department of Statistics Malaysia, various issues)

AILA's impact for polymers of ethylene, in primary forms, and crude oil from petroleum and bituminous minerals are only minimal with slight drop compare to inner tubes for tires of rubber recorded severe fall in export quantity.

5.3: Standard, Testing and Labeling Requirements

It is commonly acknowledged that countries' participating in international trade applies the international standards that is generally accepted and practiced in various sectors of trade products in order to maintain the fairness and equality of the trade system. However, China on the other hand continuously follows its own national standards in which foreign exporter's faces difficulties to adopt with. For instance, from 1st January 2005 onwards, foreign scrap suppliers are required to register with the Administration of Quality Standards, Inspection and Quarantine (AQSIQ) in order to be granted permission

to exports scrap materials (waste paper, plastic, industrial scrap) into China that obviously is burdening exporters in term of costs and time.

In another issue, all furniture products that are manufactured portrayed detailed product information including exact content of hazardous material like formaldehyde, in addition to the details such the right way to transport, install and maintain the furniture, and also indication of publishing date of the manual. This practice however does not apply to similar local furniture products that certainly provide biases towards foreign manufacturers.

Meanwhile, the export of processed food products into China regulated by the obligation of various labeling under the Verification of Chinese Labeling Certification demands each product to possess a certificate. The process of obtaining certificate is generally time consuming and sometime will take almost a year for the consent despite some of the products has been marketed in China before.

Based on charts given from heading 5.9 to 5.11, it represent Malaysia's export volumes regarding list of products in sphere of STLR which has been classified into certain types of criteria:

Criteria Type 1	Products display effective fall in export volumes soon after the implementation of STLR in year 2005
Criteria Type 2	Products shows descend a year or two after STLR took place
Criteria Type 3	Products even though recorded drop during 2006 or few years to come but then eventually shows growth in exports volumes due to the fulfillment of STLR requirement on these related products by the manufacturer
Criteria Type 4	Products that continuously plunge or do not portrayed sufficient growth since the effectiveness of STLR in 2005

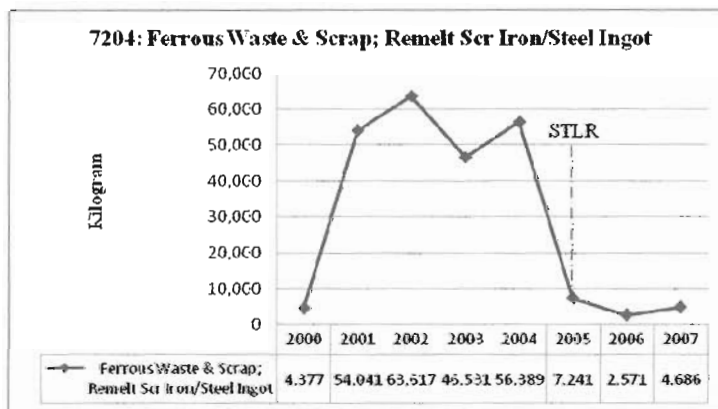
Criteria Type 5	<p>Consistent with criteria Type 1 or Type 2 but does not consistent with criteria Type 3 or Type 4 since this irregularities could be caused by other factors such as:</p> <ul style="list-style-type: none"> i. Consumer taste preference which is quite unpredictable at times; ii. The emergence of similar but cheaper products produced by other countries (e.g. competition); iii. The knee-jerk effect occurring when the implementation of the NTB caused demand to drop substantially at first before picking up pace afterwards (e.g. just like when an individual decrease her consumption of cappuccino at first when its price increases but later adjusts her budget and continue to consume the product as it is a necessity for breakfast); iv. Economic policies (unrelated to international trade) which discourage national consumption and investment to stabilize liquidity and inflation in the market (e.g. increase in taxes); v. World demand fluctuates due to uncertainty in energy prices (e.g. oil).
Criteria Type 6	Products that not being affected by STLR implementation

* A combination of more than one criterion can used on every product except for criteria Type 6

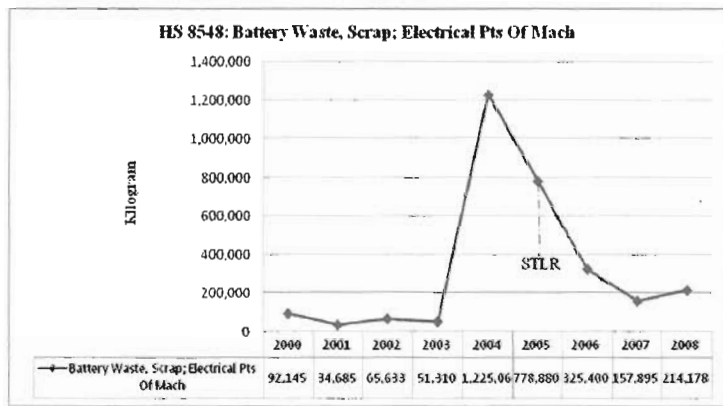
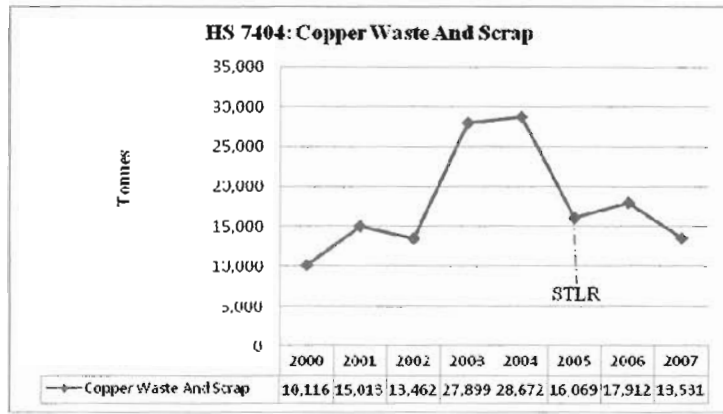
Waste Materials (see Chart 5.9)

HS Code	Item/Product	Type 1	Type 2	Type 3	Type 4	Type 5	Type 6
7204	Ferrous Waste & Scrap; Remelt Scr Iron/Steel Ingot	✓	-	-	✓	-	-
7404	Copper Waste and Scrap	✓	-	-	-	✓	-
8548	Battery Waste, Scrap; Electrical Pts of Mach	✓	-	-	✓	-	-

Chart 5.9: Waste Materials



Continued



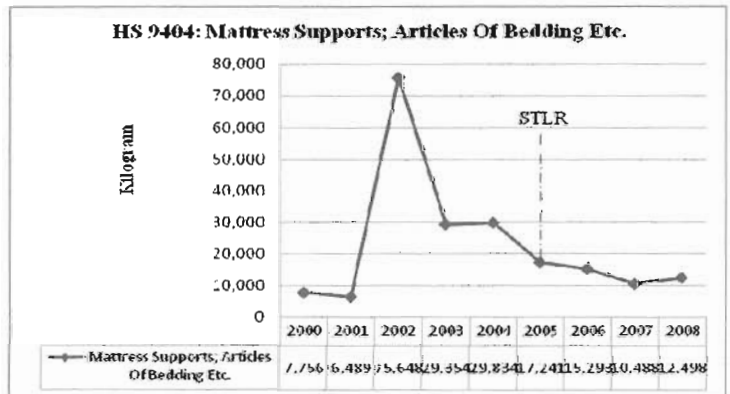
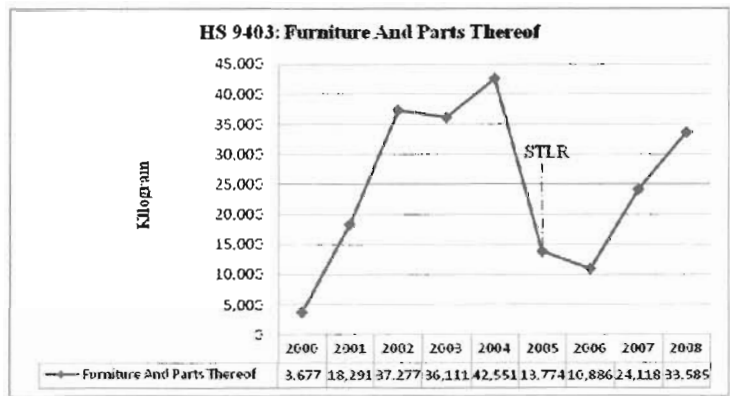
(Source of Charts: Department of Statistics Malaysia, various issues)

Products under waste material category such as ferrous waste and scrap; remelt scr iron/steel ingot, copper waste and scrap, and battery waste, scrap; electrical parts of machinery exhibits constant drop due to the STLR enforcement in 2005.

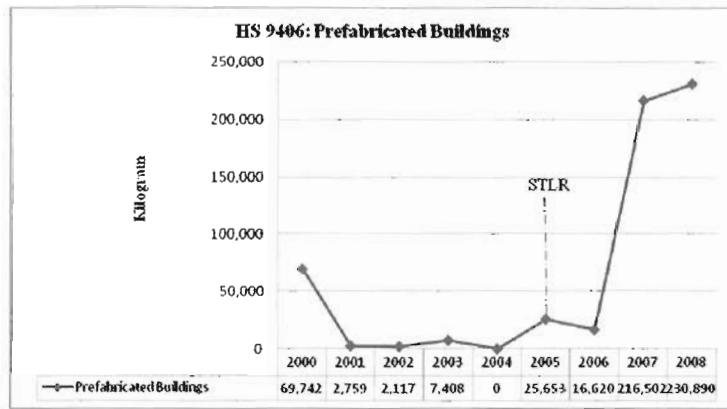
Furniture Products (see Chart 5.10)

HS Code	Item/Product	Type 1	Type 2	Type 3	Type 4	Type 5	Type 6
9403	Furniture and Parts thereof	✓	-	✓	-	-	-
9404	Mattress Supports; Articles of Bedding etc.	✓	-	-	✓	-	-
9406	Prefabricated Buildings	✓	-	✓	-	-	-

Chart 5.10: Furniture Products



Continued



(Source of Charts: Department of Statistics Malaysia, various issues)

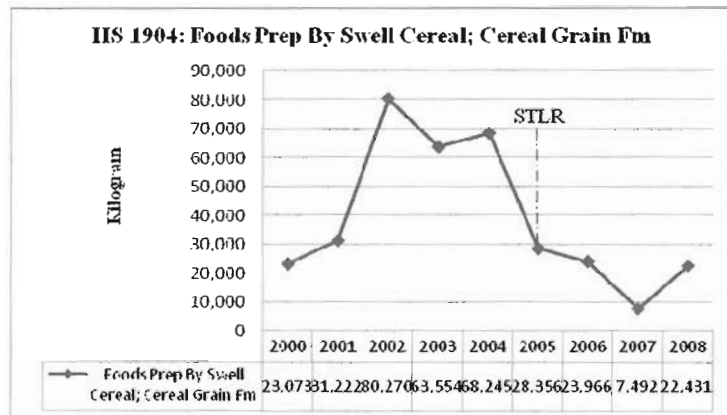
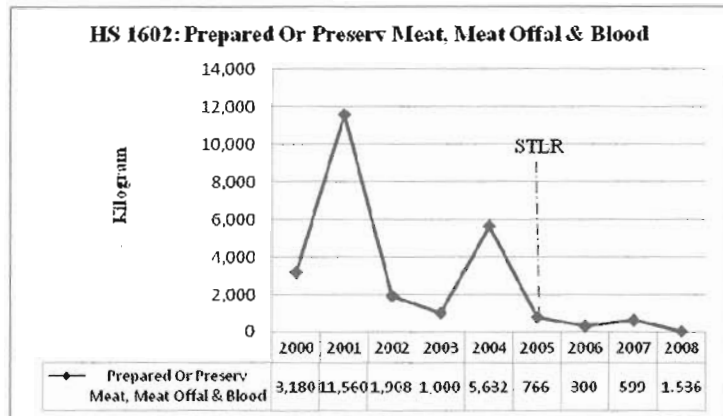
Among these furniture products, furniture and parts thereof, and also prefabricated buildings despite decline due to STLR but manage to raise back the exports quantity in subsequent year especially prefabricated buildings that recorded massive increase in year 2007.

Processed Foods (see Chart 5.11)

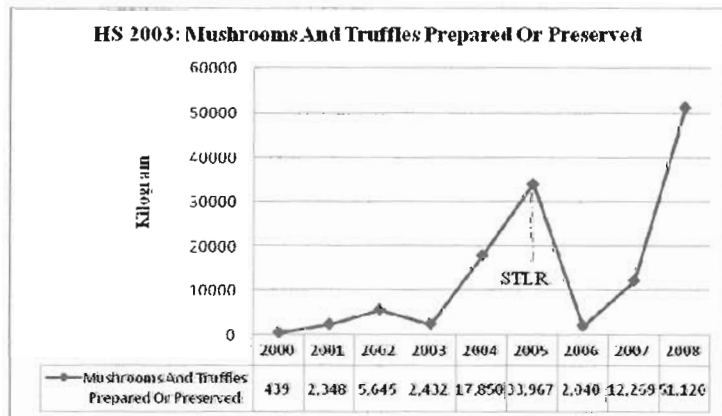
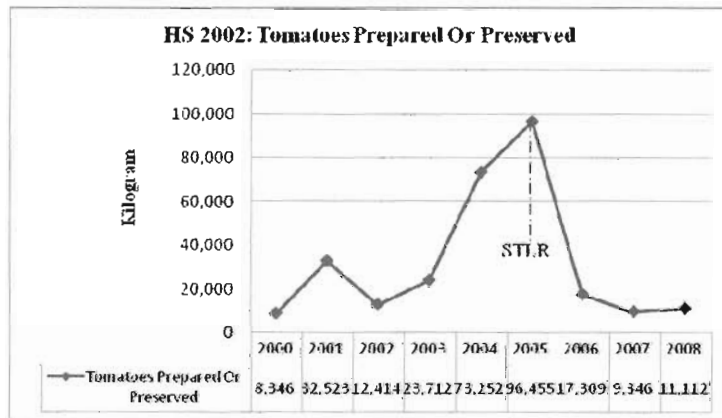
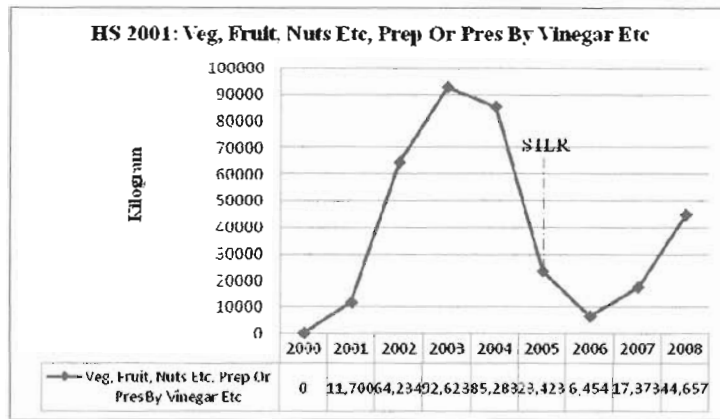
HS Code	Item/Product	Type 1	Type 2	Type 3	Type 4	Type 5	Type 6
1602	Prepared or Preserv Meat, Meat Offal & Blood	✓	-	-	✓	-	-
1904	Foods Prep by Swell Cereal; Cereal Grain Fm	✓	-	-	✓	-	-
2001	Veg, Fruit, Nuts etc, Prep or Pres by Vinegar etc	✓	-	✓	-	-	-
2002	Tomatoes Prepared or Preserved	✓	-	-	✓	-	-
2003	Mushrooms and Truffles Prepared or Preserved	✓	-	✓	-	-	-

2005	Vegetables Prepared etc, Not Frozen	✓	-	-	✓	-	-
2006	Veg/Fruit/Nuts/Fruit-Peel Etc, Preserved By Sugar	✓	-	-	✓	-	-
2007	Jams, Fruit Jellies, Marmalades etc, Cooked	✓	-	-	-	✓	-

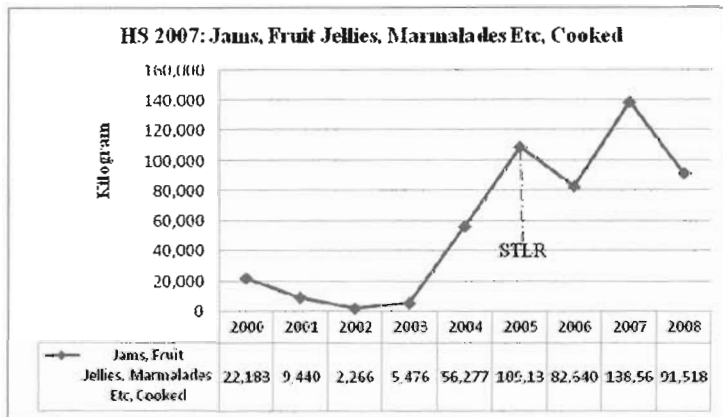
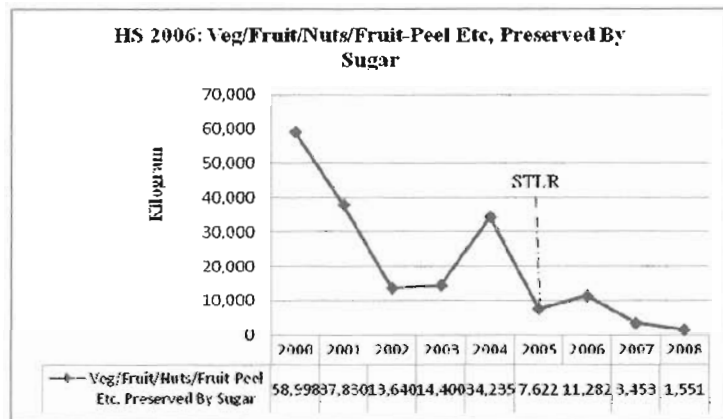
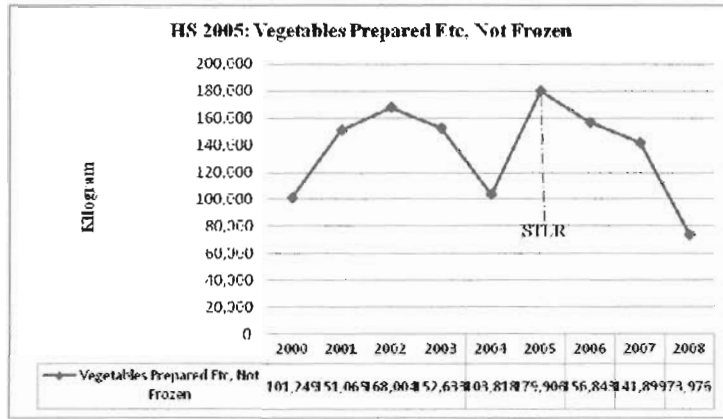
Chart 5.11: Processed Foods



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(Source of Charts: Department of Statistics Malaysia, various issues)

Most products in this processed foods category is balanced between Type 1 and Type 2. Foods prepared by swell cereal; cereal grain, prepared or preserved meat, meat offal and blood, and vegetable, fruits, nuts etc, prepared by vinegar etc fall under Type 1 while tomatoes prepared or preserved, mushrooms and truffles prepared or preserved and also vegetables prepared etc, not frozen belong to Type 2. Generally speaking however, the initial effect of the STLR implementation on the trade quantity of processed food products tends to be negative.

5.4: Quarantine Requirement

Beginning in 2002, the China's Administration of Quality Standards and Quarantine (AQSIQ) required that before importing an animal or plant products, Chinese importers are required to attain a quarantine inspection permit from AQSIQ notifying that the contents of imports does not contain any risk which might place plants and animals in China in danger. This permit similarly represents as an import license, where importers before finalizing deals with exporters must possess the certificate that is valid for 90 days and the imported product must reach China within the time frame. However, the certificate only matures after 30 days from the issuing date and slows down the imports of animals and plant into China.

Reflecting from charts provided in heading 5.12, it corresponds to Malaysia's export volumes regarding animal and plant products in sphere of QR that has been sorted into certain types of criteria:

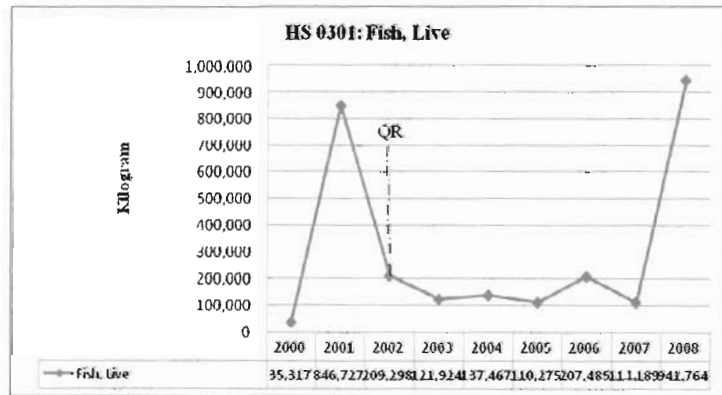
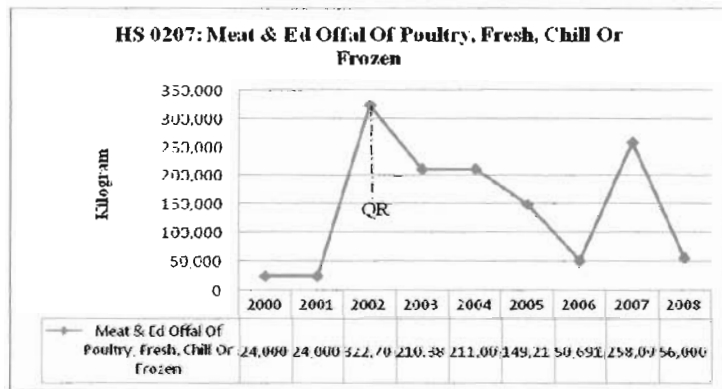
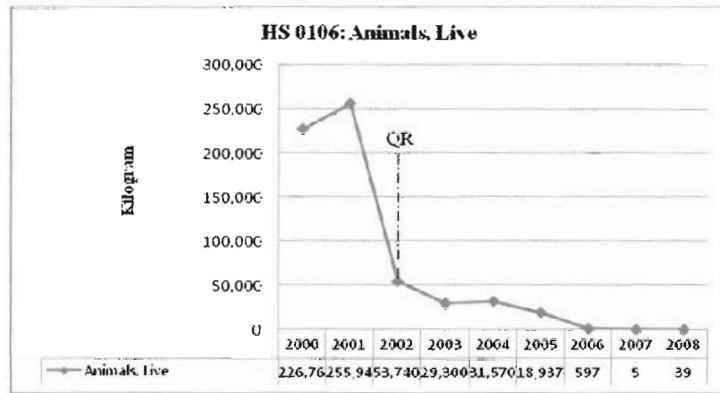
Criteria Type 1	Products display effective fall in export volumes soon after the implementation of QR in year 2002
Criteria Type 2	Products show descend a year or two after QR took place
Criteria Type 3	Products even though recorded drop during 2002 or few years to come but then eventually shows growth in exports volumes due to the fulfillment of QR requirement on these related products by the manufacturer
Criteria Type 4	Products that continuously plunge or do not portrayed sufficient growth since the effectiveness of QR in 2002
Criteria Type 5	Consistent with criteria Type 1 or Type 2 but does not consistent with criteria Type 3 or Type 4 since this irregularities could be caused by other factors such as: <ul style="list-style-type: none"> i. Consumer taste preference which is quite unpredictable at times; ii. The emergence of similar but cheaper products produced by other countries (e.g. competition); iii. The knee-jerk effect occurring when the implementation of the NTB caused demand to drop substantially at first before picking up pace afterwards (e.g. just like when an individual decrease her consumption of cappuccino at first when its price increases but later adjusts her budget and continue to consume the product as it is a necessity for breakfast); iv. Economic policies (unrelated to international trade) which discourage national consumption and investment to stabilize liquidity and inflation in the market (e.g. increase in taxes); v. World demand fluctuates due to uncertainty in energy prices (e.g. oil).
Criteria Type 6	Products that not being affected by QR implementation

* A combination of more than one criterion can used on every product except for criteria Type 6

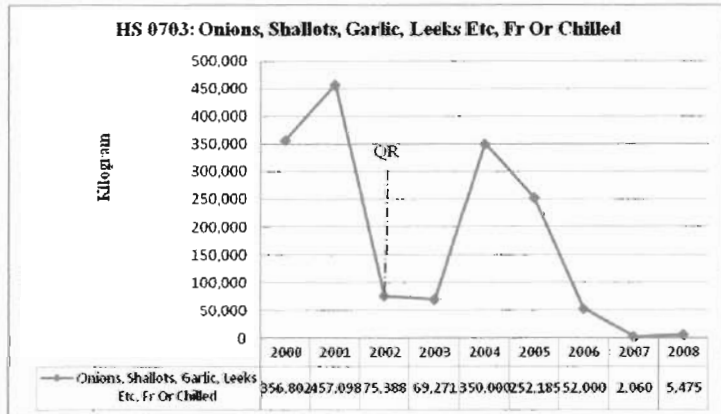
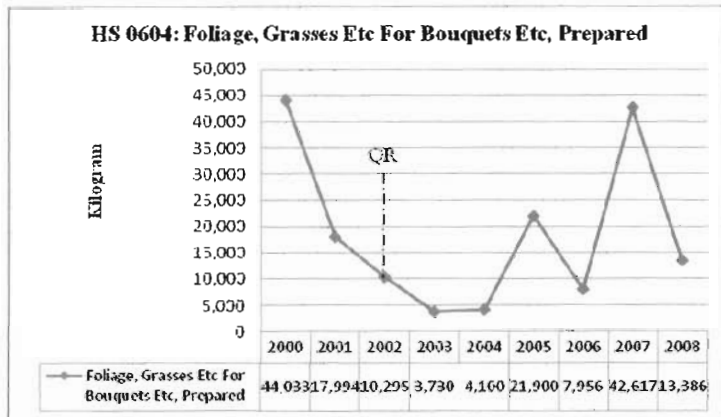
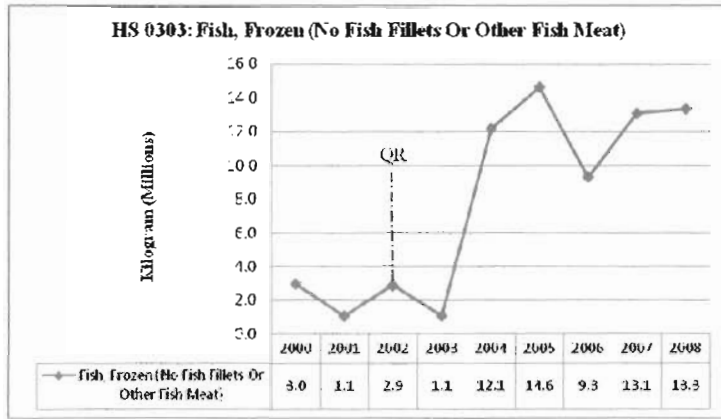
Animals & Plants (see Chart 5.12)

HS Code	Item/Product	Type 1	Type 2	Type 3	Type 4	Type 5	Type 6
0106	Animals, Live	✓	-	-	✓	-	-
0207	Meat & Ed Offal of Poultry, Fresh, Chill or Frozen	-	✓	-	-	✓	-
0301	Fish, Live	✓	-	✓	-	-	-
0303	Fish, Frozen (No Fish Fillets or Other Fish Meat)	-	✓	-	-	✓	-
0604	Foliage, Grasses etc For Bouquets etc, Prepared	✓	-	-	-	✓	-
0703	Onions, Shallots, Garlic, Leeks etc, Fr or chilled	✓	-	-	-	✓	-
0710	Vegetables (Raw or Cooked by Steam etc), Frozen	✓	-	-	-	✓	-

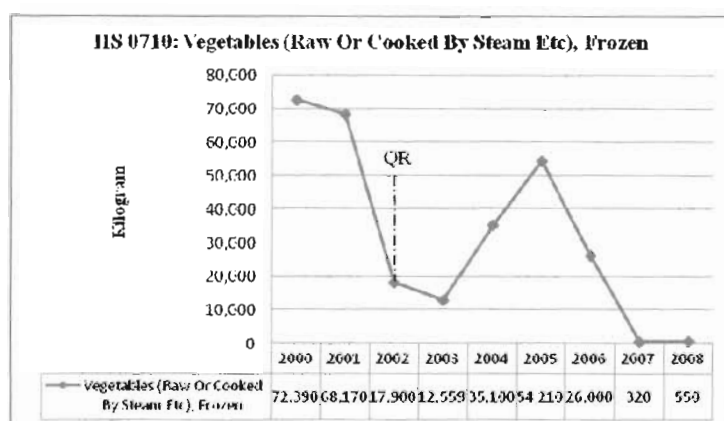
Chart 5.12: Animals and Plants



Continued



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(Source of Charts: Department of Statistics Malaysia, various issues)

Most products in this animals and plants category indicate Type 1 expect for meat and ed offal of poultry, fresh, chill or frozen, and also fish, frozen (no fish fillets or other fish meat) that fit in Type 2. Generally, the QR implementation has negative implication on all products under this category during 2002 or a year later but irregularities occur due to other various factors, classifying most products under Type 5.

In summary of this respective chapter, China's NTBs orientation through Compulsory Product Certification System, Automatic Import License Administration, Standard Testing and Labeling Requirement, and also Quarantine Requirement certainly possess consequences on reducing the quantity of Malaysia's export to China ranging from various products. The analysis obviously signifies the Chinese mercantilist threat on reducing import in order to gain trade surplus over Malaysia.

CHAPTER 6: RECOMMENDATION AND CONCLUSION

This chapter contains some recommendation on counterbalancing China's NTBs practices through the realization of ASEAN-China Free Trade Agreement (ACFTA) and also the prospect of a direct bilateral Malaysia-China Free Trade Agreement in reducing the problem of NTBs faced by Malaysia due to China mercantilist nature.

6.1: The Realization of ASEAN-China Free Trade Agreement

The consensus on establishing free trade agreement by ASEAN and China (ACFTA) certainly provided positive indication on managing China's NTBs orientation for Malaysia. By looking upon the preliminary stage of ACFTA on the signing of the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China on 4th November 2002, highlighted the concern on NTBs which can be observed in Article 2 under the Measures for Comprehensive Economic Cooperation:

- a) progressive elimination of tariffs and non-tariff barriers in substantially all trade in goods;
- b) progressive liberalization of trade in services with substantial sectoral coverage;
- c) establishment of an open and competitive investment regime that facilitates and promotes investment within the ASEAN-China FTA;
- d) provision of special and differential treatment and flexibility to the newer ASEAN member States;
- e) provision of flexibility to the Parties in the ASEAN-China FTA negotiations to address their sensitive areas in the goods, services and investment sectors

with such flexibility to be negotiated and mutually agreed based on the principle of reciprocity and mutual benefits;

- f) establishment of effective trade and investment facilitation measures, including, but not limited to, simplification of customs procedures and development of mutual recognition arrangements;
- g) expansion of economic cooperation in areas as may be mutually agreed between the Parties that will complement the deepening of trade and investment links between the Parties and formulation of action plans and programmes in order to implement the agreed sectors/areas of cooperation; and
- h) establishment of appropriate mechanisms for the purposes of effective implementation of this Agreement.

Subsequently since this agreement came into effect on 1st July 2003, it resulted in various other ACFTA agreements being signed by both parties in further enhancing the main objectives as mentioned above.

Table 6.1: ACFTA Agreements Signed by Malaysia and China

Agreement	Description
First Protocol to Amend the Framework Agreement (6 October 2003)	Provide implementation on Early Harvest Programme (EHP), an early tariff reduction undertaken on unprocessed agricultural products and selected manufactured goods. Also provide the Rules of Origin, a product requirement in order to enjoy tariff reduction.
Second Protocol to Amend the Framework Agreement (8 December 2006)	To incorporate products offered by few ASEAN Countries into EHP, which was not finalized earlier.
Trade in Goods Agreement (29 November 2004)	Provide implementation and tariff reduction commitment on all other products (other than EHP) beginning 1 st July 2005.
First Protocol to Amend the Trade in Goods Agreement (8 December 2006)	Provide improvement to the implementation procedures of the Trade in Goods Agreement. Include Product Specific Rules to enable products easily comply with the Rules of Origin in order to enjoy tariff reduction.

Dispute Settlement Agreement (29 November 2004)	Provide mechanism for both parties in resolving any disputes arising from the implementation of the ACFTA Agreements.
Trade in Services Agreement (14 January 2007)	Provide implementation and First Package of Services Liberalization by ASEAN and China

(Source: Ministry of International Trade and Industry, various issues)

In addition to the tariff reduction on various products based on agreements above, the ACFTA also signifies the importance of eliminating NTBs in which the climax was during the Sixth Consultation between ASEAN Economic Ministers and the Minister of Commerce of China held in 2007 when consensus to exchange information on the NTBs practiced by each member countries reached, therefore certainly provide the positive track in eliminating NTBs when ACFTA came into effect in 2010.

6.2: The Prospect of Malaysia-China Free Trade Agreement

The involvement of China in ASEAN obviously paved positive path for Malaysia in tackling the issue of NTBs posed by China on Malaysian exports, however a bilateral free trade area (FTA) between Malaysia and China even consist greater benefits for Malaysia especially in eradicating NTBs sooner. In order to highlight the significance of such agreement, comparison between the existing ACFTA and future prospect of Malaysia-China FTA, a review by Seah (2009) from DBS Group Research has been adopted by the researcher:

- i. Scope of products coverage can be widened while the Rules of Origin guideline can be eased further

- Under the ACFTA Trade in Goods Agreement, ASEAN members and China have to eliminate tariff on 90 per cent of their products by 2010 (for original six ASEAN members) and 2015 (for Cambodia, Laos, Myanmar and Vietnam), but the remaining 10 per cent of the products that listed under Sensitive and Highly Sensitive Track will proceeded gradually. In contrast, a bilateral agreement between Malaysia and China could aim for a wider coverage of products and a shorter tariff elimination timeline, which could enjoy lower cost of imports while the exporters would see their products becoming more price competitive as a result of the more aggressive tariff cuts.
- The ACFTA also has a set of “Rules of Origin (ROO)” guidelines to identify the “nationality” of the products. Only products deemed to originate from ASEAN and China will benefit from the ACFTA. However, given the need to address the concerns of all eleven parties, the ROO within ACFTA can be cumbersome and restrictive for some exporters. As such, there is room for ROO criteria within Malaysia-China FTA. A simpler and more flexible ROO will ensure that more products will benefits within this FTA, thus enhancing bilateral trade flow between China and Malaysia.

ii. More gains from removal of non-tariff barriers

- Tariff rates form only a small part of total trade barriers in real world. Non-tariff barriers such as safety and sanitary requirements, as well product conformity standards often pose bigger problem for exporters than tariff rates. For example, goods can remain stuck in the custom is they do not conform to certain requirements. As electronics trade constitutes the bulk of the trade flows between Malaysia and China, there is perhaps a need to have a mutual recognition agreement (MRA) on each other’s assessment standards in electronics. The MRA will eliminate duplicate testing, thus reducing the time to market for products. In fact the removal of such non-tariff measures could potentially generate greater gains to exporters given the existing progress made in tariff elimination under the ACFTA.

(Seah, 2009, p. 2)

From the viewpoints above, the prospect of a future Malaysia-China FTA obviously contains advantages especially for Malaysia in countering China's NTBs orientation, therefore endows Malaysia with opportunities in reducing trade deficit with China.

6.3: Conclusion

Based on the research objectives structured earlier, the researcher has made an appraisal on the trade relationship between Malaysia and China from mercantilist perspective, which is a prominent theory of international political economy. Mercantilism is applied in order to identify the reasons behind Malaysia's trade deficit patterns toward China. Furthermore, in order to analyze this trade deficit agenda, mercantilist's market manipulative instrument of Non-tariff barriers has been used. The analysis on China's non-tariff barriers orientation, has found that China's practice of Compulsory Product Certification System, Automatic Import License Administration, Standard, Testing and Labeling Requirements, and also Quarantine Requirement have negative effects on the quantity of Malaysia's exports to China. Finally, this study further recommends the realization of ASEAN-China Free Trade Agreement (ACFTA) and followed by the bilateral Free Trade Agreement (FTA) between Malaysia and China as prospects for Malaysia in facing the problems of China's non-tariff barriers practices.

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