

Impacts on Trade Barriers to Timber Trade in Malaysia

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This paper analyzes the significance of trade barriers to timber trade in Malaysia. Trade barriers to timber trade are an important role in the forest economics sector and take a major player in Malaysia's economic growth. There is a growing concern that trade barriers to timber trade are creating both direct and indirect opportunities to environmental trade issues. In recent years, there has been decreasing the trade barriers to timber trade in Malaysia. The purpose of this paper is to highlight and clarify the impacts on trade barriers to timber trade in Malaysia.

Keywords: Trade barrier, timber trade, forest economics sector.

1. Introduction

Trade barriers to timber trade are an important role in the forestry sector and take a major player in Malaysia's economic growth. Rytkonen (2003) stated that barriers to trade are policies or actions which interfere with free market buying and selling of goods and services internationally. Tariffs are widely used to protect domestic producers' incomes from foreign competition and non-tariffs are used to restrict imports. Zhu et al. (2001) analyses the effects of accelerated tariff liberalization on the forest products sector and tariff changes on forest product trade have been studied mostly with single-country partial equilibrium approach. There are three categories of trade barriers: tariffs, non-tariff measures (NTMs) and trade impediments, which affect the forestry sector (Bourke & Leitch, 2000). The discussion on international trade regime in forest products tends to focus on tariff and non-tariff measures especially in relation to the WTO/GATT trade negotiations. Bourke (1995) states that many environmental actions can be considered to be trade barriers which go against internationally agreed trade rules, such as GATT/WTO seeking to liberalize world trade in forest products. All the various environmental impacts of trade policies on natural resources are difficult to assess, but evidence indicates the presence of both negative and positive impacts. The aim of this paper is to obtain the reduced trade barriers to timber trade and the effect of non-tariff trade barriers to timber trade in Malaysia.

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2. Literature Reviews

Tariffs are the most widely used and obvious means of providing protection. The most common form is an ad-valorem tariff where the duty is a fixed proportion of the value of the imported item. There is a tendency for tariff rates to be lowest on unprocessed products and to rise with increased processing. A number of measures affect trade in all sectors including the forest and forest products sector, such as tariff levels and tariff escalation. Average tariffs rates on timber products in the main importing countries are relatively low, generally less than five per cent. However, tariff escalation exists. Tariff rates on timber products in developing countries tend to be much higher than those in developed countries. As a result of the Uruguay Round, these tariff levels will be reduced, but in general will remain significantly higher than those of developed countries (Bourke, 1988).

Non-tariff barriers include laws, regulations, policies and practices that either protect domestically produced goods from the full brunt of foreign competition, or artificially stimulate the exports of domestic products. The figure gives some examples of non-tariff barriers affecting tropical timber products. A variety of non-tariff measures (NTMs) exist for timber products. Non-tariff measures used are wide-ranging. NTMs are harder to estimate their impact than tariff measures. They include direct quantitative restrictions such as import quotas, tariff quotas or voluntary export restraints, technical standards and plant health (phytosanitary) standards, and sometimes cumbersome import licensing, customs procedures and domestic policies (Philippidis & Sanjuan, 2007). Bourke and Leitch, (1998) states that technical and phytosanitary standards are likely to continue to create difficulties for exporters for many years to come. Technical regulations and standards related to the protection of animal and plant life from pests and diseases; to human health and safety; and to maintenance of air, water and land quality, result in considerable adjustment and readjustment in terms of trade. By changing relative costs and comparative advantages, and consequently trade patterns, they create difficulties for trade.

3. Materials and Method

Data attainment

The study is conducted in University Kebangsaan Malaysia, Bangi since July, 2008 to June, 2009. The data for analysis is perceived from secondary sources for Malaysia. The significant manipulations for acquired data are timber trade and trade barriers. The corresponding outcomes are demonstrated from the analysis of collected data. Various sources have been consulted for data on tariff barriers; for example, Bourke and Leitch (1998), UNCTAD (TRAINS Database), Barbier (1999), the Malaysian Timber Council and the WTO (1994). In turn, import-weighted average tariff rates were calculated for each region.

4. Role of Trade Barriers to Timber Trade in Malaysia

Trade barriers to timber trade are an important role in the forestry sector. It is widely used by both developed and developing countries. Barriers affecting forest products influence the developing countries in a number of ways-both positively and negatively. Malaysia is one of the highest profile international environmental struggles of the 1990s aimed to protect tropical forests which hold great biological diversity and are home to many indigenous tribes which continued their traditional lifestyles until recently. The Penang tribes living have lived in Sarawak, Malaysia on the island of Borneo for thousand of years. But logging of their traditional forests has all but destroyed their traditional ways of life. Much of the timber was exported to Japan to manufacture plywood for disposable construction materials.

During the period of 2000-2005, Malaysia has continued to liberalize its policies on international trade and foreign investment. Indeed, imports and exports of goods, respectively, were on average equivalent to 86% and 110% of GDP during this period. Inflows of foreign direct investment (FDI), although down from the high level of 7% of GDP between 1990 and 1997, were still around 3% of GDP during the period 1999-04, a level more in line with the world average. As a consequence of trade openness with prudent macroeconomic and structural reforms in key areas, Malaysian's economy achieved a steady growth rate following the trade liberalization and fully recovered from the Asian financial crises in 1997-98. Growth in real GDP, after slowing to 0.3% in 2001, owing to a contraction in exports, rebounded to 4.4% in 2002, 5.4% in 2003, and 7.1% in 2004. Malaysia's current account surplus widened from 8.3% of GDP in 2001 to 12.6% of GDP in 2004. The current account position is due to merchandise trade (WTO, 2005). There has been little change in Malaysia's trade-related institutional framework from 2001-2005; however, Malaysia has continued efforts to liberalize its relatively open trade and investment regime and joined the trend in the south-east Asian (ASEAN) region of seeking closer economic relations at both the regional and bilateral levels. Also in investment liberalization, equity holdings in all new manufacturing projects have been fully liberalized; foreign investors can now hold 100 percent equity in all investments. During the period 2001-2005, Malaysia's economy has remained relatively open to trade and foreign investment. The tariff continues to be the main border measure affecting imported goods and accounted for 5.4% of overall tax revenue in 2004. However, applied tariffs have come down in successive annual budget exercises to an MFN average applied rate of 8.1% in 2005, compared to 9.2% in 2001. Patterns of MFN tariff dispersion and escalation have changed little since 2001 (WTO, 2005).

The coverage of tariffs was gradually reduced in the late 1980s and 1990s, especially with the launching of the AFTA and the commitments made to the WTO for greater liberalization. Malaysia's tariff regime currently compares favourably with many other Asian countries (Table 1). In some sectors, however, average tariff rates are relatively high, giving protection to particular industries, like foodstuffs, plastics, textiles, footwear and vehicles.

Islam, Siwar, Ismail & Bhuiyan

Table 1: Weighted mean tariff barriers, selected Asian countries, selected years

Country	Year	All products	Primary products	Manufactured products
China	1992	32.1	14.1	35.6
	2004	6.0	5.6	6.0
India	1990	56.1	34.1	70.8
	2004	28.0	36.9	25.3
Indonesia	1989	13.0	5.9	15.1
	2003	5.2	3.1	5.8
Japan	1988	3.6	4.4	2.7
	2004	2.4	3.9	1.6
South Korea	1988	14.0	8.3	17.0
	2002	10.0	19.0	5.0
Malaysia	1988	9.7	4.6	10.8
	2003	4.2	2.1	4.6
Pakistan	1995	14.4	36.1	49.2
	2004	13.0	8.9	15.7
Philippines	1988	22.4	18.5	23.4
	2003	2.6	5.0	2.0
Singapore	1989	1.1	2.5	0.6
	2003	0.0	0.0	0.0
Thailand	1989	33.0	24.3	35.0
	2003	8.3	4.4	9.3
Vietnam	1994	20.6	46.7	13.1
	2004	13.7	16.7	12.5

Source: World Bank (2005).

Tariff is a tax levied on price per unit of import. If the world price is lower than the domestic price, domestic consumers are willing to import more freely at the world price (w_p) than at the domestic price. Domestic consumption will be greater than the domestic production. Then, domestic producers will be worse off. Since the government wants to encourage the domestic production, it will set the specific tariff rate (P_t) on per unit of amount imported. Consequently, the price will go up to ($w_p + P_t$). Then, domestic consumption will decrease and its production will increase. As a result, domestic producer will be better off. The government can enjoy the tariff revenue and domestic consumer will be worse off. There may be dead weight lost as the protection cost that incurred by the society.

By realizing the effect of tariff, decision makers can manage the appropriate trade policy. Trade policy is related to both the foreign exchange rate policy and policies concerning with the set of either tariff barriers or non-tariff barriers as well as free trade imposed by the host country. Host country can apply the import substitution strategy (inward looking strategy) or export oriented strategy (outward looking strategy) or mixed strategy (both import substitution and export oriented strategy). Based on the nation's macroeconomic situation, the nation must implement the effective trade policy and trade strategy efficiently.

5. Barriers and Trade Policy in Malaysia

Trade Barriers

Trade in timber products has become increasingly global in recent years, with the number of countries exporting and importing various timber products growing. Barriers have become increasingly important as more processed products are traded, with both tariff and non-tariff barriers becoming more prevalent. The effect is to restrict the ability of the developing countries to produce more processed products which provide the opportunity for increased economic and social development. Major developed countries which maintain high tariffs on some of these products include USA, Japan, the EEC and Australia. Developing countries themselves generally have higher rates than those in place in the developed countries. Tariff restrictions have been declining steadily for a number of years. In recent years tariff barriers have declined in most of the main import markets. The extent of the decline differs with the market and the specific product, but few developed country tariffs are now particularly high for most timber products. This is shown for selected countries in the table below which provides a general indication of rates for selected countries (Table 2). With the exception of some products in some markets, tariffs for timber products in developed countries are generally less than 5% for most products.

Table 2: Tariff and Non-tariff Barriers in Selected Timber Importing Countries 2007 (000' m³)

Item	Market									
	EC			Japan			Australia		USA	
	Tariff Rate %	Tariff Rate % Under GSP for Malaysia	Non-tariff	Tariff Rate %	Tariff Rate Under MJEPA	Non-tariff	Tariff Rate %	Non-tariff	Tariff Rate %	Non-tariff
Sawnwood										
Hardwood	0-4.9	0-0	+++	6	0	Nil	0-5	*	Free	**
Softwood	Free		+++	4.8-6	0	Nil	0-5	*	Free	**
Veneer										
Hardwood	0-6	0-0	+++	5-6	0	Nil	0-5	*	Free	**
Softwood	0-4		+++	5-6	0	Nil	0-5	*	Free	**
Plywood										
Hardwood	6-10	2.5-6.5	+++	6-10	6-10	Nil	5	*	Free	**
Softwood	6-7		+++	6	6	Nil	5	*	Free	**

Source: MTIB, 2008.

Islam, Siwar, Ismail & Bhuiyan

Australia

* Several state governments and local councils place restrictions on the use of tropical timbers.

USA

**Several states and local councils introduced bills that restrict or discriminate the use of tropical timber.

EU

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1. CE marking is compulsory in EU for manufactures who export wood based panels used for the building construction materials.

2. Timber certification: Certification for timber sourced from forest that is sustainably managed is increasingly being demanded. However, the preference for certain certification scheme discriminates timber which is certified under the national scheme such as in a MTCC scheme. Tariffs will continue to decline as the results of the Uruguay Round are implemented. Tariffs in developed countries on many products will be reduced to very low levels, or eliminated. Major importers such as the European Union, Japan, Australia and the United States will eliminate tariffs on some timber products. Non-tariff barriers are much more difficult to identify and evaluate. Nevertheless the wide array that exist, the increasing frequency with which many appear and the number that can apply to a given product suggest they are a problem. They are a greater problem for the developing countries than for developed country exporters. NTMs which may act as barriers to trade:

Specific limitations on trade: quantitative restrictions; export restraints; health and sanitary regulations; licensing; embargoes; minimum price regulations, etc.

Charges on imports: tariffs; variable levies; prior deposits; special duties on imports; internal taxes, etc.

Standards: industrial standards; packaging; labeling and marking regulations, etc.

Government interventions in trade: government procurement; stock trading; export subsidies; countervailing duties; trade diverting aid, etc.

Customs and administrative entry procedures: customs valuation; customs classification; antidumping duties; consular and customs formalities and requirements, and sample requirements.

The greatest impact on trade flows will continue to be from the export barriers imposed by the developing countries themselves. The effect of these restrictions will depend on a number of factors including the extent to which importers can find alternative sources of supply. Indications are that as long as the government of Malaysia continues to be willing to maintain the barriers

Islam, Siwar, Ismail & Bhuiyan

by effectively subsidizing domestic log prices and to continues to provide the regional support for processing development.

Trade Policy

Malaysia's simple average applied tariff rate is 8.4 percent, but duties for tariff lines where there is significant local production are often higher. The level of tariff protection is generally lower on raw materials than for value added goods. Malaysia maintains performance requirements that are needed to receive a customs waiver for operations in Foreign Trade Zones. In 2008, the Malaysian government implemented tariff-rate quota (TRQ) systems for some tariff rates, which include products such as timber products. This product now incurs in-quota duties between 10 percent and 25 percent and out-of-quota duties as high as between 40 percent and 50 percent. Before TRQ implementation, the applied tariff rate was zero for these products.

Malaysia taxes exports of timber products in order to protect domestic processing production. Malaysia is one of the largest producer and largest exporter of timber products of world production. The Malaysian government waives export taxes on exports of timber products to Malaysia-invested foreign timber that include investment by Malaysian persons, giving Malaysia-invested plants a competitive advantage in foreign markets, including the United States.

Although in general formal trade barriers are not a serious problem for timber trade in most situations, for certain products in certain markets, they create difficulties. In these cases and to ensure that non-tariff measures do not increase it is important that continued efforts are placed on containing or reducing them. While recognizing the value of efforts on trade barriers it is worth emphasizing that improvement in timber sector development to support export activities are of much more importance. Positive steps must be taken if the impact of import trade barriers is to be reduced. It is not sufficient to leave any improvement to the goodwill of the countries concerned, since there is little evidence to suggest that major changes will take place unless either clear benefit exists for the importing countries.

Efforts to reduce these barriers should take place at a number of different levels, and can be broadly considered in three categories. Those which:

- i) Reduce barriers;
- ii) Make it easier to avoid or overcome barriers; and
- iii) Reduce the importance of barriers.

Government and country trade associations can provide an input at a more detailed level which identifies and implements programmes which meet their own specific needs. They must also provide the input which ensures effective action at both the regional and international level.

6. Conclusion

In progressing towards trade liberalisation of the timber products sector, mixed effects on the forest rent and timber production in different regions can be detected. Therefore, a reduction in trade barriers does not always lead to increased log production as feared by some non-governmental organisations. Amongst other things, the direction of change in log production depends on the Malaysian log prices and factor prices. When the Uruguay Round policy changes are implemented in the forest sector alone, the welfare and terms of trade of all tropical regions improve. In addition, trade liberalization in timber products is most likely only as part of a broader set of reduction in tariff and other trade barriers. Most Favoured Nations (MFN) status has been developed and promoted by General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO) to increase efficiency in production through international trade around the globe. The implications of trade liberalization for individual Timber Committee members will vary depending on whether the member is primarily an exporter or an importer, on the products traded, and the countries traded with.

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Islam, Siwar, Ismail & Bhuiyan

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