

Globalization and Liberalization in the Malaysian Construction Industry

Nur Izzati Ab.Rani*, Christopher Nigel Preece, Syuhaida Ismail

UTM Razak School of Engineering and Advanced Technology, UTM KL

*atirani_civil@yahoo.com**

Abstract

As a developing country, Malaysia has been gone through a lot of development works in the country. These activities give positive impact on the growth of the Malaysian economy. Globalization and liberalization have taken part in this growth by bringing in foreign direct investment (FDI) especially to the construction industry. As a result of the globalization and liberalization, the Malaysian government has signed free trade agreements (FTA) either the regional or bilateral free trade agreements. This paper which is undertaken via literature review aims at appraising globalization and liberalization in the Malaysian construction industry through the identification of the impacts of globalization and liberalization in construction industry by looking at the FTA signed by the Malaysian government from the perspectives of foreign contractors' registration and project by foreign contractors. This paper shows the trend of the current foreign firm participation in the Malaysian construction industry of which the Malaysian government can promote various development programs for local contractors in giving positive competition to foreign firms in the Malaysian construction industry.

Keywords: *Globalization; liberalization; competition; local contractors; foreign contractors; Malaysian construction industry*

1.0 INTRODUCTION

Globalization has taken part in world economic since decades ago. Malaysia is also not left out from the globalization process since she is now listed as developing country amongst other Asian countries. This situation attracts other international contractors outside Malaysia to enter the Malaysian construction industry. As a result of globalization process, trade liberalization has taken part in the business environment in local business market. Ngowi *et al.* (2005) claim that world trade organization (WTO) practices give opportunities to firms to take part in the low entry barrier market. The capable contractors can freely move to other country with their competitive advantage with strong financial capability and bring along their expertise and technology to the host country. This is supported by Ray (2012) who states that technology and knowledge will be transferred to the host country as the process of globalization through the trade and financial flows. In terms of competitiveness, Lewis (2007) mentions that the globalization is open to everyone hence making all markets competitive.

Endowment (2007) further explains that the expansion of trade and cultural interchange can change the society and world economy, which is called globalization. The process of globalization involves the combination of the economies, openness to trade, financial flows, foreign direct investment (FDI) and increased of expertise in particular of work (Nwakanma and Ibe, 2014). Globalization not only can be pointed to the global economy but also to the national economy (Chang *et al.*, 2015). Awil and Aziz (2001) claim that establishment of the WTO and general agreement on trade and services (GATS) can make contractors be more aware of the challenges and benefits of the globalization and liberalization. This is supported by Chaiprasit and Swierczek (2011) who explain that global market challenges and benefits give important changes in the business market because of the impact of globalization.

Hence, the aim of this paper is to appraise the globalization and liberalization in the Malaysian construction industry with the objectives of identifying the free trade agreements signed by Malaysian government and foreign firms' participant in Malaysian construction industry.

2.0 FREE TRADE AGREEMENTS IN THE MALAYSIAN CONSTRUCTION INDUSTRY

In Malaysia, free trade agreements (FTA) under the construction and related engineering can be divided into two types, which are regional free trade agreement and bilateral free trade agreements. Total number of FTA that has been signed by the government is 13 which six under regional FTA and seven are under bilateral FTA. Table 1 shows the regional FTA under construction and related engineering services. Two of the FTA is for trade in goods only, which are ASEAN-Japan Comprehensive Economic Partnership (AJCEP) and ASEAN-India Trade in Goods Agreement (AITIGA). This shows that Malaysia has made a limitation on terms of her commitment to foreign firm from other country in Asian to enter the Malaysian construction industry to secure the local contractors.

Table 1. Regional free trade agreements under the construction and related engineering services

Regional FTA	Malaysian Commitment
ASEAN Framework Agreement in Services (AFAS)	51%
ASEAN-China Free Trade Area (ACFTA)	30%
ASEAN-Australia/New Zealand (AANZFTA)	49%
ASEAN-Korea Free Trade Area (AKFTA)	30%
ASEAN-Japan Comprehensive Economic Partnership (AJCEP)	For 'Trade in Goods' only
ASEAN-India Trade In Goods Agreement (AITIGA)	For 'Trade in Goods' only

(Source: CIDB, 2014)

Table 2 shows the bilateral FTA under the construction and related engineering services. Bilateral FTA is different with regional FTA because it has two participant commitments; the Malaysian commitment and counterpart's commitment. Ngowi *et al.* (2005) also mention that bilateral sets up the rules that qualify participating firm for entering the markets of each country.

Table 2. Bilateral free trade agreements under the construction and related engineering services

Bilateral FTA	Malaysian Commitment	Counterpart's Commitment
Malaysia-Japan Economic Partnership Agreement (MJPEPA)	30%	No limitation (100%)
Malaysia-Pakistan Comprehensive Economic Partnership Agreement (MPCEPA)	49%	60%
Malaysia-New Zealand Free Trade Agreement (MNZFTA)	49%	No limitation (100%)
Malaysia-Australia Free Trade Agreement (MAFTA)	49%	No limitation (100%)
Malaysia-India Comprehensive Economic Cooperation Agreement (MICECA)	<ul style="list-style-type: none"> • 51% for G7 • 49% for G6 and below 	74%
Malaysia-Chile Free Trade Agreement (MCFTA)	For 'Trade in Goods & Cooperation' only	-
Malaysia-Turkey Free Trade Agreement (MTFTA)	For 'Trade in Goods' only	-

(Source: CIDB, 2014)

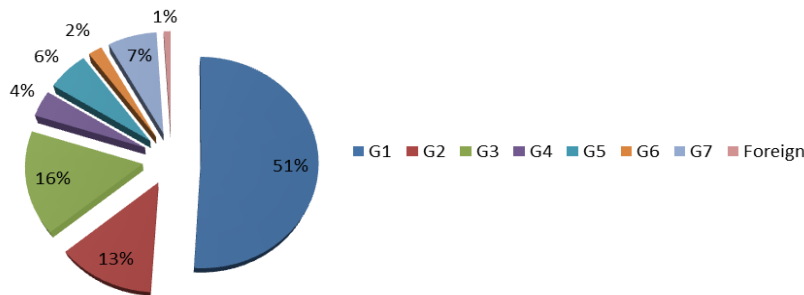
3.0 IMPACT OF GLOBALIZATION AND LIBERALIZATION

The impact is discussed from the perspectives of globalization and liberalization in the Malaysian construction industry, which can be seen in the number of foreign contractors' registration and projects by foreign contractors as discussed in the following subsections.

3.1 Foreign Contractors Registration

Due to globalization and liberalization and as a result of free trade agreement (FTA), foreign contractors involve in the Malaysian construction activities in which they are expert in. Figure 1

shows the percentage of registered contractors in Malaysia including local and foreign contractors. Most of local contractors are in small grade with limitation of financial and lack of technologies innovation. Local contractors with strong financial and capabilities are in grade G7 with quite small percentage. Although there is only in 1 percent of foreign contractor’s registration in the Malaysian construction industry, foreign contractor is capable in bidding local projects due to their strong financial state.



(Source: CIDB, 2014)

Figure 1. Percentage of registered contractors in Malaysia

Table 3 shows the number of contractors in local construction companies with foreign equity. A large number of local construction companies with foreign equity will impact the other local construction company with small registered grade such as local construction, namely Grade G1 to G5. Most of them are not able to bid the mega projects, which are in high cost and need to use a specialized technology.

Table 3. Local construction companies with foreign equity

Countries	Grade	Number of Contractors
Bangladesh	G2, G3, G4, G5, G6, G7	158
Singapore	G1, G2, G3, G4, G5, G6, G7	99
Japan	G3, G4, G5, G6, G7	45
China	G2, G3, G4, G5, G6, G7	35
Australia	G1, G2, G3, G4, G5, G6, G7	29
Britain	G2, G3, G4, G5, G6, G7	28
Pakistan	G1, G5, G6, G7	18
India	G3, G4, G5, G6, G7	14
Indonesia	G1, G3, G4, G5, G6, G7	11
USA	G2, G4, G5, G6, G7	9
Others	G1, G2, G3, G4, G5, G6, G7	87
Total		533

(Source: CIDB, 2014)

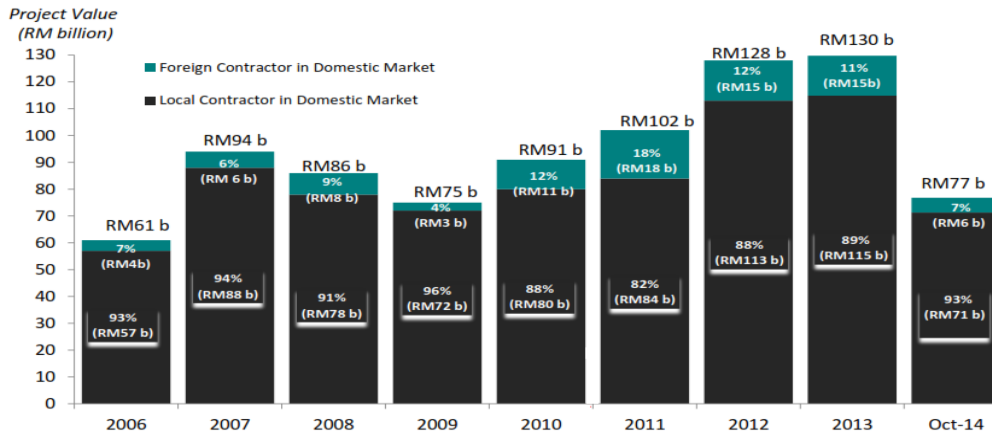
Rafty et al. (1998) claim that government in the region advocates various measures in recognizing the benefits of foreign equity in local construction industry. The measures are removing barriers in sending the profit home, implementing a transparent tax policy, implement double taxation relief agreements with other countries, offering better interest rates for joint ventures where the equity majority by local partners and entering bilateral agreement with counterpart country to guarantee safety of foreign investment.

3.2 Projects by Foreign Contractors

Table 4 shows the number of projects by local and foreign contractors. Projects by foreign firms are small compared to local contractors in domestic market. As for Figure 2, although the number of project is low, the total value of projects is high because some are mega projects with high ringgit Malaysia value.

Table 4. Number of projects by types of contractor from 2006-October 2014

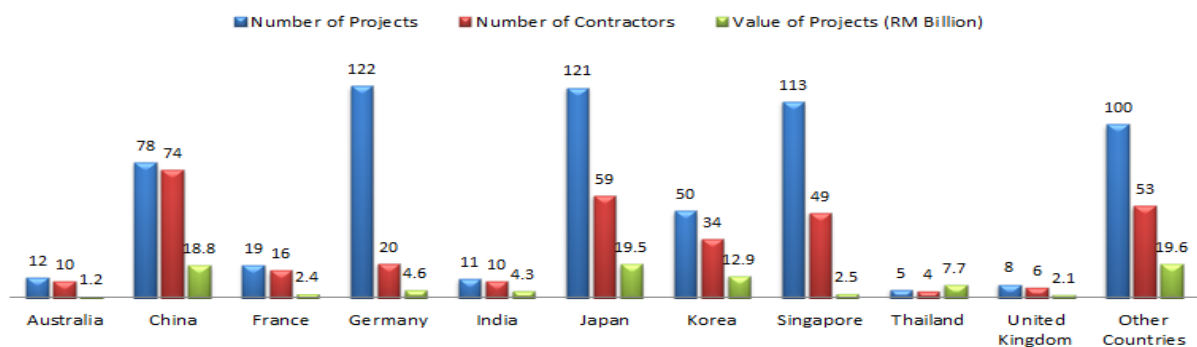
Contractor	Year								
	2006	2007	2008	2009	2010	2011	2012	2013	Oct 2014
Local	5,850	7,291	6,447	6,987	7,192	7,600	7,741	7,850	4,532
Foreign	74	94	75	52	110	125	151	128	85



(Source: CIDB, 2014)

Figure 2. Project value (RM billion) by local and foreign contractor from 2006-October 2014

Figure 3 shows the number of projects, value of projects and number of firms in country of origin of foreign contractors. Japan has the highest value of projects, yet with low value of project. The success of Japanese contractors in the Asian region is due to their financial capabilities, technology innovations and relationship with host country government and local partners (Raftery *et. el*, 1998).



(Source: CIDB, 2014)

Figure 3. Projects by foreign contractors

4.0 CONCLUSIONS

Globalization and liberalization has significant impact in construction industry, where trade liberalization is signed up and there is foreign firm’s participation in the local construction industry. Although the number of foreign firm in Malaysia is low compared to local contractor, some of the foreign companies are listed in Engineering News Record (ENR), list of the top 250 international contractors worldwide (Rani *et al.*, 2015). Further research can be done to investigate the challenges, benefit and key driver of the globalization and liberalization process in Malaysian construction industry.

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