

Hinrich Foundation Sustainable Trade Index

Malaysia Highlights

Introduction

The Hinrich Foundation commissioned the Economist Intelligence Unit to build the Sustainable Trade Index using 24 indicators to measure 19 economies in Asia and the U.S. across the three recognized pillars of sustainability: **economic growth, social capital and environmental protection.**

The Index measures the readiness of each economy to participate in global trade in a way that creates sustainable growth, encourages foreign direct investment, and attracts funding and support from multilateral development agencies.

The Index was created for the purpose of stimulating meaningful discussion of the full range of considerations for policy makers, business and civil society when engaging in international trade.



The Hinrich Foundation launched the inaugural Sustainable Trade Index in 2016. Visit www.hinrichfoundation.com to download the 2018 and 2016 Index.

Malaysia Overview		
GDP per capita US \$9,508	Population 31 million	Exports % of GDP 67.7% of GDP
GDP growth 5.4% growth <small>(average since 2010)</small>	Labour Force 15 million	FDI net inflow US\$13.5 billion

SOURCE: World Bank, 2016 and Hinrich Foundation Sustainable Trade Index 2018

Overall performance

Malaysia was one of few economies to see a ranking decrease in all three pillars of trade sustainability for the 2018 Index. Overall, Malaysia dropped from seventh place in the 2016 Index to 12th place in 2018. Despite a strong economic performance and good scores in openness to trade, Malaysia's large decreases on the social and environmental pillars weighed down the country's overall ranking.

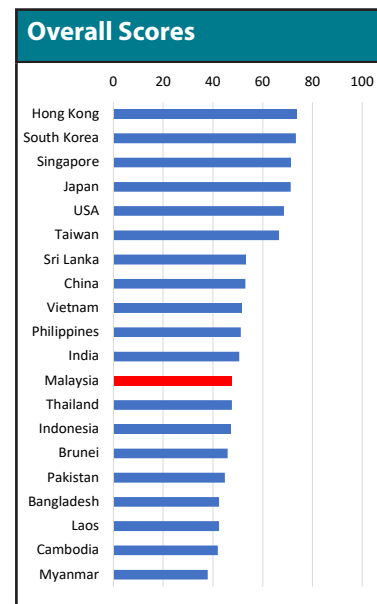
- Economic:** When comparing Malaysia's performance on the 2018 Index relative to its GDP ranking among other countries, the country underperforms its income by four places— one of the biggest underperformers relative to income.
- Social:** Malaysia saw a significant drop in the social pillar on the 2018 Index, falling 10 spots to 18th place on the social pillar due to worsening scores in labour standards, political stability and educational attainment.
- Environmental:** Malaysia also fell eight spots in the environmental pillar, due in part to poor scores in share of natural resources in trade, transfer emissions and deforestation.

Overall Index Performance			
Pillar	2018 Rank	2016 Rank	Change
Economic	15	9	-6
Social	11	19	+8
Environmental	6	6	=
Overall	10	13	+3

Malaysia's score on each pillar compared with 2016 Sustainable Trade Index results.

2018 Index Performance Relative to GDP				
TOP PERFORMERS				
	Country	2018 Rank	GDP Rank	Rank relative to GDP
▲	Vietnam	9	15	+6
▲	India	11	16	+5
▲	Sri Lanka	7	11	+4
▲	Philippines	10	13	+3
▲	South Korea	2	5	+3
BOTTOM PERFORMERS				
▼	Thailand	13	10	-3
▼	Laos	18	15	-3
▼	USA	5	1	-4
▼	Malaysia	12	8	-4
▼	Brunei	15	6	-9

SOURCE: Hinrich Foundation Sustainable Trade Index 2018



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Areas of top performance and improvement

- **Top performance:** Current account liberalization. Malaysia tied with 12 other countries for the top spot in current account liberalization on the 2018 Index. This indicator aims to capture the ease with which a country trades goods across its border.
- **Worst performance:** Deforestation. Malaysia scored 19th out of 20 economies on the deforestation indicator, outperforming only Cambodia. This indicator measures the change in the country's forest cover over time and highlights the link between growth, trade and the degradation of natural resources.
- **Most improved:** Environmental standards in trade. This indicator measures membership in or ratification of international environmental pacts. Malaysia is a signatory to six of the seven international environmental agreements used to measure this indicator. Malaysia advanced four spots for this indicator, jumping from seventh place in 2016 to third place in 2018.

Top & Bottom Indicators		
Indicator	Index Avg.	2018 Score
Current account liberalization	90.7	100
Environmental standards in trade	66.7	83
Tariffs & non- tariff barrier to trade	59.4	75
Foreign trade and payments risk	65.3	79
Transfer emissions	22.6	6
Inequality (Gini coefficient)	62.3	32
Exchange rate volatility	66.7	38
Deforestation	66.8	9

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Economic pillar

Malaysia's best performance on the 2018 Index was on the economic pillar— placing seventh overall. Malaysia tied for first place in current account liberalization and also placed within the top five economies for tariffs and non-tariff barriers to trade, and in the indicator for foreign trade and payment risk.

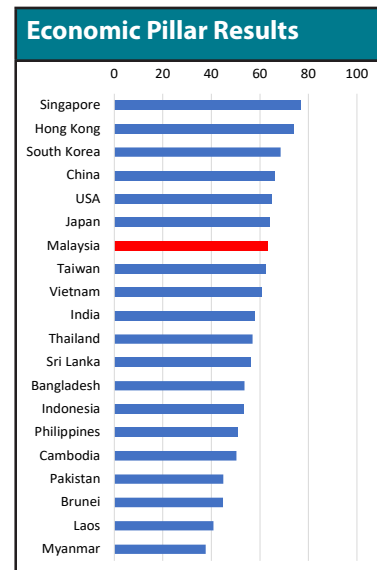
KEY TAKEAWAYS:

- Malaysia placed seventh in the economic pillar, decreasing one spot from the 2016 Index.
- Malaysia performed well in trade costs and tariff and non-tariff barriers to trade, showing it has an efficient trading system and the openness needed to trade.
- The country's worst performance was in exchange rate volatility, where Malaysia fell 10 spots from ninth place in 2016 to 19th place in 2018.

Malaysia had the lowest trade costs of all low-income and middle-income economies in the 2018 Index, scoring seventh behind Singapore, the United States, Hong Kong, Japan, Taiwan and South Korea. This indicator uses a composite of four important factors – infrastructure, logistics, corruption and legal system— to capture the extra burden to trade created by inefficiencies in the trading system. Malaysia scored in the middle of the road for all four indicators: legal system (=6), corruption (=7), logistics performance (8), and infrastructure (8). Malaysia's strong performance in trade costs, coupled with a top score for having low tariff and non-tariff barriers to trade, highlights the efficiency of its trading system and its openness to increased trade.

Malaysia's most improved economic indicator was in growth in per capita GDP, where the country advanced four positions from 13th place in the 2016 Index to ninth place in the 2018 Index. This indicator measures year-on-year growth of real GDP per head. Growing personal income reflects consumers' growing ability to spend on tradeable goods and can help to boost the economy.

Malaysia's lowest economic pillar performance was in the exchange rate volatility indicator, where the country fell 10 spots from ninth place in 2016 to 19th place in 2018. This indicator measures the standard deviation of a country's exchange rate to its major trading partners. It is a trade-weighted measure to reflect that volatility matters more for higher volumes of trade. As an indicator, exchange rate volatility shows a potential source of uncertainty when conducting trade.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Indicator	Index Avg.	2018 Score
Current account liberalization	90.7	100
Tariffs & non- tariff barrier to trade	59.4	75
Foreign trade and payments risk	65.3	79
Foreign direct investment	13.0	12
Growth in labour force	64.0	79
Trade costs	51.2	60
Technological innovation	26.2	29
Technological infrastructure	62.5	75
Export market concentration	68.3	82
Growth in per capita GDP	66.7	74
Financial sector depth	43.5	57
Gross fixed capital formation	42.2	41
Export product concentration	84.6	87
Exchange rate volatility	66.7	38

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Social pillar

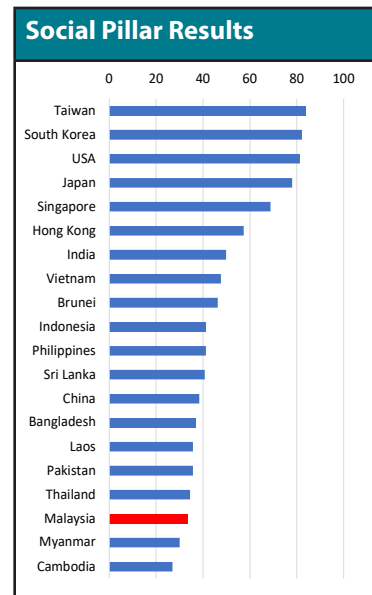
In the 2018 Index, there was an overall stagnation across all economies on the social pillar. Inequality and political instability are on the rise across the region, a trend that transcends wealth and development status. Malaysia saw a significant drop in its social pillar ranking for the 2018 Index, falling 10 spots from eighth place in 2016 to 18th place in 2018. Malaysia remained stagnant or decreased in all four indicators used to determine the social pillar rankings.

KEY TAKEAWAYS:

- Malaysia's biggest decrease in the 2018 Index was on the social pillar, where the country dropped 10 spots to 18th place overall.
- Malaysia's best social performance was in political stability, where the country outscored all other middle-income countries in the region.
- However, Malaysia placed in the bottom half of the Index with lower levels of educational attainment, poor labour standards and high levels of inequality.

Malaysia's biggest drop on the social pillar was in the labour standards indicator. This indicator measures a country's labour standards based on three categories: forced labour, child labour, and labour rights. Malaysia fell six spots in this indicator for the 2018 Index, placing 14th overall. The country was outscored by a number of low-income countries in labour standards including Vietnam, Sri Lanka, Indonesia, India and the Philippines.

Malaysia's worst performance on the social pillar was due to its high levels of inequality. Malaysia placed in the bottom three economies— alongside China and Hong Kong— for the inequality indicator, which uses the Gini coefficient to capture the inequality level between the country's upper and lower income brackets. Inequality is a continuing problem for Malaysia and could possibly become a burden to the economy's trade and growth.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Social Indicators		
Indicator	Index Avg.	2018 Score
Educational attainment	38.4	31
Political stability	57.6	52
Labour standards	39.7	23
Inequality (Gini coefficient)	62.3	59

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

CASE STUDY: CPTPP OPPORTUNITY FOR MALAYSIA TO IMPROVE LABOUR STANDARDS

In 2017, Malaysia and 10 other Pacific-rim countries signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The CPTPP labour chapter requires basic workers' rights based on the International Labour Organization (ILO) fundamental principles and calls for the elimination of forced labour, child labour and discrimination.¹ These labour provisions are enforceable under the dispute settlement mechanism of the agreement and can lead to trade sanctions if they are not met. Malaysia will need to meet the requirements under the CPTPP agreement, and thus improve its domestic labour standards, in the near future.

¹ The Government of Canada, "Overview and benefits of the CPTPP"- <http://international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpgp/overview-apercu.aspx?lang=eng>

Environmental pillar

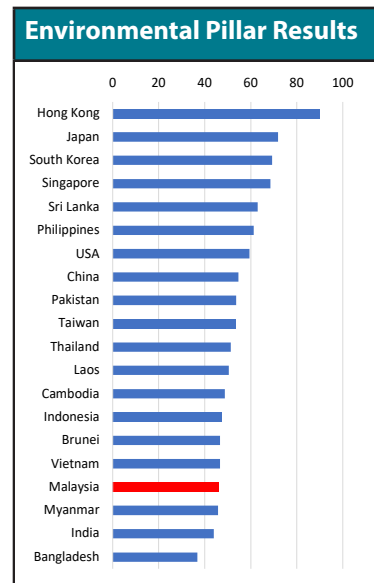
In addition to a big drop on the social pillar, Malaysia also significantly decreased its position on the environmental pillar—falling eight spots from ninth place in 2016 to 17th place in 2018. Across the region, air pollution, deforestation and transfer emissions worsened, with three South-east Asian neighbours—Malaysia, Singapore and Thailand—experiencing some of the worst score declines.²

KEY TAKEAWAYS:

- Despite its middle-income wealth status, Malaysia places in the bottom five economies on the environmental pillar.
- Malaysia's top score was in environmental standards to trade indicator, which indicates a commitment to environmental sustainability at a national level— although enforcement remains an issue for most economies.
- Malaysia's poor performance in share of natural resources in trade, transfer emissions and deforestation weighed down its overall ranking on the environmental pillar.

Malaysia scored best in the environmental standards in trade indicator, which measures membership in or ratification of international environmental pacts. Malaysia is a signatory to six of the seven international environmental agreements used to measure this indicator, tying with Indonesia, Japan, the Philippines and South Korea for third place. While Malaysia demonstrates a national commitment to improving environmental sustainability, there is still room for improvement on its actual performance.

Malaysia's biggest drop on the environmental pillar was due to higher levels of transfer emissions. Malaysia fell 10 spots from seventh place in 2016 to 17th place in 2018 in this indicator, which measures the share of a country's total territorial emissions (MtCO₂). Malaysia ranked at the bottom of the Index with Thailand, India and China for this indicator.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Indicator	Index Avg.	2018 Score
Air pollution	67.2	97
Environmental standards in trade	66.7	83
Transfer emissions	22.6	13
Deforestation	66.8	77
Share of natural resources in trade	85.3	95
Water pollution	24.3	3

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

CASE STUDY: NEW TESTING FACILITIES TO HELP LOWER TRANSFER EMISSIONS

Malaysia has pledged to reduce its greenhouse gas emission by 45 percent by 2030 (relative to its emissions in 2005). Globally, the transportation sector is the second-largest contributor of carbon emissions after electricity and heat generation. In April 2018, the Malaysia International Trade and Industry Minister launched the National Emission Test Centre (NETC), which allows manufacturers to conduct their carbon emissions tests at 40 percent lower than the current cost.³ The NETC should also help promote energy-efficient vehicle (EEV) usage in the country, as emissions tests are a requirement to earn EEV certification. The government's objective is to achieve 80 percent EEV penetration by 2022.⁴ The NETC is an example of how Malaysia is developing concrete solutions to reduce its transfer emissions.

² Hinrich Foundation Sustainable Trade Index 2018

^{3,4} The Malaysian Reserve, "Automotive manufacturers to save 40% on emission testing", 22 March 2018 - <https://themalaysianreserve.com/2018/03/22/automotive-manufacturers-to-save-40-on-emission-testing/>

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Additional resources

The Hinrich Foundation commissioned The Economist Intelligence Unit (EIU) to build the Sustainable Trade Index. The Index uses 24 indicators to measure the trade impacts of 19 economies in Asia and the U.S. across the three recognized pillars of sustainability: economic growth, social capital, and environmental protection.

Visit our website at www.hinrichfoundation.com/trade-research/sustainable-trade-index to download additional Sustainable Trade Index resources including:

- **2018 Sustainable Trade Index white paper**- Prepared by the EIU, it presents and analyzes the 2018 Index findings for all 20 economies.
- **Index interactive data set and KPIs**- The comprehensive Index database allows users to directly interact with the Sustainable Trade Index data. For each economy, compare indicators, adjust score weights and visualize data in custom charts and graphs. It's a useful tool for regional comparisons or reviewing the performance of a particular economy.
- **Additional highlight reports for other economies**- Looking for information on other economies in the Sustainable Trade Index? Visit our website to download special reports on all 20 economies featured in the 2018 Index.
- **Index infographics, fact sheets and more!**

About the Hinrich Foundation

The Hinrich Foundation is a nonprofit organization that undertakes trade-related policy research and development work in Asia. It focuses on creating opportunities, choice and engagement through sustainable and mutually beneficial global trade. The Sustainable Trade Index aims to stimulate positive thinking about global trade and promote behaviors that will lead to better developmental outcomes, engagement and stability.

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Economic Pillar		Social Pillar		Environmental Pillar	
Australia	82.4	A.1: Gender	82.4	A.1: Energy	82.4
Canada	82.4	A.2: Diversity	82.4	A.2: Pollution	82.4
China	82.4	A.3: Innovation	82.4	A.3: Climate Change	82.4
France	82.4	A.4: Education	82.4	A.4: Air Quality	82.4
Germany	82.4	A.5: Employment	82.4	A.5: Water Quality	82.4
India	82.4	A.6: Health	82.4	A.6: Deforestation	82.4
Indonesia	82.4	A.7: Income	82.4	A.7: Biodiversity	82.4
Japan	82.4	A.8: Infrastructure	82.4	A.8: Land Use	82.4
Malaysia	82.4	A.9: Migration	82.4	A.9: Marine Resources	82.4
Philippines	82.4	A.10: Trade	82.4	A.10: Oceans	82.4
South Korea	82.4	A.11: Trade	82.4	A.11: Oceans	82.4
USA	82.4	A.12: Trade	82.4	A.12: Oceans	82.4
UK	82.4	A.13: Trade	82.4	A.13: Oceans	82.4
Vietnam	82.4	A.14: Trade	82.4	A.14: Oceans	82.4
Average (all economies)	82.4	Average (all economies)	82.4	Average (all economies)	82.4
Best Score 2018	82.4	Best Score 2018	82.4	Best Score 2018	82.4

