

# CHAPTER 1

## 1.1 INTRODUCTION

Bilateral trade between Malaysia and Thailand had been growing tremendously for the last 11 years (average annual growth rate from 1985 to 1995 was 30 per cent per year). A similar rapid diversification is taking place, in terms of the range of exported and imported products, especially for the agriculture-based to manufacture-based industries.

The economic performance of both Malaysia and Thailand for the last five years (1991-1995) was remarkable, during which Malaysia and Thailand recorded a high annual average growth rate (over eight per cent per year) and the two economies were expected to continue to do well in 1997. However, due to the currency crisis currently faced by both nations the economic growth will be affected and expected to grow at a much reduced rate and it could even fall below zero in 1997.

For foreigners to understand the dynamics of the Malaysian and Thai economies (including the range of sourcing opportunities), it is useful to briefly review the rapid transformation which has occurred over the last 30 to 40 years. At the end of World War II,

Thailand and Malaysia were basically an agrarian economy. Both nations were heavily dependent on agriculture and the food sector such as rice. Over 20 per cent of their GDP was in the rice sector and half of their exports was dependent on the agricultural products. For the last 30 to 40 years Thailand and Malaysia had only a very small manufacturing sector and limited basic infrastructure to attract foreign investors to invest in their countries.

For the last 10 to 15 years the economic trend of both nations had changed. Their real GDP started growing at an average of about 7 per cent; poverty has been dramatically reduced; and output for exports has become increasingly diversified. By the early 1990s, both Malaysia and Thailand had made transition from an agricultural to an industrial and service-based economy and today they are on their way to joining the ranks of Asia's Newly Industrialised Economics (NIEs). This dramatic shift was associated with the relocation of industries to Malaysia and Thailand from Japan, South Korea, Taiwan and Hong Kong. With inflow of foreign investments, the traditional manufactured exports of agricultural products have been expanded to computer components, integrated circuits and electrical appliances. This transformation can be attributed to a combination of the following factors; A strategic location at the crossroads, one of the world's most cost-effective and well-educated workforce, and rich natural resources.

The initial stage (some 40 years ago) of bilateral trade between Malaysia and Thailand was agriculture based. Thailand was known as the world rice exporter and Malaysia was known as the leading natural rubber.

Realizing the importance of intra-trade between Malaysia and Thailand I found that it is important to know better about the trade pattern between Malaysia and Thailand. My main objective of doing this project paper is to examine the trade pattern between Malaysia and Thailand and the second objective is to relate the trade pattern between both nations to the international trade theory introduced by some economists such as Adam Smith with its absolute advantage theory, Ricardo (comparative advantage) and the Heckscher-Ohlin theory ( factor intensive and factor abundant as basis for trade).

This project paper will be divided into 5 chapters. The first chapter serves as an introduction. Chapter two is a literature review of international trade. This chapter is important in order to relate the trade pattern between Malaysia and Thailand according to the theories' of international trade. Chapter three will discuss the social, political and economic backgrounds of Malaysia and Thailand. Chapter four will elaborate on the intra-trade pattern between Malaysia and Thailand. Chapter five is the conclusion. This chapter will relate the second, third and fourth chapters together. It will also provide the findings of this study.