

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Working Party on Structural Adjustment
and Trade Policy

RECORD OF DISCUSSION ON COUNTRY CONTRIBUTIONS RELATING TO EXPERIENCE WITH STRUCTURAL ADJUSTMENT

Malaysia
(Spec(82)6/Add.10)

1. Introducing his country's submission, the representative of Malaysia said that his country had had only a short experience in planned development. Its experience in structural adjustment was rather limited and very much akin to that of any new developing nation undergoing economic development - the slow shift from overdependence on agriculture and natural resources to a more balanced growth in all the major sectors.
2. After its independence in 1957, Malaysia had been mainly preoccupied with the process of consolidation and nation-building. Its economy had continued to depend heavily on exports of rubber and tin. Fully realizing the danger of this overdependence, the government had embarked on a programme of agricultural diversification. Simultaneously, efforts had also been directed at promoting industrial development. The agricultural diversification programme had begun to bear fruits in the 1960's as evidenced by the growing importance of oil palm as a major crop. In the 1970's and to the present moment, palm oil had been one of the major export earners. Cocoa and pepper were other important agricultural crops contributing to Malaysia's export trade.
3. On the industrial development front, the early years after independence had witnessed greater emphasis on import substitution followed by a shift in the 1970's towards export-oriented industries, and the manufacture of products related to Malaysia's own resource-base and comparative advantage, e.g. rubber products and derivatives of palm oil. These major developments and the consequential shifts in the relative shares of the agriculture, mining, manufacturing and tertiary sectors were fully reflected in Malaysia's submission in Spec.(82)6/Add.10.
4. Malaysia's submission related to structural adjustment experienced by the economy in the period between 1970 and 1980. This was because the most recent decade had witnessed relatively more discernible economic restructuring. The manufacturing sector had grown at a rapid rate while the agricultural sector, though decreasing in overall relative share, had registered productivity gains and achieved greater efficiency fostered by research and development efforts. In absolute terms, agriculture still remained a very important sector and source of foreign exchange.

5. Development in the 1970's had been also a consequence of some important events in the late 1960's. A more conscious and positive role of the government in promoting industrial development had been made possible through the formation of the Federal Industrial Development Authority in 1967. Low commodity prices in 1970-71 had also prompted the government to undertake new approaches to commodity problems. A very significant event in the 1960's had been the tragic racial riots of 1969 which had led the government to introduce economic development plans incorporating a conscious, declared social objective - the restructuring of society. This meant that objectives of its five-year plans from 1970 would not only involve economic objectives but would also encompass the concept that growth would also have to be accompanied by redistribution and restructuring of society so as to ensure less and less of economic activities being identified with particular ethnic groups in the country. An examination of Malaysia's economic structural adjustment experience had therefore to take into account this important aspect of social restructuring.

6. One member of the Working Party wanted to know how the shift to export-oriented industries mentioned in paragraph 5 of Malaysia's submission had been achieved, what the government's contribution was and what rôle the government did expect to play in the future. The representative of Malaysia stated that the shift to export-oriented industries had been achieved through (i) the replacement of The Pioneer Industries Ordinance 1958 by the Investment Incentives Act, 1968. This new Act provided for incentives under pioneer status including tax, labour utilization relief and locational incentives; (ii) the provision of infrastructural facilities such as industrial estates; (iii) the establishment of the Industrial Development Authority in 1967; and (iv) the setting up of free trade zones. He also pointed out that the Malaysian government did not maintain restrictions on repatriation of profits. Exemption from import duty was also granted to machinery and equipment for manufacturing industries on a case-by-case basis.

7. The same member was interested to know what promotional efforts had been employed to encourage greater diversification of the product mix in the capital goods industry and why the government as indicated in paragraph 6 of the Malaysian submission, thought that it had achieved only little. The representative of Malaysia referred in his reply to the promotional efforts explained above. He added that greater emphasis had been given in respect of capital goods. Little had been achieved because at early stages of industrialization, success with consumer, intermediate and processed primary commodities had offered greater attraction into these industries rather than in capital goods. Furthermore, there were problems of availability of skilled manpower and technology for the capital goods industry.

8. The same member enquired why the heavy industries sector was chosen for special treatment and whether there existed studies which decided to select this one rather than other sectors. He wanted to know also which heavy industries were involved and whether the government would continue with this policy and its objectives even in the light of changed economic circumstances. The representative of Malaysia stated that this particular sector was chosen because certain heavy industries were viewed as of national interest. In the longer term, Malaysia could save foreign exchange and lessen dependence on other countries. Large-scale investments, apart

from requiring large capitalisation, also had long gestation periods. Hence they were not so attractive compared to the industries mentioned above. In view of this, the government had to take the lead. Malaysia also believed that industrialization based on heavy industries would help speed up investment. The Heavy Industries Corporation of Malaysia (HICOM, established in late 1980) would conduct specific studies on heavy industries before undertaking any project which might be in the form of joint-ventures or engage only Malaysian enterprises. He added that the industries concerned were in the field of tin plate, automobiles and food canning. As concerned his government's policy, he stated that it followed always a pragmatic approach. The five year plans were usually reviewed after 2 1/2 years and priorities might be changed as a consequence. There existed an increased tendency to self reliance following a certain disappointment with international co-operation.

9. Another member of the Working Party was interested to hear more about the role of commercial policy in the structural adjustment process of Malaysia. The representative of Malaysia stated that his government in pursuing an export orientated policy had encouraged the development of resource-based industries where a comparative advantage existed. This applied in particular to rubber products, tropical timber and palm oil. Considerable research and development efforts were undertaken by semi-governmental agencies. The funding for these activities was provided by private industry itself through the collection of a special research and development cess. Commercial policy did not play a very big role in this context except that occasionally raw material exports had to be restricted in order to secure a sufficient supply for the domestic processing industries. Another aspect of his government's policy concerned the import of technology in the field of textiles and electronics. These two sectors had been promoted, in particular in the early 1960's and 1970's, because of the ready availability of cheap labour and the favourable export possibilities. The situation had however changed in recent years and expansion in these sectors had considerably slowed down largely also as a consequence of problems encountered in the export markets.

10. Another member of the Working Party wanted to know to which extent the rapid development of the Malaysian economy had influenced the adjustment process and whether the changes in the Malaysian export structure were considered to be in line with Malaysia's comparative advantage. In that context he asked also whether the exploitation of this comparative advantage had been thwarted to some extent by restrictions on its trade. He was also interested in the effects on the Malaysian economy of arrangements like the International Rubber and Tin Arrangements. The representative of Malaysia replied that the economic diversification programme was implemented with the objective of reducing Malaysia's rather heavy dependence on agricultural products, in particular rubber and palm oil. Experience showed that the growth rate was much faster in the industrial sector than in the agricultural sector. But despite this relatively slower growth rate, the government still saw the need for increased research and promotion efforts in the agricultural sector. The government could not afford to neglect this important sector; and an aggressive approach in research, development and promotional efforts would ensure the viability and competitiveness of Malaysia's agricultural and processed and semi-processed products in the overseas market. The development from the agricultural sector into a

resource-based industrial sector was in line with Malaysia's comparative advantage. He added that import restrictive measures were taken very rarely and on an ad hoc and very temporary basis. Tariffs were generally low and their imposition, in the majority of cases, was on revenue considerations. As regards international commodity arrangements he stated that the International Rubber and Tin Agreements had greatly contributed to the stability and development of the Malaysian economy. His government strongly supported the stabilization of prices on the international commodity markets since this facilitated the planning for the future development of the industries concerned. As far as restrictions encountered by Malaysian exports were concerned, he stated that difficulties had been met in the fields of textiles, rubber, palm oil and plywood products.