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DYNAMIC DEVELOPMENT OF TRADE AN IMPORTANT FACTOR IN MALAYSIA'S RAPID ECONOMIC GROWTH - SAYS GATT

International trade has been an important factor in Malaysia's rapid economic growth since it joined the GATT in 1957, according to a report on Malaysia's trade policies and practices. Exports and imports of goods and services have each risen from under 50 per cent of GDP in the 1960s to almost 80 per cent in 1992, making Malaysia the sixteenth largest trading nation among the GATT contracting parties.

"Strong economic growth is regarded by the authorities as central to the maintenance of social stability in Malaysia's multiracial society," notes the report from the GATT Secretariat, "and the Government's stated aim is to reach the status of a fully developed country by the year 2020."

The report points out, however, that, despite being a supporter of an open and strong multilateral trading system and taking an active rôle in the Uruguay Round, "Malaysia's trade and trade-related policies are still characterized by a degree of discretion and guidance. This operates to some extent through import and export licensing, but more significantly through the other types of incentive granted to sectors regarded as priority: local content provisions, investment incentives and discretionary Government procurement."

The report also notes that Malaysia's share of bound duties in its tariff is below 1 per cent and that it has not signed any Tokyo Round agreements. "In the light of Malaysia's increased weight in international trade," urges the report, "it would be proper for Malaysia to consider fuller integration into the GATT system and to assume more responsibility in it."

The report also draws attention to the fact that, in recent years, there has been a shift in Malaysia's trade policies towards closer integration within the Association of South-East Asian Nations (ASEAN - comprising Brunei, Indonesia, Malaysia, Philippines, Thailand and Singapore). The ASEAN Preferential Trading Agreement, signed in 1977, provides for preferential margins of between 25 and 50 per cent on imports originating in member states. At the beginning of 1992, ASEAN members agreed on a Common Effective Preferential Tariff Scheme with the aim of achieving an ASEAN Free Trade Area within 15 years from 1 January 1993.

"While most of Malaysia's trade is conducted on an m.f.n. basis, regional links are becoming increasingly significant," says the report. "This is not, in itself, incompatible with either Malaysia's participation in GATT or the development of its comparative advantage; but care should be taken that regional liberalization does not stand in the way of broader multilateral liberalization by Malaysia."

Notes to Editors

1. The GATT Secretariat's report, together with a report prepared by the Malaysian Government, will be discussed by the GATT Council on 19-20 July 1993. The TPRM enables the Council to conduct a collective evaluation of the full range of trade policies and practices of each GATT member at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.

2. The reports cover developments in all aspects of Malaysia's trade policies, including domestic laws and regulations; the institutional framework; trade-related developments in the monetary and financial sphere; trade practices by measure and trade policies by sector. Attached are summary extracts from these reports. Full reports are available for journalists from the GATT Secretariat on request.

3. A record of the Council's discussion and of the Chairman's summing-up, together with these two reports, will be published in Autumn 1993 as the complete trade policy review of Malaysia and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

4. Since December 1989, the following reviews have been completed: Argentina (1992), Australia (1989), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992), Canada (1990 and 1992), Chile (1991), Colombia (1990), Egypt (1992), the European Communities (1991 and 1993), Finland (1992), Ghana (1992), Hong Kong (1990), Hungary (1991), Indonesia (1991), Japan (1990 and 1992), Korea, Rep. of (1992), Mexico (1993), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), the Philippines (1993), Poland (1993), Romania (1992), Singapore (1992), South Africa (1993), Sweden (1990), Switzerland (1991), Thailand (1991), the United States (1989 and 1992), and Uruguay (1992).

TRADE POLICY REVIEW

Malaysia

Report of the GATT Secretariat - Summary Observations

Malaysia in World Trade

Since independence in 1957, Malaysia has experienced strong economic growth, transforming itself from a primarily commodity-producing country to a significant manufacturing centre. International trade has played an increasingly important rôle in this process; exports and imports of goods and non-factor services have each risen from under 50 per cent of GDP in the 1960s to almost 80 per cent in 1992. Malaysia is now the sixteenth largest importer and exporter among GATT contractinvg parties, counting the European Communities as a single entity.

Real GDP growth in Malaysia increased from an average of some 6 per cent in the 1980s to just under 9 per cent in the early 1990s, leading to annual growth of 6.6 per cent in per capita income, which reached US$3,100 in 1992. This performance owes much to generally sound macroeconomic management that has underpinned Malaysia's structural transformation policies and allowed high real gains in productivity to take place.

Strong economic growth is regarded by the authorities as central to the maintenance of social stability in Malaysia's multiracial society; the Government's stated aim is to reach the status of a fully developed country by the year 2020. Within this overall strategy, a measure of preferential treatment for the indigenous (Bumiputra) population has been general policy since the late 1960s, to further their integration into the economic mainstream.

Despite a high rate of domestic savings, averaging some 30 per cent of GNP in the 1980s, Malaysia's ambitious plans for economic growth have meant that there has been a persistent gap between savings and investment. This gap has often been filled by foreign investment, encouraged by a wide range of incentives; since 1987, 60 per cent of manufacturing investment has been based on foreign capital, largely directed to export production.

Domestic industrial linkages within Malaysia remain weak. The economy - and particularly the traded sector - continues to be focused on a relatively narrow range of goods, essentially electronics, textiles and transport equipment in industry and petroleum, timber and palm oil in agriculture. Intra-industry trade has grown rapidly. Review of the structure has led the Government to emphasise high technology, greater capital intensity and value added, lower import content, expanded linkages with domestic firms, and greater environmental protection. Promoted products and activities are eligible for Pioneer Status or Investment Tax Allowances, which can give substantial incentives.

While the share of agriculture in the economy has fallen, farming has shown strong productivity gains, largely due to the priority accorded by Government to technical and infrastructural assistance for the sector. Nonetheless, the National Agricultural Policy (NAP) does not follow a deliberate policy of protecting specific agricultural crops against shifts in comparative advantage. Instead, emphasis is placed on converting less-efficient agricultural sub-sectors to higher value-added production. Attention is also given to safeguarding the income levels of farm workers.

The Government still plays a major rôle in the Malaysian economy through the control of non-financial public enterprises (NFPEs). The rate of return for NFPEs as a whole, however, has been below the opportunity cost of funds. Under the Government's Privatization Master Plan, a number of State-owned enterprises and projects were wholly or partly privatized in 1991 and 1992. Further restructuring and privatization projects encompass railways, ports and airports, and the postal service. The Government has typically continued to retain a significant equity holding after privatization, thereby often maintaining management control.

Malaysia's balance-of-payments accounts show that up to 1988, exports grew much faster than imports, leading to a substantial surplus on merchandise trade account in 1987 and 1988. Thereafter, with expansion of domestic demand, imports - particularly from Japan and the United States - accelerated and, in 1991, the merchandise trade account was in slight deficit. Except in 1987-88, Malaysia's current account has been in deficit each year since 1980, with merchandise trade surpluses typically offset by remittances of dividends and on freight and insurance payments. The overall balance of payments has, however, normally been in surplus because of long-term capital inflows, reflecting Malaysia's attraction for foreign investment. In 1991, the current account deficit widened to 9.6 per cent of GDP, reflecting the effect of an investment boom and strong demand for imports. Since then, while rapid export growth has continued, a slowdown in home demand moderated the increase in imports, particularly of capital and intermediate goods, and the current account deficit declined to around 3 per cent of GDP in 1992. The capital account remains strongly in surplus.

The share of manufactures, notably electronics and electrical goods, in total exports increased from about 22 per cent in 1980 to an estimated 69 per cent by 1992; this is mirrored by the relative decline in the share of commodity exports from some 74 per cent in 1980 to around 27 per cent by 1992. Malaysia has become the world's largest exporter of room air conditioners, and ranks among the top three exporters of semiconductors. Electronics, textiles and rubber-based products account for over 70 per cent of manufactured exports and about 36 per cent of total value added in manufacturing. In commodities, Malaysia accounts for about one-half of world timber exports; is the world's largest producer and exporter of palm oil; and has significant sales of crude petroleum, rubber and tin.

With growth in intra-industry trade, the share of manufactures in total imports has also risen sharply, to nearly 85 per cent by 1991. Malaysia's principal imports are electrical and non-electrical machinery, telecommunications equipment and road vehicles. Imports of electrical machinery and components rose from 10 per cent of total imports in 1980 to 16 per cent in 1991; those of non-electrical machinery increased from 5 to 9 per cent in the same period. The share of motor vehicles fell, with the growth of Government-supported local assembly operations, from 8 to 4 per cent between 1980 and 1991; those of petroleum products, from 7 to 3.6 per cent as refining was developed.

The main destinations for Malaysia's exports in 1991 were Singapore, with 23 per cent of total exports (much of which is re-exported), the United States, Japan, the Republic of Korea and the United Kingdom. The main sources of imports in 1991 were Japan, the United States, Singapore, Chinese Taipei and Germany. Malaysia's intra-ASEAN trade has expanded from 23 per cent of exports and 16 per cent of imports in 1980 to 29 per cent of exports and 20 per cent of imports in 1991. Much of this growth is linked to development of exports to, and through, Singapore. Trade with the European Communities has fallen from 18 per cent of exports and 16 per cent of imports in 1980 to 15 and 13 per cent, respectively, in 1991.

Malaysia has benefitted from the Generalized System of Preferences; exports under GSP schemes grew at an annual rate of almost 33 per cent between 1985 and 1991, and trade on GSP

terms totalled some RM 11.2 billion, or 12 per cent of exports in 1991. The authorities attribute this trend largely to increased familiarity with the GSP process on the part of Malaysian exporters,rather than expanded market access. The largest share of GSP exports is to the EC, at over 49 per cent, followed by the United States at 29 per cent and Japan at about 15 per cent.

Institutional Framework

Malaysia is a federation of thirteen States and two federal territories, Labuan and Kuala Lumpur, the capital. The country is a parliamentary democracy, ruled as a constitutional monarchy, with the King (elected from among the Sultans) as Head of State. Malaysia is a multiracial society; since racial disturbances in 1969 the overriding political priority has been to foster unity through economic growth with equity.

Legislative authority rests with a bicameral Parliament, consisting of the House of Representatives and the Senate. Legislation is divided between the Federation and the States; trade matters fall under federal jurisdiction. Bills, once passed by both Houses of Parliament, become law upon receiving the King's assent.

Policy-making and executive authority is vested in the Federal Government, led by the Cabinet of Ministers headed by the Prime Minister, who must be a member of the House of Representatives. Ministers are appointed by the King, on the advice of the Prime Minister. The Cabinet is collectively responsible to Parliament.

The Ministry of Trade and Industry (MITI), assisted in promoting industrial investment by the Malaysian Industrial Development Authority (MIDA), carries the major responsibility for planning and implementing Malaysia's trade and industrial development policies. The Ministry of Finance is the final authority on tariffs and various incentives. The Ministries of Agriculture, Primary Industry and Health have responsibilities in import and export licensing. Other agencies with substantive trade-related powers include the Ministries of Domestic Trade and Consumer Affairs, Foreign Affairs, Bank Negara Malaysia (the Central Bank) and the Economic Planning Unit, Prime Minister's Department. Relevant Government agencies are normally consulted in trade policy matters. In trade-policy related activities, the Coordinating Committee on Trade and Investment Policy plays an important rôle.

In formulating trade policies, the Government takes into account comments and recommendations from research institutions such as the Malaysian Institute of Economic Research, various universities and the Institute of Strategic and International Studies (ISIS) Malaysia. Representatives of business associations are generally consulted on economic and trade policy matters of concern to them. The Malaysian Business Council, founded in 1991, facilitates the process of consultation between policy makers, corporate leaders and statesmen. In addition, a number of committees and panels have been formed for discussion with the private sector, including consumer associations and academic institutions. There is, however, no independent, non-governmental review body.

Trade Policy Features and Trends

Trade policies in Malaysia are set in the framework of the country's indicative long- and medium-term plans and subsidiary policy documents. The Second Outline Perspective Plan, 1991-2000, projects manufacturing growth of 10.5 per cent a year, increasing the sector's share of GDP to 37 per cent by the year 2000; manufactures are expected to rise to 82 per cent of merchandise exports in the same period. The Industrial Master Plan identifies twelve major areas - some based on Malaysia's natural resources, others on the continuing development of electronics and

engineering - for special development. At the same time, agricultural output is still to grow faster than the increase in population.

Malaysia succeeded to the GATT on its independence in 1957. Malaysia is not yet, however, fully integrated into the GATT system; the share of bound duties in its tariff is below one per cent and it has not signed any Tokyo Round MTN agreements, although it has observer status in most Code Committees.

Recent evolution

In recent years, there has been a significant shift in Malaysia's trade policies towards closer integration within the Association of Southeast Asian Nations (ASEAN). Nevertheless, at the same time, the autorities have been at pains to affirm their interest in, commitment to and active participation in the Uruguay Round. The ASEAN Preferential Trading Agreement (PTA), signed in 1977, provides for margins of preference between 25 and 50 per cent on imports originating in member states, subject to national exemption lists. At the beginning of 1992, ASEAN members agreed on a Common Effective Preferential Tariff Scheme (CEPT) with the objective of achieving an ASEAN Free Trade Area (AFTA) within 15 years from 1 January 1993. Fifteen product groups have been selected for accelerated tariff reduction; in these groups, products with tariffs of up to 20 per cent will have the rates cut to 0-5 per cent within seven years. Under the CEPT Scheme, an increasing share of Malaysia's trade may be expected to be conducted on preferential terms.

In recent years Malaysia has taken a number of trade measures aimed at promoting forest conservation and ensuring sustainable yields, which also provide protection for local value added. Log exports from Peninsular Malaysia were restricted in 1975, and completely banned in 1985; raw rattan exports from Peninsular Malaysia were banned in 1989; and an export levy was imposed on certain types of sawn timber and veneer in 1990. Domestic companies are also encouraged through export quotas and levies to process logs into higher value-added wood products. Penalties for illegal logging have recently been increased substantially. Domestic companies are also encouraged through export quotas and levies to process logs into higher value-added wood products.

Malaysia has not been a direct party to any dispute settlement cases under GATT Article XXIII. However, together with other ASEAN members, it raised a complaint in the GATT Council in 1992 regarding Austria's legislation on mandatory labelling of tropical timber and products and the use of an additional, non-mandatory quality mark to attest that tropical timber and timber products were from "sustainable forest management". In March 1993, the Austrian Parliament abolished the mandatory labelling requirement; the non-mandatory use of the quality mark was maintained subject to authorization for its use according to criteria accepted by relevant international organizations.

Type and incidence of trade-policy instruments

Malaysia applies a varied system of trade policy and trade policy-related measures designed to support the requirements of its ambitious economic, social and restructuring plans. Although the main trade policy instrument is the customs tariff, administrative measures also play an important rôle in influencing the behaviour of economic operators.

The average m.f.n. tariff is around 15 per cent, with lower rates in agriculture than in industry. Most rates are ad valorem. However, rates vary widely; almost half of tariff lines are subject to duties of 5 per cent or under, while rates of over 40 per cent are applied to some

3 per cent of tariff lines. Peaks of over 50 per cent occur in competing industrial sectors; cars bear duties of up to 300 per cent according to value. Tariff concessions may be granted for raw materials and components used in manufacturing for the domestic market, where these are not available locally, as well as for machinery, plant and equipment used directly in manufacturing. Free zones account for over 25 per cent of exports; their output is highly concentrated in exports of electrical and electronic goods.

The pattern of tariffs and indirect taxation leads to a wide range of effective protection. Generally, net importables are protected and net exportables (with the exception of fruit and vegetables) are taxed. The highest effective tariff protection applies to tobacco products, paper and printing, motor vehicles and textiles; the greatest negative protection taxes the mining, forestry and rubber sectors. Few tariffs (less than one per cent of the tariff schedule) are bound: Malaysia's Uruguay Round offer would increase this to some 33 per cent of tariff lines and 48 per cent of imports. Customs valuation, based on the Brussels Definition of Value, is applied on a cost, insurance, freight and other charges basis; Malaysia has not signed the GATT Customs Valuation Agreement. Sales taxes are levied on a non-discriminatory basis as between imported and locally-produced goods; excise taxes are levied on goods manufactured in Malaysia.

Tariff protection is backed up by import licensing on a variety of goods, which serves both to support sanitary, phytosanitary, safety and environmental protection requirements and to serve "industry interest" or for temporary protection. In some instances, refusal to grant licences for health or sanitary reasons has led to a complete prohibition of imports. Import licensing procedures provide substantial discretionary powers for the administration; import licences may be cancelled or amended at the discretion of the authorities and no legal appeal is allowed if the licence is refused. Import quotas are maintained on round cabbages and unroasted coffee.

Malaysia has one State trading enterprise in the sense of Article XVII of the GATT, the National Paddy & Rice Board. The Board is the sole authority for imports of rice; it grants licences to rice millers, as well as operating its own mills, and fulfils a regulatory function in the enforcement of controlled rice prices at the retail level. In 1992, the price of Malaysian high-grade rice was estimated to be between 16 and 22 per cent above the world price level.

In the area of standardization, Malaysia uses international standards, where such exist, and considers foreign national standards in preparing Malaysian standards. Standards are not mandatory, except for 34 mainly electrical products, which require a letter of approval before importation. International standards are not followed if local technology cannot accommodate the level of quality needed or if climatic and geographical factors require different solutions. Harmonization of national standards is under consideration within ASEAN.

Government procurement polices are used, inter alia, to achieve the objectives of the New Economic Policy and National Development Policy and to encourage the growth of local industries. Decisions in government procurement issues are taken at both federal and State levels following similar procedures. In 1991, total Federal Government procurement amounted to RM 4.2 billion; the share of foreign supply was 9.4 per cent. No data are available on the amount of State-level procurement. Bumiputra contractors are allocated 30 per cent of works contracts. Foreign suppliers can qualify for bidding on public contracts only if they are registered with the Ministry of Finance and their equity in the company or joint venture does not exceed 30 per cent. No other preference is given to domestic companies over foreign bidders. Since April 1992, government procurement is not required to contain counterpurchase elements. However, countertrade proposals by suppliers are still taken into consideration in identifying a preferred tenderer.

Use of locally-produced materials in domestic production is generally encouraged by the Government. The use of local content is taken into account in the granting of investment incentives; there is a specific local-content programme for the motor vehicles industry.

At present, Malaysia does not have legal regulations on anti-dumping or countervailing duty actions and, to date, it has not taken such actions. A draft Anti-Dumping and Countervailing Duty Act is before Parliament.

The Government exercises some control over exports by means of export licensing and charges, officially to encourage domestic production and protect the environment. Specific export registration and licensing requirements apply to cocoa, palm oil, and rubber. For rubber, differing capital requirements are enforced as between Bumiputra, other local and foreign firms to be a member of the Malaysian Rubber Exchange. 764 tariff lines are subject to export duties, mostly ad valorem. Exports of petroleum products face the highest duty, 25 per cent; duties are also levied on palm oil and palm kernel. Previous taxes on rubber and tin exports were abolished in 1990 and 1991. Exports of timber and rubber are subject to a research and development (reforestation) cess. In Sabah and Sarawak, no export duty is collected on forest products; however, these States levy royalties on the exports of forest products. 38 product groups are subject to export licensing.

Duty and tax incentives to exporters include Abatement Incentive for Exports (AIE), Export Allowance (EA), and Industrial Building Allowance (IBA). Support under AIE and EA has been reduced and will be abolished from 1994. Drawback of customs duty or imported raw materials, excise duty on parts, ingredients or packaging, and sales taxes on materials for exported goods is granted under certain conditions. Assistance under various export promotion schemes is also available. In the period of the Sixth Malaysia Plan (1991-1995), the budgetary allocation for export promotion has been increased to RM 137.7 million from 10.2 million in the earlier five-year period.

Various incentives are provided for investment and industrial development. Companies established before 1991 in the wood, textile, machinery and engineering industries may benefit from industrial adjustment incentives reaching 100 per cent of capital expenditure. Under Pioneer Status, tax is paid on only 30 per cent of projects considered of national importance. Investment tax allowances may be granted up to 60 per cent of qualifying capital expenditure and re-investment allowances up to 40 per cent. Projects of above RM 53 billion were granted such allowances in the period 1985-90. Small- and medium-sized industries may benefit from additional incentives.

Trade Policies and Foreign Trading Partners

The dynamic development of trade has been a major contributor to Malaysia's rapid economic growth in the last three decades. Malaysia has benefitted from its membership in the GATT system in this period. Malaysia is a supporter of an open and strong multilateral trading system and plays an active rôle in the Uruguay Round, both as a member of ASEAN and as a participant in the Cairns Group. In the light of Malaysia's increased weight in international trade, it would be proper to Malaysia to consider fuller integration into the GATT system and to assume more responsibility in it.

Malaysia's trade and trade-related policies are still characterized by a degree of discretion and guidance. This operates to some extent through import and export licensing, but more significantly through the other types of incentive granted to sectors regarded as priority: local content provisions, investment incentives and discretionary Government procurement. The

distinctions made in some areas between Bumiputra, other Malaysian and foreign investment rights illustrate the remaining discretion in the system.

While most of Malaysia's trade is conducted on an m.f.n. basis, regional links - in particular through ASEAN - are becoming increasingly significant. This is not, in itself, incompatible with either Malaysia's participation in GATT or the development of its comparative advantage; but care should be taken that regional liberalization does not stand in the way of broader multilateral liberalization by Malaysia.

As a significant exporter of manufactures and resource-based products, Malaysia is vulnerable to external trade barriers and disturbances. The authorities have noted the chilling effect of countervailing and anti-dumping investigations against Malaysian products in the United States and the European Communities; the rule-making aspect of the Uruguay Round has, consequently, been of critical interest to Malaysia. Other clouds on the horizon have been threats by the United States to remove GSP benefits based on non- trade considerations, and potential displacement of Malaysia's exports as a result of the North American Free Trade Agreement. In addition, Malaysia faces tariff escalation in main markets on processed palm oil, wood and cocoa products and import quotas in Japan on such items as footwear and certain rubber and fruit products. Finally, the Malaysian Government has expressed concern over unilateral restrictions on the imports and use of tropical timber, ostensibly for environmental reasons.

TRADE POLICY REVIEW

Malaysia

Report by the Government of Malaysia - Summary Extracts

Overall Trade Policy Objectives

Malaysia's trade policies have evolved against a background where the external sector has been an important contributor to the country's economic growth and that it is expected to retain its predominance in Malaysia's future economic expansion plans. Being a small country with a population of about 18 million, Malaysia has to look beyond its borders to market its products. The external sector is also an important source of capital, inputs and technology. The preservation of a multilateral trading system that is liberal, predictable and stable is thus imperative for Malaysia's economic prosperity. This factor underlines Malaysia's approach to trade and trade-related policy formulation. Malaysia has an open and outward-oriented trade regime replacing the largely import-substitution policies of the 1960s and early 1970s. While seeking better international prospects for its products and access to better inputs, components and technology, Malaysia also accepts responsibilities and obligations commensurate with its level of economic development.

These principles are embodied in Malaysia's trade policy objectives which are:

a) To contribute to the maintenance of an open and strong multilateral trading system based on the GATT;

b) To undertake liberalization measures through regular reviews of the trade regime;

c) To maintain and expand Malaysia's trade with major trading partners;

d) To diversify and expand trade in non-traditional markets, particularly countries in the South;

e) To promote and develop exports of manufactured and value-added resource-based products;

f) To seek improved and favourable market access for Malaysia's exports of processed commodities and manufactured products; and

g) To strengthen and expand intra-ASEAN trade through closer economic and trade cooperation.

Manufacturing

The manufacturing sector assumes the leading role for achieving Malaysia's economic growth targets. Various policy measures undertaken to foster industrial development have helped to provide a more conducive environment for investment. Industrial growth is in the main supported by the electrical and electronics, the textile and apparel and the resource-based subsectors where growth was possible due to diversification and forward and backward linkages. Future emphasis would be to promote new sources of growth and to further strengthen and

Future emphasis would be to promote new sources of growth and to further strengthen and diversify the industrial base giving due importance to high-value-added and high-technology industries.

Agriculture

Malaysia's current policies on agriculture are embodied in the new National Agriculture Policy (NAP) which covers the period 1992 to 2010. The NAP is based on the objective of creating a market-led, commercialised, efficient, competitive and dynamic agricultural sector in the context of sustainable development.

The NAP prescribes that all agricultural activities be operated on a highly commercialised basis and be exposed to international competition. New land development for agricultural activities will be undertaken on a limited basis, for reasons of sustainable development, and the emphasis will be on increasing productivity of existing lands, as well as labour and value-added of agricultural activities.

Import system

Consistent with the principles of GATT, tariff is the main trade policy instrument. The tariff structure is reviewed regularly and revised in line with the overall objective of the government to liberalise trade. Independent measures to lower tariff levels have been undertaken. In addition, Malaysia has tabled offers to reduce and/or bind a large number of import duties under the Uruguay Round negotiations.

Trade-related Aspects of Policies on Foreign Direct Investment In The Manufacturing Sector

Malaysia has adopted a liberal policy towards foreign direct investments (FDIs), particularly in the manufacturing sector. There is no export performance requirement for foreign investors. However, export performance as proposed by the foreign investor in undertaking a manufacturing project will determine the level of foreign equity participation that can be allowed.

Prospective Changes In Trade Policies And Practices

Malaysia attaches importance to the promotion of a liberal multilateral trading system within the framework of the GATT. In this context, Malaysia will continue to liberalize its trade regime and maintain outward-oriented trade policies.

Major liberalization measures that have already been undertaken/under consideration are:

- Abolishment of Abatement of Income for Exports on 1 January 1994. An abatement of income for has been granted to resident manufacturing companies exporting, directly or through agents, products which are manufactured in Malaysia. In 1992 the amount of abatement which was applied on the statutory income was an amount equal to a rate of 50 percent of export sales as bears to total sales. The rate has been reduced to 25 percent in 1993. This incentive will be abolished in respect of exports made on or after 1 January, 1994;

- Abolishment of Export Allowances. An export allowance of 5 percent based on the f.o.b. value of export sales has been granted to trading and agricultural companies which export manufactured or agricultural products produced in Malaysia. In 1993

Review of export taxes on certain agriculture products.

Periodic reviews of remaining licensing regulations would be undertaken consistent with the objective to further liberalise trade regulations. Parallel to this, tariff revisions would also be made from time to time in addition to the concessions offered in the Uruguay Round negotiations. In the Uruguay Round, Malaysia has offered to reduce and/or bind 3,787 tariff lines. The offer covers 48 percent of total imports and 31 percent of tariff lines. Approximately 37 percent of imports would be bound at 5 percent level. According to the assessment of the GATT Secretariat, as a result of this offer the trade-weighted average of Malaysia's tariffs will be reduced from 10.2 percent to 8.9 percent.

The National Development Policy

Malaysia's future economic development is based on the National Development Policy (NDP). The NDP's two-pronged strategy is to reduce and eventually eradicate poverty, and to accelerate the process of restructuring of society to correct economic resource imbalances so as to reduce and eventually eliminate the identification of race with economic function.

In the context of the NDP, an expanding economy resulting from a strengthened growth process is a necessary condition to create the opportunities and generate the resources needed to ensure that the poverty eradication and distributional objectives are meaningfully realised. In this regard, key issues would be an adequate supply of well-trained, skilled and technically oriented manpower; growth of domestic investment in view of the tight international capital market; the development of small and medium scale industries to contribute towards a more dynamic and competitive industrial sector through its supportive and complementary role; further diversification of industries and increased linkages in the domestic manufacturing sector; enhancement of absorptive and adoptive technological capabilities; and reconciliation of goals of economic development with goals of environmental protection.

Problems in External Markets

Malaysia's exports still encounter barriers and discriminatory trade practices in foreign markets. High tariffs and tariff escalation in some countries are affecting exports of processed and higher value-added resources-based products. Uncertainties caused by frequent initiations of anti-dumping and countervailing duty proceedings have increasingly become a major problem.

Other non-tariff barriers affecting Malaysia's exports are prohibitive sanitary and phytosanitary regulations, pre-shipment inspections and arbitrary customs values, discriminatory labelling and distortive payment regulations.

A major concern for Malaysia is the increasing use of unilateral trade measures for reasons of environment. Environment could and has been used as a convenient cover for protectionist motives. An even more dangerous trend is the use of unilateral trade measures such as eco-labelling to restrict imports of products to impose a country's own environmental standards on a third country, merely because it originates from a country with environmental policies or standards different from its own.

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