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TRADE POLICY REVIEW MECHANISM

Trade Policy Review of Malaysia

Communications from the Discussants

Pursuant to the revised procedures for review meetings circulated in the communication from the Chairman of the Council dated 30 April 1993 (L/7208), following are outlines of the main points to be raised by Mr. Andrés Espinosa (Colombia) and Mr. Peter Hamilton (New Zealand) at the review of Malaysia to be held on 19-20 July 1993.

It is recalled that discussants act in their personal capacity.

(a) Mr. Andrés Espinosa

1. The trade policy review of Malaysia will enable contracting parties to evaluate and understand the country's trade policy and practices as well as its degree of commitment to the multilateral trading system. The experience of the last six years provides ground for reflection and analysis, in the light of the impressive successes it has achieved in the management of its macroeconomic and trade policy, based on a novel, practical conception of long-term planning and vision. Malaysia's basic objective is to transform itself into a developed country by the year 2020.
2. In 1985, Malaysia was a traditional developing country, depending on a handful of primary commodities, with a large agricultural sector and an industrial sector characterized by a strong State presence in heavy industry. The collapse of international prices between 1985 and 1986 led to an unprecedented crisis that acted as the catalyst for a change of economic and trade model.
3. Among other objectives, the new approach seeks to add value to the country's abundant natural resources by the promotion of high-technology industries; increase the rôle of the private sector in the economy; encourage private investment; reform and expand the financial sector which is required to tackle the new infrastructure development needs; pursue the fight against poverty and the integration of a multi-racial society; and step up the level of integration with the ASEAN economies.
4. As we shall see in the review, the results are impressive, resulting from sound economic management, which is in itself a model for other developing countries. As a result of the implementation of the new economic model, GDP rose from US\$1,989 to US\$3,094 between 1985 and 1992. Nevertheless, the rapid growth since 1986, sometimes at annual rates of over 10 per cent, has overheated the economy and led to some bottlenecks that could jeopardize economic management in the immediate

future. The country has a sizeable shortage of skilled labour and also of savings required to finance the desired investment; as well as a growing balance-of-payments trade deficit stemming from the rise in imports of capital goods. The port infrastructure seems to have serious limitations for a country that depends increasingly on international trade as the engine of economic growth. Moreover, the rapid economic growth is based on the development of a small range of products and, if this is not expanded, the long-term objective of transformation into a developed country could be compromised. A similar comment may be made about inflation, which is admittedly low but increased in 1992 as a consequence of rising domestic demand, growth of the means of payment and depreciation of the exchange rate.

5. With regard to trade policy trends in recent years, firstly there has been greater liberalization of some production sectors, together with continuing protection for others; and secondly, while the new economic model greatly encourages higher participation by the private sector, the State's presence remains large, although clearly linked with the privatization process of a number of government-owned enterprises.

6. Despite major economic and trade development over the last six years, Malaysia has not increased its level of commitment towards the multilateral system as represented by GATT, which currently befits that of the traditional developing country which it was prior to the crisis caused by its dependence and the 50-per-cent fall in the prices of the main export commodities in 1986. With the Uruguay Round, Malaysia now has a prime opportunity for active participation in, and contribution to, the biggest liberalization effort of recent times.

(b) Mr. Peter Hamilton

7. An examination of the key features of Malaysia's external trade policy and how these support its economic and social goals. For example, what rôle is assigned to:

- tariffs
- import licensing
- export licensing
- government incentives.

8. Malaysia is a strong supporter of the multilateral system and plays an active rôle in the Uruguay Round and the Cairns Group. It has, however, a low level of tariff bindings and has joined few Tokyo Round Codes. What plans does Malaysia have "to consider fuller integration into the GATT system"?

9. Regional trading links are becoming increasingly important for Malaysia. A brief overview of recent developments and their possible implications for global trade liberalization.

10. What are the major constraints Malaysia faces in its export markets which impede economic development and how might these be addressed?