

CHAPTER 5

5.1 CONCLUSION

The main objective of this project paper is to examine the relevance of Comparative advantage (Ricardo) and Heckscher-Ohlin theory (factor intensive and factor abundant) in explaining the pattern of trade between Malaysia and Thailand.

In the literature reviews (Chapter Two) we show that, according to Ricardo (based his theory on the "labour theory of value"), even if one nation is less efficient than the other in the production of both commodities, there is still a basis for mutual beneficial trade. The first nation should specialize in the production of the product in which it has a smaller absolute disadvantage (inefficient). Heckscher-Ohlin on the other hand, presented his theory by using the factor intensive and factor abundant argument as the basis theory for international trade. We also discussed the geographical, social and economic background of Malaysia and Thailand in Chapter Three. Chapter four presents the detailed trade statistics of both nations.

Thailand and Malaysia were basically an agrarian economy , heavily dependent on agricultural products. Both nations have a tropical climate with abundant sunshine and rain through out the year with an average temperature is 20 C and a high temperature of

37 C, the geographic and climatic conditions make both countries suitable for the cultivation of a wide range of tropical and semi-tropical crops.

Mineral fuels and lubricant which comprised mainly of crude and refined petroleum was Malaysia's main exports to Thailand. In 1985 84.64 per cent of total exports to Thailand (RM 1.3 billion) was mineral fuels and lubricants. Although the share in total exports to Thailand dropped in the year 1990 it increased in terms of value to RM 1.4 billion compared to RM 1.1 billion in 1985. In 1995 the value of exports of mineral fuels and lubricants increased to RM 1.9 billion or 26.09 per cent of total exports to Thailand. There were some changes to the pattern of exports to Thailand in 1995, From 1985 to 1990, mineral fuels lubricant was Malaysia major export to Thailand. However, in 1995, electrical machinery and appliances which comprised mainly electrical integrated circuits were the major export.

Malaysia's imports from Thailand comprised mainly food products especially rice. Malaysia's imports of food from Thailand constitute 73.3 per cent of total imports from Thailand for the year 1985. But in 1995 Machinery & transport equipment which comprised mainly electrical integrated circuits was Malaysia's import from Thailand.

From these observations we can say that Thailand has a comparative advantage in the production of food compared to

Malaysia. One of the main reasons is that Thailand can produce food especially rice more efficient than Malaysia. This is because in the food production industry, labour costs is lower in Thailand compared to Malaysia. As For Malaysian's exports to Thailand, the theory of Heckscher-Ohlin is more relevant. With reference to bilateral trade between Malaysia and Thailand, Malaysia has the factor intensive and factor abundant in the production of crude petroleum compared to Thailand. So in this situation Malaysia exports more crude petroleum to Thailand. However, in the second half of 1990s, the trade between both nation was dominated by electronic components. This can be explained by the growing importance of electrical and electronic industries in the two economies dominated mainly by transnational corporations.