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20 July 1993

**TRADE POLICY REVIEW OF MALAYSIA
19-20 JULY 1993**

GATT Council's Evaluation

The GATT Council conducted its first review of Malaysia under the trade policy review mechanism (TPRM) on 19-20 July 1993. The text of the Chairman's concluding remarks is attached as a summary of the salient points which emerged during the 2-day discussion of the Council.

The TPRM enables the Council to conduct a collective review 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.

The review is based on two reports which are prepared respectively by the GATT Secretariat and the government under review and which cover all aspects of the country's trade policies, including its domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic needs; and the external environment.

A record of the Council's discussions 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.

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).

CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

Review of Malaysia, 19-20 July 1993

1. In concluding this first Trade Policy Review of Malaysia, I should like to highlight, on my own responsibility, the salient features that have emerged from the discussion. As usual, these remarks are not intended to substitute for the Council's collective appreciation of Malaysia's trade policies and practices. The full discussion, including the introduction and replies given by the representative of Malaysia, will be reflected in the minutes of the meeting.

(i) Macroeconomic and structural issues

2. Participants commended Malaysia on the rapid economic growth and social progress achieved since independence and particularly in recent years, and noted that the country was currently the world's 16th-largest trading entity. Malaysia had, in the early 1970s, abandoned its previous policy emphasis on import substitution in favour of an export-oriented approach, under a series of strategic plans.

3. The economic structure had changed radically during the decades since independence, from reliance on agriculture and primary commodities to an economy principally based on manufactures. Foreign direct investment, encouraged by generous incentives, had made an important contribution to this process. Malaysia's trade structure underwent concomitant change, especially during the 1980s; the share of manufactured exports now exceeded that of commodities by a wide margin. However, manufacturing production and exports were highly concentrated on such products as electrical and electronic products, textiles and transport equipment. The question was raised whether government policies had, in encouraging the development of such sectors, introduced some element of distortion into Malaysia's trade structure.

4. In observing that the growth of imports had exceeded that of exports during the early 1990s, participants commended Malaysia for avoiding protective trade policies during this period. Indeed, tariff reductions and other liberalization measures had continued and the pace of privatization had increased.

5. Participants observed that Malaysia's infrastructure development needed to keep pace with its rapid rate of economic growth, and that measures were being taken in this area. Similarly, manpower policies were also changing in order to cope with recent shortages of labour, particularly skilled employees, in several sectors. Further liberalization of foreign direct investment was urged; in this regard, some concern was expressed about the widening savings-investment gap.

6. In reply, the representative of Malaysia agreed that strains on the infrastructure could impede developmental efforts. Specific measures considered to alleviate the problem included the provision of an efficient, multi-modal system; co-ordinated expansion and upgrading of roads, railways, airports

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and ports; and integration of land use and management, growth of development centres, transportation, communications, energy and conservation of natural resources.

7. Currently, there was a shortage of manpower, especially skilled labour. As a short-term measure, Malaysia was taking in guest workers to meet requirements in the construction, plantation and some manufacturing sectors. In certain professional fields, the Government also allowed the employment of expatriates. As a longer-term solution, Malaysia encouraged more capital-intensive industries and greater mechanisation in the plantation sector.

8. The widening gap between investments and savings needed to be addressed quickly. Malaysia was taking monetary and fiscal measures to encourage savings. Investment incentives should only be regarded as the "icing on the cake" in a favourable environment for manufacturing. The main determinants of investment flows were factors such as political and economic stability, provision of better infrastructure and availability of skilled labour.

9. The Government had reviewed the structure of tax incentives to encourage the private sector to be more competitive. In the long term, the thrust of industrial assistance would be on non-fiscal incentives, including development of infrastructure; establishment of more training centres for skilled manpower; liberal expatriate employment guidelines to allow the inflow of foreign skills and know-how; and foreign equity ownership guidelines for priority sub-sectors.

10. With reference to the narrowness of the manufacturing and export base, he noted that the electronics industry had evolved from the production and export of components, especially semi-conductors, to consumer and industrial products. Diversification into ancillary and supporting industries, with the chemical and petrochemical sectors, and promotion of greater value-added, high-technology and resource-based industries, was also being undertaken.

(ii) Trade policies and measures

11. Council members commended the steps taken by Malaysia towards achieving an open trading system. These had contributed significantly to its impressive economic development.

- Measures affecting imports

12. Members recognized that the customs tariff was Malaysia's main import policy instrument and that the general level of tariff protection (15 per cent, simple average), was relatively low. Concern was, however, expressed that tariff escalation remained high and that peaks of above 50 per cent remained in certain sectors. Malaysia was encouraged to reduce and simplify its tariffs.

13. Several Council members expressed dissatisfaction that, at present, less than 1 per cent of tariff lines was bound by Malaysia in the GATT. Participants welcomed Malaysia's proposal to bind one-third of its tariff lines in the Uruguay Round and many encouraged Malaysia to increase the coverage of bindings.

14. Members expressed concern about the lack of transparency and the wide discretionary and protective powers implicit in the import licensing system. Denial of import licences for health or sanitary reasons had economic effects similar to import prohibitions. Information was sought on protection for infant and strategic industries.

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15. Council members welcomed the fact that Malaysia had not taken any safeguard, anti-dumping or countervailing measures.
16. Concern was expressed about the trade-distorting effects of local-content requirements in the motor vehicle and certain other sectors. Participants noted that tariffs on imports of fully assembled vehicles ranged from 140 to 300 per cent, and urged that these be reduced.
17. Several participants expressed concerns regarding the operation of the Malaysian standards system and uncertainties involved for foreign exporters. Members also urged that harmonization of ASEAN standards should not result in discrimination against third countries.
18. Some participants noted that Malaysia's government procurement system had restrictive elements and that the foreign share in government purchases was very low.
19. In reply, the Malaysian representative said that in issuing import licences, discretion was exercised in a responsible manner, with checks and balances at every step. Published guidelines were available, outlining import licensing and appeal procedures, including to the courts.
20. Restrictions on certain food items would be addressed in the Uruguay Round negotiations; Malaysia was ready to fulfil the requirements of the agriculture text in the Draft Final Act and was reviewing non-tariff measures affecting farm products under the new National Agriculture Policy. Malaysia, however, had no intention to privatize the National Paddy and Rice Authority.
21. Parliament had passed new legislation on anti-dumping and countervailing duties; this was awaiting promulgation. A manual of implementing operations and regulations was being prepared in consultation with the GATT Secretariat and countries with extensive experience in these areas. The new law took into account the provisions of the Anti-Dumping Code and improvements envisaged in the Draft Final Act.
22. Additional protection was provided to a small number of infant and strategic industries. In general, protection for "infant" industries was removed after five years; for "strategic" industries, protection might be extended for a longer period.
23. Current procedures for regular review of the tariff structure would be continued; due attention would be given to concerns such as tariff peaks and escalation. Foreign exporters could make representation to the Special Advisory Committee on Tariffs, through trade associations, during annual dialogues with Ministers. Among the prerequisites for considering tariff protection were that local industry could supply at least 80 per cent of the domestic market; that the locally-manufactured product was of acceptable quality; and that the price to consumers must be comparable with the import price. Consideration was also given to the degree of utilization of domestic raw materials, the local value added to be achieved, the level of technology of the industry and spin-off effects on the economy.
24. Local-content requirements were applicable to the automotive industry and products granted fiscal incentives. The development of an automotive components industry was seen as a means of upgrading local engineering and technical skills and development capabilities. The local-content programme was also aimed at promoting the development of an integrated motor vehicle industry and its linkages with other sectors. Local-content requirements were not mandatory unless companies wished to benefit from fiscal incentives.

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25. Generally, Malaysia practised an open tender system in government procurement. However, foreign equity ownership of companies or joint ventures bidding for government tenders was limited to 30 per cent, to meet socio-economic development objectives.

- Measures affecting exports

26. Members noted that exports of a number of products were subject to export duties and licensing, the reasons for which were not always clear.

27. Council members welcomed Malaysia's commitment to eliminate certain export support schemes from the beginning of 1994. However, the need for double tax deduction of some export-related expenses was questioned. Participants sought Malaysia's views on alternative measures to its ban on log and rattan exports.

28. The Malaysian representative confirmed that the cess collected on rubber production and exports was exclusively channelled to research and development financing. Export restrictions on logs and rattan were aimed at conserving forest resources, in line with Malaysia's international obligations. These restrictions and the reduction of annual felling were undertaken to complement Malaysia's programme for sustainable forest management.

(iii) Malaysia in the international trading system

29. Council members recognized that Malaysia had benefitted significantly from the multilateral trading system and welcomed Malaysia's active participation in, and commitment to, the Uruguay Round. However, serious concern was expressed over the low level of tariff bindings and lack of participation in the Tokyo Round Codes. A favourable economic environment and, in particular, a rapid conclusion to the Round would assist Malaysia in furthering its own trade liberalization process and in improving its access to foreign markets.

30. Council members expressed understanding for Malaysia's support for ASEAN economic integration. It was emphasised that such integration should be complementary to the multilateral trading system and should not create barriers to trade with third countries. One member encouraged ASEAN members to notify the Asean Free-Trade Area (AFTA) under Article XXIV of the General Agreement.

31. The representative of Malaysia confirmed that his Government was committed to the strengthening of the multilateral trading system and would assume responsibilities commensurate with the country's level of economic development. In the Uruguay Round negotiations, Malaysia was ready to expand its schedule of concessions to 48 per cent of its imports. Malaysia had recently acceded to the Agreement on Technical Barriers to Trade and was seriously considering participation in various other Tokyo Round Codes. Malaysia was also committed to the Uruguay Round Single Undertaking.

32. Malaysia's objective in regional integration was the promotion of a more liberal international trading environment. Participation in regional trading arrangements complemented the multilateral trading system. The concept of "open regionalism" entailed the removal of barriers to trade among countries within such arrangements without the erection of additional barriers to trade with third parties, and was thus consistent with the provisions of Article XXIV of the General Agreement.

33. ASEAN had recently submitted additional information on the implementation of the CEPT and AFTA to the Committee on Trade and Development, and further progress on the implementation

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of the scheme would be duly reported to the Committee. Non-tariff measures would be examined by all ASEAN member countries simultaneously, to ensure full realization of the benefits accruing from tariff reductions. Harmonization of standards aimed to facilitate trade.

34. In conclusion, I believe that this review has shown how Malaysia has benefitted from the multilateral trading system. Malaysia is making significant progress towards opening its own economy and improving transparency in its trade régime. It is well placed to benefit from, and contribute to, a positive conclusion to the Uruguay Round.

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