

SEMINAR KEBANGSAAN INSTITUT KAJIAN RANTAU ASIA BARAT (IKRAB)  
“MALAYSIA-WEST ASIA RELATIONS: PROSPECT & CHALLENGES”

Malaysia-West Asia Relations and FDI:  
Proposal for an *Ummah* Network based on  
Social Capital Concept

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## Objectives:

- (i) Explore potential mutually beneficial Malaysia-West Asia partnership through the perspective of social capital networking with the focus on foreign investment.
- (ii) Propose a framework for the establishment of a relationship-based “Ummah Network” between Malaysia and West Asia.

# Background:

GDP growth but less trickle down to host country

Profit maximization

Win-lose / win-draw outcome

FDI

Political stability

Infrastructure

Market potential

Monetary incentives

GDP growth that enjoy by both host country and foreign investors

Mutual benefit

Social capital

Membership

Ethnic

Family ties

Ideology

Religion

Geography

Source:

## Social Capital Relationship

Microeconomics context: *guanxi*, Bamboo Network, business relationship

Macroeconomics context: **International relations**

- >> **Institutionalized relationships**: Through formal policy such as Look East Policy
- >> **Non-institutionalized relationships**: Through historical events (Commonwealth), international membership (ASEAN, OIC, South-south Cooperation) & formal visit (by President/Prime Minister/Chancellor/Officers)

Malaysia with **Japan, South Korea, Germany & Netherlands** are more towards social capital relationship >> their investments seem longer term, “crisis resilient” and more mutually beneficial

Malaysia with **United State & Singapore** are more towards profit maximization relationship >> their investments seem controversial (Motorola case), “loosely rooted” and less beneficial to Malaysia

Potential treat to Malaysia FDI flows & international trade:

**Mandarin-speaking** new Australia Prime Minister (**Kevin Rudd**)>> more Australia-China partnership?

**Barack Obama** >> more U.S-Indonesia partnership?

**Potential opportunity** to Malaysia FDI flows & international trade:

Multiethnic & multilingual >> FDI & trade relationship with China, Taiwan, Hong Kong, India & Malay world (Indonesia, Brunei)

History >> United Kingdom, Portugal & Netherlands

**Malaysia-Islamic world** international relations:

Then Prime Minister, **Abdul Razak** had boosted relationships by visiting some of the West Asia countries, which includes Gulf States of Kuwait, Oman, Qatar, Bahrain and UAE

Perception of **Abdullah Badawi** as Islamic scholar greatly enhance relationship between Malaysia and Islamic world

**Brotherhood** >> West Asia (Arab world and other Islamic countries),  
“South-south countries brotherhood”

Needed: A **big scale**, which later self-sustained, **relationship-based** network >> Proposal for an **Ummah Network**

## **Ummah Network: Framework**

### (i) Informal set-up & virtual network:

Unbound by sovereign borders, hence providing this network with **virtually unlimited space for expansion**

Initially giving focus on trading and investment partnership among members

To some extent, Ummah Network should be **initially** bound by religion belief, but this boundary could be **faded away for a total integration** with other formal and informal global networks to establish a **fairer** international system

Should also be a **catalyst for trade and investment partnership** among its members. This helps faster the development of member countries (which later extend to the total global level)

## **Ummah Network: Framework**

(ii) Need 'big push' kick-off:

To “move” the Ummah Network from its “motionless” state, very big forces are required

Initially giving focus on trading and investment partnership among members

To gather such a big forces, it needs a **politically construct** big push mechanism. Islamic West Asian countries, Malaysia, Indonesia, Brunei and East Timor need to publicly announce their encouragement for an Ummah partnership that seek mutual helping hand and not self-maximization agenda among Islamic countries.

**Non-Islamic countries** should be welcome to join the network if they are seeking mutual beneficially partnership, not domination and exploitation.

## Possible sector for initial partnership:

### (i) Islamic banking

Example: Al Rajhi Bank and Kuwait Finance House's positive roles.

Malaysia commitments to WTO's General Agreement on Trade in Services (GATS) and ASEAN Framework Agreement on Services (AFAS) missing the crucial "commercial presence" mode of supply (Mode 3).

Until AFAS Package 4 (dated 2008), Malaysia liberalization to international Islamic banks is very limited to foreign currency transactions only.

Islamic countries of West Asia neither have significant commitment on GATS on banking sector.

Therefore, any breakthrough in truly liberalizing and developing this sector shall need commitment of belief, in which can be provided through Ummah Network that operate based on trust and mutual benefit.

## Possible sector for initial partnership:

### (ii) Halal market

The success “story” in Southern Thailand?

**Potential:** Large Muslim population in the world and in Malaysia. Greater acceptance of halal product from non-Muslim.

Abdullah Badawi, Malaysia Prime Minister has been expressing confident that by 2010, the Malaysian **blueprint for halal industry** development could spur Malaysia to be a global leader in *halal* integrity .

Unfortunately, the blueprint still very much focused on using **monetary incentive** as foreign direct investment attraction, thus **failing to tap social capital network** as alternative (if not better) way for foreign investment.

Perhaps, Malaysian food franchise like **Malaysian Kitchen** could be more success through the borderless and mutually beneficial partnership under Ummah network.

## Possible sector for initial partnership:

### (iii) Tourism

Choice of tourism destinations still being heavily influence by **physiological factor** including cultural and religion bonding. Hence, enhancing the *ummah* bonding could increase the attractiveness of tourism.

Hospitality industries in Malaysia follow **halal requirements** in their operation, thus **more tourists friendly** to Muslim visitors. Vice versa, Malaysian Muslim tourists could find Islamic West Asian countries their preferred choice.

### (iv) Entertainment

Entertainments from Hollywood, Bollywood, Japan, Korea, Indonesia, Taiwan, China, Hong Kong and even *telenovela* of Latin America have strong presence in Malaysia.

Yet entertainment from Arabic world seem limited to documentary, or n the month of Ramadan.

Investment in **cross-production** between Malaysia, Indonesia and West Asian countries (especially the Arab world countries) could **boost popularity** and **enhance the quality** of production, hence should be encouraged.

## Possible sector for initial partnership:

### (v) Sports

Investment from Abu Dhabi United Group (ADUG) to buy over Manchester City football club >> for glamorous (**psychological factors**)?

Therefore, Ummah network could have **swung psychological factors** in favour of its members countries (for example, Malaysia, Indonesia and Islamic West Asian countries) .

With high level of development in sport in West Asia, couple with ample liquidity, an Ummah partnership should see investment such as ADUG benefit countries like Malaysia .

**Bilateral investment and technical partnership** could see Asian **football** giants of Saudi Arabia, UAE or Kuwait making investment and know-how transfer to Malaysian football clubs while Malaysia could share expertise in **badminton** to them in various means, including opening badminton academy or country-to-country collaboration.

## Conclusion

International relation is believed to a **hidden resource**, which could have great impact to economic but unfortunately, often overlooked.

Thus, this **conceptual study** on international relation between Malaysia and West Asia with **proposal** of establishing a virtual but powerful Ummah network could bring mutual benefit to all participating countries .

In addition, Malaysia's **multi-racial** society, rich **historical backgrounds** and various **memberships** in international bodies provide ample "hidden resources" in the form of international relations.

Hence, this adds to the significant of this study where Malaysia could establish **not only Ummah network**, but **various social capital-based partnerships** for sustainable economic prosperity.

..... **Thank You** .....