

# MALAYSIA'S ECONOMIC RELATIONS WITH SAUDI ARABIA

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## ABSTRACT

This article analyzes Malaysia's economic relations with Saudi Arabia. It is undeniable that the economic interaction between these two political entities had already begun since the fifteenth century where both countries had yet to become modern states. Being co-religionist and having had ancient economic interactions, the level of economic interactions, however, is less encouraging. The study has concentrated on three major economic determinants that might answer the pattern of Malaysia's economic relations with Saudi Arabia. Firstly, the economic background of Malaysia and Saudi Arabia will be examined, secondly, the character of economic activities, and thirdly the influence of international economic system, especially by referring to the concept of core-periphery relations.

*Keywords: Co-religionist, economic relations, modern state, bilateral relations, and core-periphery relations*

## INTRODUCTION

It has usually been argued that economic interest is amongst the basic aims of a country pursuing bilateral relations with others. This is the interest that two countries or more are able to forge closer relations, despite the existence of misunderstandings or disagreements between them over a few political matters. In regards to Malaysia's relations with Saudi Arabia, it is quite noticeable that the economic field is one of the interests that both countries can share and develop at the highest level of cooperation.

Malaysia's early economic interactions with Saudi Arabia can be traced back to the era of the Malacca Sultanate in the fifteenth century where most of the Arab traders came to trade with local as well as other foreign merchants. Although this interaction was not as important as Malaya's economic activities with the United Kingdom, the United States, some other European countries and Japan, at least it had formed some early economic exchanges between these two political entities. Thus, based on this established historical economic relationship, and along with Fred Von der Mehden's assumption<sup>1</sup> that Malaysia and Saudi Arabia have been co-religionist for a long period of time, it would be an enormous advantage for both countries to strongly develop their economic cooperation in the international economic system.

Ironically, however, when looking at some of the economic indicators, the assumption is in doubt, and inevitably invites a few questions that need to be critically analyzed. Among the indicators are, for instance, from the 1960s to the 1990s, the total amount of Malaysia's bilateral trade with Saudi Arabia was not more

than RM3.7 billion ringgit, and constantly registered a high deficit to the former due to large imports of the latter's petroleum products. This is different with Malaysia's closest trading partners such as the US, Singapore, and Japan, which, on average have not less than RM20 billion and up to RM70 billion ringgit. In terms of trade agreements, both countries only managed to sign five major agreements, of which the last three agreements have only been signed after almost twenty years since the first two; The Economic and Technical Cooperation Agreement (1975), The Cultural and Scientific Cooperation Agreement (1976), and The Avoidance of Double Taxation Agreement (1993), Investment Guarantee Agreements, and Agreement on the Accession of Saudi Arabia to the WTO (2000).<sup>2</sup> Moreover, Saudi Arabia only ranks 27th in Malaysia's external trade relations, which demonstrates that the United States, Japan and Singapore are the leading partners in Malaysia's trade relations.<sup>3</sup>

Concerned with the above pattern of Malaysia's economic relations with Saudi Arabia, this study aims to identify how and why the degree of the relationship is less encouraging, especially for Malaysia. To examine this matter, the study will focus on three major economic determinants, which in the opinion of the researcher, vastly impact upon the pattern of Malaysia's economic relations with Saudi Arabia. Firstly, the economic background of Malaysia and Saudi Arabia will be examined, secondly, the character of economic activities, and thirdly the influence of international economic system, especially by referring to the concept of core-periphery relations.

## **THE BACKGROUND OF THE MALAYSIAN ECONOMY**

Before achieving independence in 1957, the Malaysian economy had been under the influence of the British administration. During this era, the Malayan economy had been largely concentrated on the agricultural and mining sectors, mainly rubber and tin. At the outset of independence of 1957, for instance, rubber and tin accounted for some 85 percent of export earnings.<sup>4</sup> Malaya's main trading partners were the United Kingdom, the United States, European Economic Community members (EEC), Japan, and China, and there were no specific Middle East countries, including Saudi Arabia, listed in the overseas trade of Malaya in the Malayan Year Book from 1930s to 1950s. Malaysia's trade with Saudi Arabia only began to be quoted from the 1960s and onwards.

After gaining independence in 1957, the Malaysian government moved ahead with the industrialization process. This owed much to the realization of the price fluctuation of its primary commodities in the international market, faced with the United States's synthetic rubber during the war, and a few recommendations by the International Bank and Reconstruction Development (IBRD), which visited Malaya in 1954, to diversify its economy and not merely depend on agricultural products.<sup>5</sup> This was also related to its total GDP, of which two-fifths came from agriculture, and only less than 10 percent from the manufacturing sector.<sup>6</sup>

The process of industrialization in Malaysia can be referred to the phases of import-substitution-industrialization (ISI) and export-oriented-industrialization (EOI). The former took off in the late 1950s to 1960s, and it was a strategy to encourage foreign investors to set up production, assembly and packaging plants in the country to supply finished goods previously imported from abroad. The government also subsidized, directly or indirectly, the establishment of new factories, and at the same time, protected the domestic market. ISI policy was very encouraging as it led Malaysian GDP to grow from 9 percent in 1960 to 13 percent

in 1970. The EOI policy, which began in the early 1970s, attempted to facilitate and encourage Malaysian manufacturing production for export using imported equipment and available raw materials. The prime aims of EOI were to increase the processing of older (rubber and tin) and newer (palm oil and timber) primary commodities for export, and also to develop non-resource based exports like electrical and electronic components. The first aim was less successful as it was not consumed much by developed economies as they prefer to import those raw materials rather than finished products, while the electrical and electronic sector indicated potential growth as it produced more than half of the total manufactured exports since the mid-1980s.<sup>7</sup>

Beside that, due to the importance of energy sector, especially oil, as the backbone of economy where petroleum products are the dominant fuel use of commercial energy about 64.5 percent, followed by electricity (18%), coal and coke (3.1%), particularly in the 1990s,<sup>8</sup> Malaysia began to explore some potential areas which are believed to have oil reserves such as off-shore Sabah, Sarawak and Terengganu. This effort became fruitful when petroleum was successfully drilled for the first time in 1957.<sup>9</sup> With the establishment of PETRONAS in 1974, the production of oil is encouraging. The range of Malaysia's oil production was from 1,000 barrels to 99,000 barrels per day between 1967-1973.<sup>10</sup> In the mid-1980s, the average production of oil was dramatically increasing at the rate of 444,000 barrels a day.<sup>11</sup> Furthermore, from the 1990s and onwards, Malaysia was successful in enhancing its monthly crude oil production to about 650,000 barrels per day, and was placed as the 27<sup>th</sup> largest of crude oil reserves in the world. Most of its crude oil is exported to Singapore, Japan, Thailand, and South Korea.<sup>12</sup>

In spite of the ability to export of crude oil, Malaysia is still producing or refining insufficient petroleum products for its domestic energy uses. For example, in 1980 and 1995, Malaysia could only supply petroleum products between 2,323 ktoe<sup>13</sup> and 610 ktoe compared to the level of use was between 5,550 ktoe (1980) and 16,142 ktoe (1995), and also in 1998 and 1999 the production was only at 1,793 ktoe and 848 ktoe, whereas the total use was 17,488 ktoe and 19,247 ktoe respectively.<sup>14</sup> This scenario has generally been shared by the Ministry of Energy, Communications and Multimedia, Malaysia, which believes that supply from petroleum products and crude oil for domestic uses decreased from 87.8 per cent in 1980 to 52.1 per cent in 1998.<sup>15</sup> Therefore Malaysia has to import some petroleum products from Saudi Arabia, UAE, Iran and Singapore to cover up those deficiencies and the government is compelled to seek an international exploration and production strategy by investing in some foreign countries' oil industries including Syria, Turkmenistan, Iran, Pakistan, China, Vietnam, Burma, Algeria, which contributes one-third of PETRONAS revenue.<sup>16</sup> The insufficient production of oil for the domestic consumption which Malaysia is largely dependable upon the oil rich countries, particularly Saudi Arabia, indirectly too leads to the imbalance in the former's trade with the latter as has been discussed later in the sub-topic : "Trade : The Pattern of Export and Import".

As Malaysia headed towards the 1980s and onwards, its economy, to some extent, diversified considerably from too much dependence upon agricultural commodities towards export-oriented-industrialization, and heavy industries (automobile) which endeavored to replicate the model of Newly Industrializing Countries of Asia (NICs), mainly South Korea as well as Japan, the most developed economy in East Asia. To speed up the phase of industrialization, Malaysia, under

the administration of Dr. Mahathir Mohammed, also introduced the 'Look East Policy', which tried to emphasize and implement the culture of the Japanese and the South Korean people who turned their country into one of the fastest growing modern economies in the world. The Malaysian government's efforts to industrialize its economy by attempting to emulate the model of development in Japan, and the NICs, and by the same token also, to open up more opportunities to foreign investors to become involved in several industrial projects at the local level, caused Malaysia to undergo booming economies in the mid-1990s, before succumbing to the East Asian crisis in 1997.

## **THE BACKGROUND OF THE SAUDI ARABIAN ECONOMY**

Not much different to Malaysia, the Saudi Arabian economy prior to the discovery of oil in the 1930s was based on agricultural and pastoral activities in tribal villages at oases. Its main agricultural products were dates, millet, wheat and barley. Nonetheless, after oil production started in Saudi Arabia in 1937, with commercial production begun in the following year by the Standard Oil Company of California (Socal) which obtained a 60 year concession from 1933-1993,<sup>17</sup> its economy grew rapidly. Since then too, Saudi dependency upon industrial nations, mainly the United States through the setting up of Arabian-American Oil Company (Aramco) which has dominated oil exploration in the Kingdom, the development of its oil industry has vastly increased.<sup>18</sup> Saudi Arabian oil revenues rose continuously year by year from \$56.7 million in 1950 to \$2,734.1 million in 1972, and reached \$60 billion in 1980.<sup>19</sup> From the 1990s and onwards, Saudi Arabia has become the leading producer and exporter of oil by contributing 11.5 percent of world oil in 2002, followed by Russia (10.7 percent), the US (9.9 percent) and others.<sup>20</sup>

It is quite obvious that the Saudi Arabian economy depends heavily on the production and the export of crude oil to the international market. Before the discovery of oil, pilgrimage, along with agricultural sectors, were among the main sources of Saudi economy. The Kingdom has been categorized as one of those countries whose commodity products (oil exporter) cover between 90 to 100 per cent of its total export and the oil industry alone contributes 30 to 40 per cent of Saudi GDP to the present day.<sup>21</sup> Saudi's close trading partners, as well as its oil main consumers from the 1950s to the 1990s, have been the five industrial countries of the United States, UK, Japan, France and Italy, which require Saudi oil to nourish their industrial projects. Therefore, in order to diversify its economy and not depend solely on the export of crude oil, as well as to develop industrial status, the Saudi government focuses on several economic-industrial oriented sectors that have large potential for development, including modern agriculture, the electrical industry, petroleum and mineral wealth, commerce, and the manufacturing sector.

The diversification effort, however, was initiated in 1957, through close co-operation between Saudi Arabia and the United Nations, which both signed two agreements under the name of Technical Assistance Board (TAB) in 1957 and 1960-1961. In 1970, TAB was changed to United Nations Development Programme (UNDP), which would emphasize more the technical training of Saudi people. Like Malaysia, the Saudi development program, under UNDP, would be carried out in the Fourth Five Year Plan (1970-1990), and this plan will continue further in the years ahead.<sup>22</sup> The Saudi government also set up the General Petroleum and

Mineral Organization (Petromin), the first Saudi national petroleum company, in 1962, to formulate and execute projects for the development of the petroleum, petrochemical and mineral industries.<sup>23</sup> Nevertheless, despite the rigorous efforts towards the diversification plan, the Saudi economy is still principally based on the production of oil and petroleum products, which roughly accounts for 75 per cent of budget revenues, 45 per cent of GDP, and 90 per cent of export earnings.<sup>24</sup> This also added to the lesser achievement of other non-oil sectors, particularly agriculture (food cultivation), which is still growing insufficiently,<sup>25</sup> and Saudi Arabia itself (within the Arab region) is one of the highest food-importing countries in the world.<sup>26</sup>

## **CLOSER TO DEVELOPED COUNTRIES AND HIGH DEMAND FOR INDUSTRIALIZATION**

By looking at the background economy of both Malaysia and Saudi Arabia, which has been discussed before, it can be seen that there are a few similarities, for instance, the presence of European or US influences, the provider of raw materials to industrial countries, and highly demand for industrialization status. The desire to achieve the status of an industrialized country. Perhaps it may sound paradoxical to some researchers, since the existence of several similarities might lead to closer interaction between two countries, but this situation is different for Malaysia and Saudi Arabia. What the study means by 'those similarities' is that since Malaysia and Saudi Arabia had experienced some European influences, the former under Great Britain, and the latter at the early stage enjoyed British alliance (or support King Abdul Aziz administration) before the US took the lead in the Middle East and indirectly assumed its bigger role in Saudi oil exploration, both countries inevitably complied with the needs and the policies of these developed economies. Malaysia and Saudi Arabia had to maintain relations with their 'parent' countries as it was they that helped or influenced the creation of the basis of their economic structure as well as guiding them to sell their primary commodities in the international market. The intimate economic links between Malaysia-United Kingdom and Saudi Arabia-the United States can be observed when both countries (Malaysia and Saudi Arabia) at the early stage of development, played a more important role as the main supplier of raw materials for UK and the US, and also to other industrial nations as has been argued by Jomo K.S.,<sup>27</sup> William B. Quandt,<sup>28</sup> Abbas Alnasrawi.<sup>29</sup> This scenario is unavoidable as industrial countries may provide bigger markets as well as vast capital in return compared with if they only trade between themselves alone or with other less developed countries.

Furthermore, in order to develop and keep pace with the modern global economy, both Malaysia and Saudi Arabia emphasize the process of industrialization and diversification of their economies. This trend certainly encourages both countries to behold and attempt to emulate a model of economy from developed countries, rather than from other countries which have par level with them. Up to the 1980s, Malaysia began to replicate the model of Japan, and other four Newly Industrialising Countries (NICs); South Korea, Hong Kong, Taiwan and Singapore, by launching the Look East Policy which gave more focus to industrializing its economy by venturing into heavy industries such as manufacturing sectors (electrical and electronic products), and automobile projects.

This policy, however, will not totally ignore the model of developed-western economies (as the US still the biggest Malaysian trading partner), but it is argued, perhaps, is only a justification for Malaysia as Japan and the four NICs are from the Asian region, which may, to some extent, be more appropriate for the culture of the Malaysian economy. In the case of Saudi Arabia, this Kingdom started its development plan much earlier than Malaysia. This is due to the role of the Arabian-American Oil Company (Aramco) that has shaped major features of Kingdom economy, especially the Saudi oil industry. Unlike Malaysia, which prefers the Look East Policy (Look East Policy is one of the approaches applied to develop Malaysia. Open market and encourage foreign investors are also among the policies used by the Malaysian government), Saudi Arabia is more inclined towards developed-western countries, mainly the United States, for bringing development to the Kingdom. The outcome of this approach has slightly transformed Saudi Arabia into one of the more modern countries in the Middle East, despite having to face some common domestic problems such as the lack of manpower from the Saudi citizens, the large influx of foreign laborers, and less achievement in the agricultural field.

The desire to achieve the status of an industrialized country has led Malaysia and Saudi Arabia to hold a closer ties with other developed countries such as UK, the US, Japan, Singapore, South Korea, France and other OECD groups. This indirectly explained why both countries economic relations is not encouraging. This is added too with Malaysia's dependence on Saudi oil which largely causes the trade balance between Malaysia and Saudi Arabia since the early 1960s to the 1990s has been unfavorable to the former. In other words, the closeness of Malaysia and Saudi Arabia to developed countries (or to their parent countries in particular) which, in some ways, cannot be denied in terms of providing more market opportunities for their commodities and higher potentiality of gaining technological know-how in order to achieve their desire for industrialization process (also without ignoring Malaysia's unfavorable reliance on Saudi oil), had made their economic interaction less dynamic. Besides the nature of the economic background that has affected the degree of Malaysia's economic interactions with Saudi Arabia, the study will also examine the character of economic activities, ranging from the kinds of trade, financial assistance, investment and others which might further color the relations.

## **THE CHARACTER OF ECONOMIC ACTIVITIES**

The study will analyze some major economic activities that have patterned the level of economic interactions between Malaysia and Saudi Arabia. In doing this, the study will concentrate on several key points of economic indicators, mainly the level of trade, financial assistance, investment, and foreign workers, and also the tourism industry. Since most of the formal written documents only started reporting exclusively on Malaysia's economic relations with Saudi Arabia in 1960s, the period of under examination will be more from the 1960s up to the 1990s.

## **TRADE : THE PATTERN OF EXPORT AND IMPORT**

Principally, Malaysia's bilateral trade with Saudi Arabia has been predominantly influenced by the massive import of the latter's oil products. This, in some way,

has led to a continuous deficit in Malaysian trade with the Kingdom. Even though Malaysia exports a lot of products to the Kingdom like palm oil, vegetable oil, electrical and electronic machinery, gold, jewellery, and sawn timber, they are still besieged by the import of oil, and other organic chemicals (like alcohol, phenol-alcohol, hydrocarbon and polymer ethylene). For overall picture of Malaysia's trading pattern (export and import performance) with Saudi Arabia, highlighted in Table 1.

In Table 1, it shows that Malaysia's trading pattern with Saudi Arabia is mostly in deficit terms, with the exception from 1986, 1989 and mid-1990s. In the 1960s, for instance, between 1962 to 1968, the average deficit of the trade was -RM42.864 million although from 1962 until 1966 the total of Malaysian external trade was in surplus ranging from RM180.8 million to RM436.3 million ringgit,<sup>30</sup> and continuously acquiring a surplus of RM680 million ringgit in 1968 with most of its trading partners like France, the US, Singapore, and Italy.<sup>31</sup> The huge deficit was because the total Malaysian imports from Saudi Arabia, which largely oil, were bigger than its total exports. Furthermore, in the 1970s (from 1970 to 1979), the pattern of Malaysian external trade with Saudi Arabia continued to be in deficit which amounted - US\$949.613 million. Moreover, although the overall external trade performance in the 1980s was in the surplus value, where exports surpassed imports, for instance RM4,721 million ringgit in 1980, and the last five years (1986-1990) with average surplus roughly around RM8,071 million ringgit,<sup>32</sup> Malaysia's trade with Saudi Arabia still indicated some deficits. The amount of deficit was much higher than the previous years as it reached till US\$603.714 million, particularly in the early 1980s.

The vast amount of deficit in the 1980s, could be closely linked to the price of oil in the international market which abruptly increased due to the second oil shock began in 1979 following the Iranian revolution. Nevertheless, at the end of the 1980s, from 1986 to 1990, the import level of Saudi oil averagely declined by about RM291 million ringgit per year.<sup>33</sup> This was because of the dynamic operation of Petroliam Nasional Sdn. Bhd. (PETRONAS), a local Malaysian oil corporation set up in 1974, which had successfully begun to increase the production of crude oil, and contributed well to the Malaysian economy.<sup>34</sup> This is added too with the economic situation of Malaysia which was not encouraging (affected the level of export and import) for most of its commodities' prices were declining which indirectly resulted the balance on the current account turned around from surplus to a deficit. During the early 1990s, especially from 1992-1995, Malaysia's trade balance with Saudi Arabia had been positive due to the level of the former's export outshining its imports to the latter by an average of 0.155 billion ringgit.<sup>35</sup> From 1996 to 2000, except for 1998-1999, the trade balance was back to negative for Malaysian overall trade with the Kingdom. Up to 2000, the amount of bilateral trade reached RM3633.56 million ringgit, a 63 per cent increase over 1999, with the imports of Malaysia still larger than its exports, about RM2406.54 million to RM1227.02 million ringgit respectively.<sup>36</sup> (See also Table 1). Despite the pattern of trade is largely in deficit terms (especially for Malaysia), the growth of Malaysia's trade with Saudi Arabia is increasing, particularly in the late 1990s. This is due to the recent negotiations made by both parties on trade and investment opportunities<sup>37</sup> without ignoring that oil is still the biggest import in Malaysia's trade with Saudi Arabia which amounted US\$5263.64 million of total import US\$6328.67 million from 2000 to 2002.<sup>38</sup>

**Table 1. Malaysia's Bilateral Trade with Partner Country Saudi Arabia (1960-2002)**

Year	Export Value	Import Value	Trade Balance Value
1960 <sup>a</sup>	4.3	5.9	-1.6
1961	4.2	13.9	-9.7
1962 <sup>b</sup>	0.65	4.10	-3.45
1963	0.83	11.26	-10.43
1964	1.00	16.17	-15.17
1965	1.37	50.09	-48.72
1966	1.14	73.43	-72.29
1967	1.67	75.95	-74.28
1968	3.33	79.04	-75.71
1969	3.32	72.64	-69.32
1970 <sup>c</sup>	0.971	23.642	-22.671
1971	0.948	20.748	-19.8
1972	1.169	25.300	-24.131
1973	N.A	37.445	-37.445
1974	0.718	129.627	-128.909
1975	9.517	80.344	-70.827
1976	9.296	85.706	-76.41
1977	32.023	193.673	-161.65
1978	33.346	236.594	-203.248
1979	42.633	247.155	-204.522
1980	60.954	664.668	-603.714
1981	60.726	543.540	-482.814
1982	70.702	404.950	-334.248
1983	63.800	569.600	-505.80
1984	132.801	430.642	-297.841
1985	93.141	268.406	-175.265
1986	53.261	46.441	6.82
1987	81.855	106.021	-24.166
1988	123.820	150.579	-132.113
1989	144.200	96.098	48.102
1990	150.488	143.534	6.954
1991	191.841	190.982	0.859
1992 <sup>d</sup>	0.68	0.53	0.15
1993	0.72	0.67	0.05
1994	0.71	0.57	0.14
1995	0.85	0.57	0.28
1996	0.80	0.83	-0.03
1997	0.83	1.02	-0.19
1998	1.10	0.90	0.2
1999	1.14	1.09	0.05
2000	1.23	2.40	-1.17
2001	1.30	2.41	-1.11
2002	1.46	1.51	-0.05

Source : Department of Economic and Social Affairs, Statistical Office of the United Nations, *Yearbook of International Trade Statistics* (New York : United Nations), from 1964-1995 & Department of Statistics, Malaysia, compiled by Malaysia External Trade Development Corporation (MATRADE), February 2003.

a. From 1960 & 1961, the value of trade is in million Saudi Riyals.

b. From 1962 to 1969, the value of trade is in RM million ringgit.

c. From 1970 to 1991, the value of trade is in US\$million dollars.

d. From 1992 to 2002, the value of trade is in RMbillion ringgit.

N.A : Not Available.



There might be the question of why Malaysia still needs Saudi oil (petroleum products) as the country has been producing and exporting petroleum since the mid-1970s. When PETRONAS was launched in 1974, Malaysia began to produce crude oil and petroleum products for domestic use as well as to be exported abroad. Malaysia's oil production had been dramatically increasing from only 1,000 barrels in the 1960s to almost 650,000 barrels per day in the 1990s. The production of oil has continuously growing till reached 912,000 barrels per day in 2004.<sup>39</sup> However, (as has been said before in the background of the Malaysian economy) although Malaysia is able to produce its own oil, the production is still insufficient for the domestic consumption. Malaysia could only averagely supply petroleum products less than 2,000 ktoc whereas the consumption is roughly about 20,000 ktoc at the end of the 1990s. On top of that, since Malaysia's oil is of premium quality, low-sulfur and fetches higher prices than Arabian light, the marker crude, it is an advantage for Malaysia to export its oil to other countries like Singapore, Japan, Thailand, and South Korea in order to gain more profits.<sup>40</sup> The ability of Malaysia to export its petroleum to international markets, it unnecessarily means that it has sufficient reserves of oil. Instead Malaysia has to import oil from other countries, especially Saudi Arabia for its own reserves are only predicted to be last less than 20 years to come<sup>41</sup>. This also had been noticed by the Deputy Prime Minister of Malaysia, Najib Tun Razak by saying that : "Malaysia is an oil exporter, but if we do not find new oil reserves, then by 2009, we will become a net importer..... This mean we cannot continue to lean on the oil sector".<sup>42</sup>

Notwithstanding the increasing total amount of Malaysia's trade with Saudi Arabia since the 1960s and onwards (although most in deficit terms), the amount of trade is still smaller compared with Malaysia's former main trading partners, namely the US, Japan, Singapore and the UK. The average percentage of the bilateral trade is about 3.5 to 4.0 percent, whereas Malaysia's trade values with the four main countries are around 11 to 24 per cent.<sup>43</sup> Moreover, it is not merely the imbalance of the export-import level which influences Malaysia's bilateral trade relations with Saudi Arabia, but there are also some difficult policies that restrict the growth of trade. For instance, Malaysian goods found it difficult to penetrate directly into Saudi markets due to the tax imposed, which is quite high at about 12 per cent. Thus, Malaysia chooses to export its goods to Dubai first (Free Trade Zone), and re-export, via Dubai, to Saudi Arabia and other Gulf states, which reduces the tax payable to 4 per cent. Beside that, Malaysia also faces some strict administrative business matters such as Saudi health authorities' stringent requirements for imports of pharmaceutical products. Only Malaysian companies that are already exporting to a developed country like the European Union, the US, and Japan can register with the Ministry of Health. The Saudi Ministry of Health does not recognize the Good Manufacturing Practice (GMP) issued by Malaysia, and for new chemical products, proof of 10 years research is required.<sup>44</sup> The same also goes for the Malaysian quality standard like SIRIM which sets the grade for products and goods manufactured by Malaysian companies (for example palm oil and vegetable oil), where the Saudi government seems less confident with the standard.<sup>45</sup> Malaysian companies are also less comfortable with the high cost of endorsement of trade documents like certificate of origin, invoices and other trade documents for goods exported to Saudi Arabia. These documents must be endorsed by three agencies, the Malaysian Chamber of Commerce, Wisma Putra and the Saudi Embassy. In the opinion of Malaysian companies, the fees charged by Saudi

Arabia are a burden for them. On top of that, obtaining a business visa to Saudi Arabia is rather hard because a Saudi sponsor (must be Saudi citizen) is always needed before the visa can be issued, and this is time consuming for the Malaysian companies,<sup>46</sup> whereas for Malaysia, upon the visit of Ministry of International Trade and Industry, Datuk Rafidah Aziz, to Riyadh, Saudi Arabia in 2001, the Minister announced a relaxation of entry procedures for Saudi companies and investors in order to attract them more to the Malaysian economy by dispensing with the visa requirement.<sup>47</sup>

## **FROM SAUDI AID TO INVESTMENT ACTIVITIES**

Malaysia, as one of the developing countries in the international economic system, is very much in need of capital inflow from industrial nations, oil-rich countries or international financial institutions in order to develop its economic infrastructure. This could be referred, for instance, to Malaysia's dependency on foreign direct investment (FDI) where from 1969 to 1983, FDI had been the major supplier of foreign capital inflow to Malaysia with an average of US\$550.266 million dollars, or 52 per cent of all total capital inflow.<sup>48</sup> Traditionally, western counterparts, especially the United Kingdom, and the US, along with Japan, Singapore, Taiwan, South Korea, and ASEAN neighbors are among the biggest investors in Malaysia.

Nonetheless, in regards to Saudi capital inflow into Malaysia, it was initially begun with the Kingdom's financial aid, and later continued by its investment, in nourishing some of the Malaysia's developmental projects. For example, during the years 1975-1993, Malaysia received SR312.30 million from the Saudi Fund for Development Fund (SFD).<sup>49</sup> The aid was specifically for socio-economic infrastructure in the Malaysian economic development plan. The first Saudi aid received by Malaysia was under Tun Razak administration in 1975 and amounted to US\$200 million.<sup>50</sup> The financial aid, which was in the form of a loan, was used to help finance a few developmental projects, namely the University of Technology, the Medical Faculty of the National University of Malaysia, the Ulu Kelantan Land Settlement Project, and the Pahang Tenggara Land Settlement Project. About SR48.20 million was given to the University of Technology for the availability of trained professional manpower, SR54.20 million for the Medical Faculty of UKM to increase the ratio of medical doctors, and to expand health care in Malaysia, SR40 million for Ulu Kelantan Land and SR86.1 million for Pahang Tenggara Land, which both were projected to grow 30,000 acres of rubber plantations, and 86,400 acres of oil palm plantations, as well as for the settlement of small farmers for both areas respectively.<sup>51</sup> Furthermore, from 1976 to 1983, Malaysia continued to receive Saudi aid (also in the form of loans) in developing its projects. There were, at least, three additional developmental projects which were financed by this aid such as Lepar Utara Land Settlement (SR52.70 million), the construction of five Mara Junior Science Colleges (SR15.20 million), and four new district hospitals (SR15.90 million), with the total aid approximately SR312.30 million.<sup>52</sup> All these developmental projects which received the financial aid from SFD, with the interest rates ranging from 3.5 to 4.0 per cent per annum, and a grace period of 5 to 15 years, were completely developed by the Malaysian government.<sup>53</sup>

A question may arise as to why SFD distributed its funds to co-develop those particular Malaysian development projects. In answering this question, it would

be better first to relate the inflow of the Saudi aid to Malaysia with the Kingdom's position as among the biggest of the world's donors alongside the United States, a few European countries, and Japan. Meanwhile for the Saudi Arabia's financial aid, through SFD, to Malaysia, the study believes that since the nature of SFD, which focuses on helping the development process of less developed countries all over the world, Malaysia was not exceptional as it had been classified as one of the less developed countries (or low-middle income countries specified by the U.N), and also a member of the OIC. This might easily generate aid from the Kingdom and in addition, owing to the personal contact particularly between the first Prime Minister of Malaysia, Tunku Abdul Rahman, and King Feisal of Saudi Arabia. Beside that, for the Malaysian government, Saudi financial aid was considered as the major boost for the economic development plan as those projects co-sponsored by SFD had been put under the Third Malaysia Plan, which was launched by the late Tun Hussein Onn, the third Prime Minister of Malaysia.

Yet, as Malaysia was no longer receiving the Saudi financial aid from mid-1980s and onwards, for the Kingdom considered Malaysia to be one of the developing nations in the world,<sup>54</sup> it started to lure several investments from the Kingdom. The investment from Saudi Arabia, however, had only begun during the early 1990s. The late investment of the Kingdom of Saudi Arabia was mainly associated with the Malaysian government's stress on attracting industrialized-developed countries to invest in its industrialization projects. Nevertheless, since Malaysia, to some extent, has rapidly achieved some industrialization processes, like producing its own national car, becoming the major exporter of the world electronic and electrical semi-conductor products, and lately paying more attention to refining crude oil, and petroleum products, more new capital inflow is needed, and among the new potential investors identified are Saudi Arabia, and Pakistan.<sup>55</sup>

The investments from Saudi Arabia, which only just started from 1990 to 1997, were poured into eight Malaysian projects with equity worth RM139.6 million, mostly in the industrial-manufacturing sectors like food processing, plastic materials, textiles and textile products, electrical and electronic manufactures.<sup>56</sup> Furthermore, from 1998 to 2000, Malaysia secured two more manufacturing investments from Saudi Arabia amounting to RM7.8 million, and one project in 2001, worth RM10.8 million (See Table 2 & 3).<sup>57</sup> Malaysia has also had limited investment activities in Saudi Arabia, with the total amount of RM17.86 million ringgit, or roughly at the average of RM1.9 million per year since the late 1990s. Among the joint-venture investment projects are included maintenance services of machines and equipment used for gas pipelines and the drilling and extracting of crude oil.<sup>58</sup> In addition, there are six companies which have established marketing offices in Saudi Arabia to promote their products, namely Ajinomoto (Monosodium Glutamate) Malaysia Sdn. Bhd., Alinamin (Tomato Sauce) Malaysia Sdn. Bhd., Kao Personal Care Products Malaysia Sdn. Bhd., Prime Oleochemical Industries (Medical Products) Sdn. Bhd., Sapura Holdings (Telephone) Sdn. Bhd., and Thong Fook Plastic Industries (Packing Bags) Sdn. Bhd.<sup>59</sup>

It is undeniable that Saudi aid between 1975 and 1983 had helped Malaysia to provide some economic infrastructures for consistent development of its economy in the international economic system. However, this amount of Saudi aid (US74.90 million dollar) was still smaller than other financial aid from more established and bigger funds like Japan's Official Development Assistance (ODA) and the World Bank. For example, the former had averagely distributed loans in the form of

**Table 2. Projects Approved with Saudi Arabian Participation by Industry, 1990-2001\***

Year	Food Manufacturing	Textiles & Textiles Products	Plastic Products	Electronic & Electrical Products	Miscellaneous	Total (RM Million)
1990	-	-	-	1 Project	-	RM44,730,700
1991	-	-	1 Project	-	-	RM 7,200,000
1992	-	-	-	-	-	-
1993	-	-	-	-	-	-
1994	1 Project	-	-	-	-	RM30,000,000
1995	-	1 Project	-	-	-	RM 999,450
1996	1 Project	1 Project	-	-	-	RM56,570,500
1997	-	-	-	-	-	-
1998	-	-	1 Project	-	-	RM 4,938,192
1999	-	-	-	-	-	-
2000	-	-	-	1 Project	-	RM 2,880,000
2001	-	-	-	-	1 Project	RM10,806,900
TOTAL INVESTMENT					RM158,125,742	

\* (Source: Malaysia Industrial Development Authority (MIDA), 2003)

\* - : no projects approved/Nil

**Table 3. Sources of Foreign Investment in Approved Projects 1998-2002 (Selected Countries)\***

Country	No. of Projects	Value (RM Million)
China	40	RM 3,384,132,986
Federation of Germany	97	RM 9,653,526,466
Iran	2	RM 8,110,000
Japan	622	RM 9,708,060,085
Jordan	1	RM 720,000
Saudi Arabia	3	RM18,625,092
Singapore	722	RM 6,896,038,155
Taiwan	393	RM 3,575,573,177
United Arab Emirates	4	RM 310,591,119
United Kingdom	84	RM 1,734,376,117
United States	206	RM25,163,581,374

\* Malaysian Industrial Development Authority  
 ([http://www.mida.gov.my/stats\\_man/2003/march/table12.htm](http://www.mida.gov.my/stats_man/2003/march/table12.htm)).

technical co-operation to Malaysia of about Yen194.90 million from 1995-2000, and the World Bank gave \$152 billion dollars in bank loans to Malaysia between 1968 and 1982 to promote the clearing of 1.3 million acres of tropical forest land for export agriculture.<sup>60</sup> This is also different to investment sectors where, if a proportional percentage is made between Saudi investment and other developed countries like Japan, the US, UK and Singapore into Malaysia, the difference is quite immense. For example, from 1990-2001 (ten years period), the average percentage of Saudi investment was 8.3 per cent compared to Japan and the US from 1977-1982 (six years only), which had 19.9 per cent, and 8.6 per cent respectively,<sup>61</sup> or from 1981-1986 (six years also), Japan had 20.7 per cent, UK 10.7 per cent, Singapore 9.2 per cent, and the US 8.02 per cent.<sup>62</sup>

## **TOURISM SECTOR**

The tourism sector did not give a significant income for the Malaysian economy in the 1960s, and towards the 1980s, as the country put more emphasis on developing agricultural, and industrial-manufacturing sectors. Nevertheless, when Malaysia experienced financial crisis in 1997, which dragged its economy down after achieving 7-9 per cent GDP growth in almost a decade, the government began to look at other economic fields, especially the tourism sector, which might increase wealth resources for Malaysia. The effort of the government has, to some extent, paid off as at the end of the 1990s, the tourism sector successfully attracted more tourists to visit Malaysia. For instance in 1990, the total tourist arrivals were about 7,446,000 million people, an enormous increase from only 800,000 people in 1980, and continued to achieve steady arrivals around 7,469,000 million and 9,931,000 million people in 1995 and 1999 respectively.<sup>63</sup> Beside that, the tourism sector is also able to generate government revenue, for instance, at RM22 billion in 2001, and contributes 7.2 per cent of Malaysia's GDP in the same year compared to only 1.8 per cent in 1981.<sup>64</sup>

In regards to the coming of Saudi tourists to Malaysia, it can be generally expected that at the early stage of the Malaysian tourism development, especially from the 1960s to the end of 1980s, the level of arrival is barely discernible. Due to the small number of Middle Eastern tourists, including the Saudi people, most of the Malaysian tourist statistics (1970s-1980s) only categorized them as tourists from other Asian countries or other countries. The total number of tourists within this category in 1970 was only about 593 people compared to other major tourists from the US (8,482 people), UK (5,120 people), and Singapore (3,589 people), and between 1980 and 1982, were 957 people, while there were 24,822, 14, 238, and 6,751 people from Singapore, UK, and the US respectively visiting a few states in Malaysia.<sup>65</sup>

Nonetheless, as Malaysia headed towards the 1990s, tourists from the Middle Eastern countries, including Saudi Arabia made a vast impact on the Malaysian tourism sector. Their numbers are increasing year by year. According to Table 4, the coming of Saudi tourists to Malaysia from 1992 to 2002 has indicated an impressive growth of arrivals in the tourism sector. Starting with the number of Saudi tourists in 1992 of 9,208 thousand people, it made a huge leap to 45,007 thousand people in 2002, and the overall average of arrival is about 17,402 people. Among the major reasons leading to the massive increase of the Saudi and other Middle Eastern tourists, particularly at the end of the 1990s, were the hectic

**Table 4. Malaysia Tourist Arrivals  
(Major Middle Eastern Countries, No. of People)\***

Country	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Saudi Arabia	9,208	9,640	11,267	11,679	10,878	5,498	8,925	11,564	27,808	39,957	45,007
U.A.E	5,681	5,497	5,859	5,883	5,846	3,205	4,637	2,909	2,391	13,762	14,124
Kuwait	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	1,095	7,428	10,470
Oman	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	1,223	7,284	8,432
Turkey	1,899	2,666	2,333	2,803	3,791	3,834	4,283	2,603	8,705	6,392	5,742
Syria	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	2,784	18,205	21,109
Jordan	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	2,888	3,688	3,611

\*Source : Ministry of Tourism, Malaysia & Malaysia Tourism Promotion Board, Malaysian Tourism Statistics Update, December/Fourth Quarter 1993, p. 14.

N.A. : Not Available

campaigns launched by the government headed by the Minister of Culture and Tourism of Malaysia, Datuk Abdul Kadir Sheikh Fadzil, who made several visits to the Gulf Countries in 2000, including Saudi Arabia, to attract more tourists from this region to come to Malaysia.<sup>66</sup> Beside that, it was also following the tragedy of 11 September, 2001, which indirectly brought most of them to spend holidays in Asian countries, including Malaysia.<sup>67</sup> Despite the huge increase of the arrivals of the Saudi as well as other Middle Eastern counterparts, tourists from Singapore, Australia, UK and the US are still among the most consistent visitors to Malaysia from 2001-2002. Singapore tourists are among the highest average arrivals of 7,249,678 thousand people, followed by UK (250,859 thousand), Australia (208,067 thousand) and the US (136,874 thousand).<sup>68</sup>

## FOREIGN WORKERS

As is generally known, the Saudi labor market is heavily flooded with foreign workers or 'expatriates'.<sup>69</sup> For instance, in the early 1980s, the Kingdom received about 3 million foreign workers, and this number is continuously growing, with the total current estimate between 7 million to 8 million people from its total population (23 million people) at the end of the 1990s.<sup>70</sup> These foreign workers who worked in various jobs in Saudi Arabia, repatriated from US\$8 billion in 1980 to US\$17.6 billion in 1995.<sup>71</sup>

Nonetheless, in the case of Malaysian workers or expatriates in Saudi Arabia, the size is small, which also certainly does not make a big impact upon their remittance for the Malaysian economy, compared to other foreign workers in the Kingdom. There are only about 942 Malaysian expatriates in Saudi Arabia, of which 80 per cent are working as nurses, and the other 20 per cent in a variety of private companies like banks, hotels, telecommunications, and petroleum industries.<sup>72</sup> Besides, there are about 300 to 500 Malaysian people presently permanently resident in a few cities like Mecca, Madinah, Tabuk and Jeddah, without obtaining Saudi citizenship but holding Malaysian passports, who came to Saudi Arabia as early as the 1940s and 1960s.<sup>73</sup> The small number of Malaysian expatriates in the

Kingdom is largely because Malaysia, as Saudi Arabia, is not one of the biggest exporters of foreign or migrant workers to other countries, instead, it is one of the highest receivers of migrant workers from its neighboring countries in the Southeast Asian region, mainly Indonesia and the Philippines.

Interestingly, however, although the number of Malaysian expatriates in Saudi Arabia is small, the career of nurse had attracted a lot of Malaysian people as well as other Asian foreign workers to come to the Kingdom of Saudi Arabia. It was stated that in 2004 alone, the total number of nurses in the Kingdom was 37,459, but only 32.1 per cent of this number were Saudi citizens.<sup>74</sup> The shortage of Saudi nurses, particularly female nurses, is closely related to the policy of the Saudi government which limits the career development of their women.<sup>75</sup> Lately, however, they have realized the importance of the health sector in the Kingdom, and also noticed the gradual departure of non-Saudi female nurses from Saudi Arabia to other developed countries. So, the Saudi government will have to double its efforts in recruiting more local nurses, especially the Saudi girls, by opening up new schools, and colleges, and offering several relevant courses in local universities in order to develop nursing careers in Saudi Arabia.<sup>76</sup>

For Malaysian nurses, apart from several attractive packages offered by the Saudi government like free accommodation, free board, free passage from home to the Kingdom, and other benefits, the higher salary is one of the most important factors driving them to leave their homes, as they are paid between SR7,000 riyal to SR12,000 riyal per month (which also approximately between RM7,000 ringgit to RM12,000 ringgit).<sup>77</sup> In Malaysia, by contrast, the nurses are only paid around RM700 to RM1,200 per month as a starting salary.<sup>78</sup> The willingness of Malaysian nurses to work in Saudi Arabia does not mean that Malaysia has enough nurses, instead, the ratio between nurses and the Malaysian population is still wide, for example in 2001, one nurse is equivalent to serve 970 patients (1 : 970) in public hospitals, while in private hospitals the ratio is 1 : 2,719.<sup>79</sup> Mr. Anuar Kasman, Malaysia's Counsellor in Riyadh, described the attitude of these Malaysian nurses as 'selfish', for the Malaysian government still needs their services to further improve the quality of health institutions for the Malaysian population.<sup>80</sup>

## THE INFLUENCE OF THE INTERNATIONAL ECONOMIC SYSTEM

Scholars of international relations and international political economy, to some extent, come to a similar argument that since, at least, the emergence of the modern state in the *post-Westphalia system*\* in the sixteenth century, there has been international economic interaction between sovereign states in conducting their trading and commerce activities. Nevertheless, they pose different views on the character of the international economic system that influences the relations between states, and how it affects the level of development of a state. There are, at least, three main schools that dominate the discussion of the character of the international economic system, namely the Liberal, Marxist, and Structuralist schools.<sup>81</sup> The liberal tends to believe that state participation in the international economic system, such as free trade, which operates on the basis of natural laws, will lead to economic prosperity.<sup>82</sup> Meanwhile, both the Marxist and the Structuralist argue that the international economic system, which is largely based on the influence of the western-capitalist model, will not bring states, especially less developed countries,

to development, instead there would be continuous unequal distribution between developed countries and less developed countries, and the latter will incessantly succumb to being dependent upon the former.<sup>83</sup> Although, the Marxist emphasizes the exploitative mode of production and class struggle among bourgeoisie and proletariat, and the Structuralist on the division structure of international economy between the core and periphery zones, these two schools together confront liberal arguments, and urge international economy to be re-structured in order to achieve equal partnership.<sup>84</sup>

As the main focus of this chapter on Malaysia's economic relations with Saudi Arabia, where both countries could be relatively regarded as the peripheral states in the international economic system, the discussion of core-periphery, which is extensively debated by the School of Structuralist (including *Dependencies* group), will be treated analytically in order to examine how far the question of core-periphery, as part of the character of the international economic system, shapes Malaysia's economic relations with Saudi Arabia. It is not the central intention of this study, however, to come to the conclusion that this is the only feature of the economic relations, rather it is considerably among the major characteristics underlying the system of economic interaction between both countries, and also parallel to their degree of participation in the international economic system, which preferably classifies them as 'peripheral states'.

There are a few well-known groups of scholars like Immanuel Wallerstein, Andre Gunder Frank, Paul Baran, John Gatung, Samir Amin, and others, who lengthily discuss the question of core-periphery relations, specifically related to complex and stagnated development in some parts of the less developed world. Most of these scholars believe that the character of relations between developed and less developed countries is mostly based on the core and periphery relations, where the former generally acts as the main producer of manufactured goods, and gains surplus from the movement of capital goods and technological know-how, and the latter acts more as the supplier of a few raw materials and the main consumer of the former's products as well as regularly running deficits, and getting less profits, especially in trading and commerce activities.<sup>85</sup>

The study does not deny the Structuralist point of view that there are some forms of unequal distribution for less developed countries' achievement in the international economy. Even before the collapse of the former Soviet Union, world economic development had divided, at least, into four categories, namely the First World (Mostly western developed countries, including Japan), the Second World (Socialist countries), Third World (Developing countries like East Asian Newly Industrializing Countries, and others), and the Fourth World (The poorest countries in some African continents). The study believes, however, that it would be unwise to merely argue that those inequalities were the result of the structure of the international economic system, which is mostly subject to the capitalist mode of production, but other factors including governmental policies, domestic political stability, the nature of the economic environment, and historical background (including the impact of colonization) have to be re-considered as all of them interplay in influencing the level of development and world economic distribution. As most of the less developed countries experience some losses in world economic distribution, Malaysia and Saudi Arabia, could provide a good example of how these two countries successfully 'manipulated' the system of core and periphery zones. Both countries, to some extent, have enjoyed being integrated in the world



economy as well as participate in a few smaller states' organizations like NAM and G-77. The level of tendency of joining the world economy is obviously shown when only on a few occasions these two countries 'temporarily' withdrew from the world economy, specifically in the oil crisis of 1973 (Saudi Arabia led other Arab-Gulf states to boycott exporting oil to industrial countries), and the Asian Crisis of 1997 (Malaysia introduced capital control by pegging one US dollar to RM3.80).

Malaysia, by diversifying its economy from mere agriculture-based to industrial-manufacturing sectors, and attracting a lot of foreign direct investments in order to provide more capital for its infant industries, has gained some 'miraculous achievement' by maintaining the growth of GDP from seven to nine per cent, at least, from the mid-1980s to the 1990s before tumbling in the Asian crisis of 1997, and was nearly categorized as one of the new Newly Industrializing Countries (NICs) in the Asian region. Furthermore, through the most celebrated theory of flying geese,<sup>86</sup> Malaysia (periphery) has increased its co-operation with Japan (core) in developing its heavy manufacturing and automobile industries. This was a tremendous achievement for Malaysia as it successfully produced its first national car called '*Proton Saga*' in 1985, and was able to export it overseas. However, to some researchers, the level of government intervention is high, and the government policy places more emphasis on the Malay (as the majority citizen, more than 50 per cent),<sup>87</sup> which might undermine Malaysian full commitment to free trade and liberal economic principles, and also too much dependence on foreign direct investment,<sup>88</sup> but it has signaled to other less developed countries that a sense of development and an impressive economic growth can be achieved by actively participating in, not isolating from, the world economic system.

On the other hand Saudi Arabia, since the discovery of oil in 1930s, the Kingdom has indirectly engaged in the world economy. Despite heavy dependence on the west, especially the US in order to expand its oil industry, the Kingdom has enjoyed enormous surplus from the export of the oil to other countries around the world. However at the same time it also faces several economic problems such as being too dependent on oil and needing economic diversification, limited growth in agricultural sectors and lack of manpower from the Saudi citizens themselves, but to some extent, Saudi Arabia is not only benefiting itself from the oil exploration, the Kingdom has also begun widening its role in the world economy by becoming one of the biggest donors in the world, contributing 4.2 per cent to 6 per cent of its GNP directly to several less developed countries (most of them are member of G-77) and also to international organizations such as OPEC, IMF, and others.<sup>89</sup> This new role might change the status of Saudi Arabia from the periphery into semi-periphery, particularly in its relations with other less developed countries, including Malaysia as it received several financial aids from the Kingdom.

As both Malaysia and Saudi Arabia gain some benefits from the world economic distribution as periphery or semi-periphery status, especially the latter, does the integration or participation in international economic system by these two countries also enhance their economic bilateral relations? From the 1960s to the 1980s, it could be argued that the dynamic participation of Malaysia and Saudi Arabia in the world economy might indirectly encourage both countries to interact frequently, as both countries mainly depended on the export-import market-orientation of their products, which is in line with the free market system as one of the characteristics of the international economic system. This can be pointed to by the dramatic increase of Malaysia's trade volume with Saudi Arabia, from

RM4.75 million ringgit in the 1962 to US\$24.613 million and US\$725.622 million dollar in the 1970 and 1980.<sup>90</sup> Even though the character of the trade was less favorable for Malaysia as it ran huge deficits as a result of the high import of Saudi oil, it indicated that there were some increases in the former's trade with the latter. Furthermore, during the oil crisis of 1973, Malaysia was not among the countries that were boycotted by the Kingdom for the access of its crude oil. This may due to the nature of the crisis, which aimed to urge the US, especially, to be more balanced in its handling of Israel-Palestinian affairs, in which Malaysia had indicated its firm support to the question of Palestine. Even after the crisis, Malaysian Prime Ministers, the late Tun Razak and Tun Hussein, took such a golden opportunity by touring the Kingdom and some Gulf countries to get some financial assistance from the Kingdom, and at the same time continuously support the policy of the Saudi government upon Israel-Palestine affairs, especially during the 1970s. Nonetheless, there had yet to be any foreign direct investment from Saudi Arabia in Malaysia, and the same goes too for the Malaysian tourism industry where the Saudi tourists did not have a major impact from the late 1960s to 1980s.

As the years headed towards the 1990s, bilateral economic relations between the two countries improved further as the total trade reached RM3,633.56 million at the end of the 1990s. Additionally the Kingdom had begun to show some interest in investing in Malaysian developmental projects, particularly in the manufacturing sector, and Saudi tourists also started to visit Malaysia more frequently. The positive development, specifically to trade volume, and investment, could be linked to some factors that lately influenced the pattern of Malaysian economy, including the withdrawal of its privileged access to developed countries' markets, called the Generalized System of Preferences (GSP), especially to the US, in January 1997.<sup>91</sup> In addition with the eruption of the Asian financial crisis in 1997, Malaysia was inevitably forced to seek other market opportunities, especially in other less developed countries, which had huge potential in marketing Malaysian products. This is also similar to the Middle East region, where Malaysia had geared up more effort to penetrate a variety of Saudi markets as well as to lure more investors from the Kingdom and other Gulf countries such as the United Arab Emirates, Kuwait, Bahrain, and others.

It is certainly true, however, that Malaysia's economic relations with Saudi Arabia are not so great compared to their economic interaction with developed countries. It is not that Malaysia in particular, does not emphasize the significance of its economic relations with Saudi Arabia, and not merely because of some stringent policies imposed by the latter caused the level of interaction to be less favorable to the former, but it is also mainly due to the level of achievement, the miraculous economic growth and massive development that was achieved, resulting with Malaysia's dynamic integration with the core countries in the world economy. Added to this was the provision of developed countries to give 'special access', or the Generalized Special Preferences (GSP) for less developed countries, including Malaysia to penetrate their markets, which augmented the level of its participation in the world economy, and which caused it unconsciously to slightly ignore the efforts to further strengthen economic relations with Saudi Arabia, and other less developed countries. Not only that, but owing to the nature of economic relations between less developed countries which is more market-driven (such as more on the import of Saudi oil), and is not based on technological knowledge transfer from the core to periphery such as between Malaysia and Japan, Saudi Arabia and the

US, make less developed countries' interrelations less important than with developed countries.

## CONCLUSION

The character of Malaysia's economic relations with Saudi Arabia highlights a few vital patterns in the context of inter-less developed countries interaction, and also within the co-religionist point of view. Despite both countries being categorized as peripheral states or 'Muslim-Islamic states', and the nature of their relations being largely based on their socio-economic backgrounds, this presumably argued that their interaction in any related fields, including economy, might be thriving. However, in terms of economic interaction, it demonstrates a different picture from those presumptions. This study has attempted to link the unfavorable economic relations, especially for Malaysia, to the three main economic determinants; the background economy, the character of economic activities, and the influence of the international economic system, which the study believes might affect the character of the relations. Through the discussion, the study finds that these three economic determinants have differently influenced the degree of economic interaction between Malaysia and Saudi Arabia. This case study also could to some extent help to resolve a few issues related to economic relationship of small states in the international political economy arena.

## ENDNOTES

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<sup>5</sup> David Lim, "Malaysian Development Planning", *Pacific Affairs* 55 (4) (Winter 1982-83), p. 617, Ibid.

<sup>6</sup> Jomo K.S. & Chris Edward, "Malaysian Industrialisation in Historical Perspective," in Jomo K.S. (ed.), *Industrialising Malaysia : Policy, Performance and Prospects*, (London : Routledge, 1993), p. 18.

<sup>7</sup> Ibid., pp. 25-26; Edmund Terence Gomez and Jomo K.S. (ed.), *Malaysia's Political Economy*, pp. 16-17.

<sup>8</sup> National Energy Balance 2001, available at [http://ns2.ptm.org.my/medishomepage/PDFReport/NEBES\\_01.pdf](http://ns2.ptm.org.my/medishomepage/PDFReport/NEBES_01.pdf).

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- <sup>22</sup> Fouad Al-Farsy, pp. 135-141.
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- <sup>29</sup> Abbas Alnasrawi, *Arab Nationalism*, pp. 1-2.
- <sup>30</sup> This external trade includes West Malaysia (Malay Peninsula), Sabah and Sarawak. *Malaysia Official Year Book 1966 vol. 6*, (Kuala Lumpur : Government Press, 1968), p. 194.
- <sup>31</sup> *Malaysia Official Year Book 1968 vol. 8*, (Kuala Lumpur : Government Press, 1969), pp. 12-13 & 14-15.
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<sup>34</sup> Bruce Gale, "Petronas," pp. 1141-1142.

<sup>35</sup> Department of Statistics, Malaysia, MATRADE, February 2003.

<sup>36</sup> *Utusan Malaysia*, 24 May 2001.

<sup>37</sup> The latest event is the signing of the Second Saudi-Malaysian Commission in Kuala Lumpur, Malaysia in 2001. *Saudi Arabian Information Resource*, 12<sup>th</sup> May 2001, available at <http://www.saudinf.com/main/y2488.htm>.

<sup>38</sup> MATRADE, 4 September 2003.

<sup>39</sup> Green Car Congress, Energy, Technologies, Issues and Policies for Sustainable Mobility, available at [http://www.greencarcongress.com/2005/07/malaysia\\_may\\_be.html](http://www.greencarcongress.com/2005/07/malaysia_may_be.html).

<sup>40</sup> Fong Chan Onn, *New Economic Dynamo*, p. 134, and discussion, via telephone, with Tuan Hj. Fadzil, Senior Project Leader of PETRONAS, Kuala Lumpur Headquarters, 22 December 2005.

<sup>41</sup> United States Energy Information Administration, available at <http://www.converger.com/eiacab/malaysia.htm>.

<sup>42</sup> Green Car Congress.

<sup>43</sup> *Malaysia Quarterly Statistics of External Trade, (July-September 1966)*, pp. 6-9, 52 & 58; *Preliminary Figures of External Trade 1973*, (Kuala Lumpur : Department of Statistics, 1973), p. 29; *Preliminary Figures of External Trade 1979*, pp. 33, 35-36, *Preliminary Figures of External Trade January 1984*, (Kuala Lumpur : Department of Statistics, 1984), The Ministry of Finance (Malaysia), *Economic Report 1986/1987 (Malay version)*, (Kuala Lumpur : Jabatan Percetakan Negara, 1986), pp. xxvi-xxix & 106-107; *Yearbook of Statistics 1989* (Kuala Lumpur : Department of Statistics, Julai 1990), pp. xiii, 157-160; *Yearbook of Statistics 1997-2000* (Kuala Lumpur : Department of Statistics, September 2000), pp. 169 & 171.

<sup>44</sup> Interview with Mr. Ibrahim Md. Yusop, (MATRADE), Kuala Lumpur, Malaysia, 9 April 2003.

<sup>45</sup> Interview with Raja Saifful Ridzuwan Raja Kamaruddin, Ministry of Foreign Affairs, Putrajaya, Malaysia, 2 April 2003.

<sup>46</sup> Interview with Mr. Ibrahim Md. Yusop, (MATRADE), Kuala Lumpur, Malaysia, 9 April, 2003.

<sup>47</sup> Saudia Online, 22 May 2001, available at <http://www.saudia-online.com/maynews/Business56.htm>.

<sup>48</sup> Thomas G. Parry, "The Role of Foreign Capital in East Asia Industrialization, Growth and Development," in Helen Hughes (ed.), *Achieving Industrialization in East Asia*, (Cambridge: Cambridge University Press, 1988), p. 100.

<sup>49</sup> The aid, in fact, ended in 1983. The Saudi Fund Development, *Annual Report (20)*, 1993 (1413/1414H).

<sup>50</sup> Ministry of Foreign Affairs, "Formal Notes Between Malaysia and Saudi Arabia", 13<sup>th</sup> February, 1974, National Archive of Malaysia (1150/1974, 1151/1974). Ministry of Information, *News from Saudi Arabia*, xi (545) February 4, 1975, pp. 1 & 6; Ministry of Foreign Affairs, "Formal Notes Between Malaysia and Saudi Arabia", 15<sup>th</sup> January, 1975, National Archive of Malaysia (1152/1975, 1153/1975).

<sup>51</sup> The Saudi Fund for Development, *Annual Report (20) 1993*, (The Kingdom of Saudi Arabia, 1993), p.37.

<sup>52</sup> The financial reports given by SDF in 1975 and 1976 were inconsistent. Therefore, the researcher used SDF reports from 1982/1983, 1989, 1991, and 1993, which were more accurate and reliable. See for a good comparison The Saudi Fund for Development, *First Annual Report March to July 1975*, pp.13-14; The Saudi Fund for Development, *Annual Report III, June 1976 to June 1977*, (The Kingdom of Saudi Arabia, 1977), p. 22; The Saudi Fund for Development, *Annual Report March 1982/83*, (The Kingdom of Saudi Arabia, 1983), p. 25; The Saudi Fund for Development, *Annual Report 1989*, (The Kingdom of Saudi Arabia, 1989), p. 46; The Saudi Fund for Development, *Annual Report 1991*, (The Kingdom of Saudi Arabia, 1991), p. 40; The Saudi Fund for Development, *Annual Report (20) 1993*, p. 37.

<sup>53</sup> Anuar Kasman, "Brief on Malaysia's Bilateral Relations with Saudi Arabia", Embassy of Malaysia in Riyadh, Saudi Arabia, 2004, p. 17.

<sup>54</sup> *Ibid.*, p. 18.

<sup>55</sup> Fatimah Kari & Rashida Bee, "Pelaburan Asing dan Pemindahan Teknologi," pp. 274-275.

<sup>56</sup> MATRADE, 2000.

<sup>57</sup> MATRADE, 2000, & MIDA, 2003.

<sup>58</sup> This joint venture is between a Malaysian company, Seafield Company Sdn. Bhd. (30 per cent equity interest), with Mohamad Said Ibrahim Al-Ghamdi. Discussion with Mr. Ibrahim Md. Yusop, (MATRADE) 2003; Anuar Kasman, "Brief on Malaysia's," pp. 15-16.

<sup>59</sup> *Ibid.*, p. 16.

<sup>60</sup> "Japan International Corporation Agency (JICA), available at <http://www.jica.org.my/aboutms/disbursements.htm>; "The World Bank: The Global Forest Threat," available at <http://www.americanlands.org/IMF/wbfact.htm>.

<sup>61</sup> Ku-Hyun Jung, "Foreign Direct Investment and Regional Economic Growth : With Emphasis on Korea's Experiences," in Dalchoong Kim & Noordin Sopiee (ed.) *Regional Cooperation in the Pacific Era* (Seoul : Institute of East and West Studies, Yonsei University, 1988), p.220.

<sup>62</sup> Ministry of Finance, Malaysia, *Laporan Kewangan 1986/87*, (Kuala Lumpur : Jabatan Percetakan Negara, 1986), pp. Ivi-Ivii.

<sup>63</sup> United Nations Economic & Social Commission for Asia and Pacific (ESCAP), available at <http://www.unescap.org/stat/statdata/Malaysia.pdf>.

<sup>64</sup> National Economic Action Council (NEAC), 7 November 2002, available at <http://neac.gov.my/index.cfm?ID=227>.

<sup>65</sup> *Visitor Arrival Statistics Sarawak 1980*, (Kuching : Department of Statistics, 1980); *Visitor Statistics Sabah 1982*, (Kota Kinabalu : Department of Statistics, 1982), pp. 32-33.

<sup>66</sup> *Utusan Malaysia*, 10 April 2000.

<sup>67</sup> Discussion with Puan Yusnita, Ministry of Tourism, Kuala Lumpur, Malaysia, 5 May 2003.

<sup>68</sup> Ministry of Tourism, available at [http://www.tourism.gov.my/statistic/tourist\\_arrivals.asp](http://www.tourism.gov.my/statistic/tourist_arrivals.asp).

<sup>69</sup> The term expatriates is more preferable for the Malaysian workers in Saudi Arabia as most of them work in professional jobs like nurses, and others. Discussion with Mr. Anuar Kasman, Embassy of Malaysia in Riyadh, Saudi Arabia, 30 August 2004.

<sup>70</sup> Summer Scott Huyette, *Political Adaptation in Sa'udi Arabia : A Study of the Council of Ministers*, (London : Westview Press, 1985), p. 34; Anthony H. Cordesman, *Saudi Arabia : Guarding the Desert Kingdom*, (Boulder : Westview Press, 1997), p. 71; Abdul-Aziz Al-Sa'aedi, "SR60B, 7M Workers... and Free Training!", *The Saudi Gazette*, 3 August 2004; M. Ghazanfar Ali Khan, "Ease Restrictions on Family Visas, GCC Study Suggests", *Arab News* 24 August 2004.

<sup>71</sup> Anthony H. Cordesman, *Saudi Arabia*, pp. 71-72.

<sup>72</sup> Discussion with Mr. Anuar Kasman, Embassy of Malaysia in Riyadh, Saudi Arabia, 30 August 2004; Audrey Edwards & Cecil Fung, "Malaysians in Riyadh Safe," *The Star Online*, 10 November 2003; available at [http://pgoh.free.fr/riyadh\\_safe.html](http://pgoh.free.fr/riyadh_safe.html).

<sup>73</sup> Discussion with Mr. Anuar Kasman, Counsellor, Deputy Head of Mission, Embassy of Malaysia in Riyadh, Saudi Arabia, 30 August 2004, 10.00-12.00pm.

<sup>74</sup> Sabria S. Jawhar, "Kingdom Suffers Nurses Shortage," *The Saudi Gazette*, 3 August 2004.

<sup>75</sup> Louay Bahry, "The New Saudi Woman : Modernizing in an Islamic Framework," *The Middle East Journal* 36 (4) (Autumn 1982), pp. 503 & 505.

<sup>76</sup> Sabria S. Jawhar, "Kingdom Suffers".

<sup>77</sup> Discussion with Mr. Anuar Kasman, Embassy of Malaysia in Riyadh, Saudi Arabia, 30 August 2004.

<sup>78</sup> "Malaysia: Nurses Get Pay Rise", *Asian Labour News*, 28 November 2003, available at <http://www.asianlabour.org/archives/000134.php>; Embun Majid & Florence Samy, "New Salary Scheme Soon for Nurses with Post-Basic Skills," *The Star*, 28 March 2005, available at <http://thestar.com.my/news/story.asp?file=/2005/3/28/nation/10530433&sec=nation>.

<sup>79</sup> But in 2004, according to the Ministry of Health, Malaysia, Datuk Dr. Chua Soi Lek, the ratio is one nurse for 630 patients. Ministry of Health, Malaysia, "Table 4.8 : Health Manpower Population Ratio by Category of Manpower, Malaysia as on 31.12.2001," available at <http://www.moh.gov.my/indicator%202001/Jadual%204B.pdf>.

<sup>80</sup> Discussion with Mr. Anuar Kasman, Embassy of Malaysia in Riyadh, Saudi Arabia, 30 August 2004.

<sup>81</sup> Nazli Choucri, "International Political Economy : A Theoretical Perspective" in Ole R. Holsti, Randolph M. Siverson & Alexander L. George, (ed.), *Change in the International System* (Boulder : Westview Press, 1980), pp. 112-115.

<sup>82</sup> Joan Edelman Spero, *The Politics of International Economic Relations*, (London : George Allen & Unwin, 1985), pp. 1-2 & 170-171.

<sup>83</sup> *Ibid.*, pp. 3-4 & 171-173.

<sup>84</sup> Nazli Choucri, "International political economy," p. 114.

<sup>85</sup> Frederic C. Deyo (ed.) *The Political Economy of the New Asian Industrialism*, (Ithaca : Cornell University Press, 1987), p. 13; Samir Amin, *Capitalism in the Age of Globalization : The Management of Contemporary Society*, (London : Zed Books, 2000), pp. 12-45; Paul A. Baran, *The Political Economy of Growth*, (Middlesex : Penguin Books Ltd., 1973).

<sup>86</sup> Mitchell Bernard & John Ravenhill, "Beyond Product Cycles and Flying Geese : Regionalization, Hierarchy and the Industrialization of East Asian", *World Politics* 47 (2) (January 1995), pp. 171-172.

<sup>87</sup> Paul M. Lubeck, "Malaysian Industrialization, Ethnic Divisions, and the NIC Model : The Limits to Replication", pp. 179-180.

<sup>88</sup> Jomo K.S. "Malaysia: From Miracle to Debacle", pp. 182-183.

<sup>89</sup> The Saudi Development Fund (SDF) "Saudi Aid to the Developing World," available at <http://www.saudinf.com/main/1102.htm>.

<sup>90</sup> See Table 1.

<sup>91</sup> USIA, "Trade Preferences Programs: US Programs for Developing Countries and Aid Recipients, *Economic Perspective*," available at <http://usinfo.state.gov/journals/ites/0896/ijee/ej3faf1.htm>.