

**GENERAL AGREEMENT  
ON TARIFFS AND TRADE**

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TRADE POLICY REVIEW MECHANISM

MALAYSIA

MINUTES OF MEETING

Chairman: Mr. A. Szepesi (Hungary)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The Chairman, introducing the first review of Malaysia's trade policies and practices, welcomed the Malaysian delegation headed by Ambassador Haron Siraj, members of the Council, and the discussants, Mr. Andrés Espinosa and Mr. Peter Hamilton, who would speak in their personal capacities.

2. The Chairman recalled the objectives of the Trade Policy Review Mechanism, as decided by the CONTRACTING PARTIES on 12 April 1989 (BISD 36S/403). The Council was to base its work on two reports, one submitted by the Government of Malaysia (C/RM/G/38) and the other by the GATT Secretariat (C/RM/S/38). He reminded the Council of refinements made in the procedures for TPRM meetings, as circulated in document L/7208.

3. An outline of the main issues the discussants intended to address had been circulated in document C/RM/W/9. Australia, Canada, Hong Kong, and Korea had given advance notice in writing of points they wished to raise during the meetings. These were conveyed to the Malaysian delegation and copies made available at the meeting to Council Members.

## II. OPENING STATEMENT BY THE REPRESENTATIVE OF MALAYSIA

4. The representative of Malaysia expressed appreciation to the GATT Secretariat for its report and said the comments and observations in the report would be taken in a positive spirit.

### The Malaysian Economy

5. Over the past 30 years, the representative stated, Malaysia had evolved from a commodity-based economy, dependent on rubber and tin for foreign exchange, to one that was well diversified. At independence, Malaysia was dependent on rubber and tin for about 70 per cent of total export earnings, 28 per cent of Government revenue and 30 per cent of employment. By the end of 1970, as a result of economic development programmes, timber and palm oil had emerged as important export commodities, and production of crude petroleum began to gain significance.

6. During the 1970s, the introduction of a new policy to diversify the manufacturing sector had led to an increase in the share of manufacturing sector in GDP to 12 per cent, compared to 5 per cent in the 1960s. The decade of the 1980s saw further diversification of the economy into more advanced industries. From import substitution, the policy shift for the manufacturing sector was to export orientation. Consequently, the contribution of the manufacturing sector increased steadily, and in 1987 surpassed the traditional mainstay, agriculture, to account for 22.5 per cent of GDP.

7. In the first three years of the 1990s, the manufacturing sector continued to lead overall output growth, and in 1992 its share of the GDP was 28.8 per cent. The pattern of Malaysian exports had changed, with the share of manufactures in total exports rising from 22 per cent in 1980 to around 70 per cent in 1992, while agricultural products declined from 44 per cent in 1980 to 17 per cent of Malaysia's exports in 1992.

### Trade Policy of Malaysia

8. The increasing importance of manufactures in overall export earnings also necessitated greater attention on market access questions, not only in traditional markets but also in new ones, the representative stated. In this regard, the multilateral trading system and the GATT had become increasingly important to Malaysia.

9. In earlier years, when commodities were important to the economy, Malaysia had been preoccupied with international commodity agreements as opposed to the multilateral trading system, bearing in mind the narrow export base at that time. With greater diversification and the rapid development of export oriented industries, market access issues became more prominent. Taking these developments into account, Malaysia now based its trade policy on an open and outward-looking approach. Malaysia's trade policy objectives were, inter alia, to contribute to the maintenance of an open and strong multilateral trading system based on the GATT; to expand trade with major partners and to diversify into non-traditional markets; to promote and develop exports of manufactured and value added resource-based products; and to expand intra-ASEAN trade.

10. In agriculture, the policies embodied in the new National Agricultural Policy were based on the objective of creating a market-led, commercialised, efficient, competitive and dynamic sector in the context of sustainable development. All agricultural activities would be operated on a highly commercialised basis and continue to be exposed to international competition.

11. He stated that Malaysia's trade policy was characterized by the use of tariffs as a main trade policy instrument. Tariffs were reviewed regularly. This was evident from the autonomous tariff reductions on more than 1,100 items since 1988; in the 1993 budget, further reductions were made in respect of 600 items affecting mainly consumer goods. Control of imports was minimal, with very few items now subject to import restrictions for protective reasons. Import prohibitions and licensing measures were mainly used for Article XX purposes such as health, security or sanitary and phytosanitary reasons. Certain licenses to protect Malaysia's industries were, nevertheless, temporary and subject to constant review as exemplified by the removal of 39 tariff lines from licensing requirements since 1988. Currently, only 3.3 per cent of total tariff lines were subject to licensing requirements on grounds of industry interests; these were also being reviewed.

12. Malaysia also maintained export licensing for certain items, essentially for the purpose of monitoring and supervision to ensure conservation, quality control and adherence to ethical trade practices of Malaysian exporters. In the case of textiles and apparel, export licenses were required to facilitate the administration of quotas imposed by importing countries.

13. The openness of Malaysia's trade regime was clearly illustrated by the growth of imports, at rates faster than exports from 1988 onwards. Although trade surpluses had fallen since 1988 and even reached a deficit in 1991, Malaysia had not resorted to the introduction of import restrictions or higher tariffs; by contrast, it concentrated its efforts at consolidating the economy through fiscal and monetary measures, attracting greater investments and promoting R&D, productivity and efficiency. These led to new products for the export sector as well as giving greater competitiveness to Malaysian products.

14. Malaysia's foreign exchange policy for trade payments was liberal. Payments for imports could be made in any amount and in any currency for the amounts due, and payments for exports could be received in any of the currencies generally acceptable for trade settlement. Further, exchange rates had never been used as a measure to influence trade flows.

#### Malaysia and its GATT Obligations

15. The Secretariat report observed that Malaysia was not fully integrated into GATT, the representative noted, but Malaysia did not entirely agree with that observation. Efforts undertaken by the Malaysian Government showed that the country was moving towards fully integrating into the GATT system by assuming greater obligations. Malaysia used tariffs as the main trade policy instrument. Malaysia's weighted tariff average was, on an m.f.n. basis, low, at 10.2 per cent, and would be reduced to 8.9 per cent in the Uruguay Round negotiations. From binding 1 per cent of trade, Malaysia had offered to bind tariffs covering about 48 per cent of trade. Malaysia had also acceded to the Tokyo Round Agreement on Technical Barriers to Trade and was seriously considering participation in various other Tokyo Round Codes. Recent legislation on anti-dumping also took into account the Anti-dumping Code and improvements as envisaged in the Uruguay Round Draft Final Act.

#### Regional Cooperation

16. Malaysia was actively involved in ASEAN economic cooperation, including the ASEAN Economic Summit in January 1992. The ASEAN Free Trade Agreement (AFTA) was a manifestation of a long-term objective, and details under the various areas of economic cooperation were still being worked out. The Common Effective Preferential Tariff Scheme (CEPT) was essentially an improvement of the ASEAN preferential trading arrangement, a scheme designed to facilitate, promote and expand

intra-ASEAN trade. Malaysia was fully aware of the need to ensure that the programme of regional cooperation was consistent with the relevant GATT provisions.

#### External Environment

17. As a small trading nation which relied on the global market place for its exports, Malaysia's trade performance was inextricably linked to economic conditions worldwide, the representative noted. Economic recovery in the industrialised countries and further growth in the developing countries would enhance prospects for the further growth of Malaysia's exports. Attainment of Malaysia's trade policy objectives would also depend on a more conducive external trading environment.

18. Market access barriers, in the form of high tariffs, tariff escalation for value-added resource-based products and unilateral protective measures under the guise of environmental concerns, were some of the measures encountered by Malaysian exports in major markets and needed to be removed. There had been an increasing number of anti-dumping and countervailing measures imposed by some major trading partners. Another source of concern was the growing tendency for certain countries to use unilateral measures, as well as the linking of certain non-economic conditionalities to trade.

#### Conclusion

19. The Malaysian representative emphasised his Government's commitment to the rôle of private enterprise as a key element of economic growth. Privatization had become an important feature in Malaysia's overall strategy for development. Malaysia also believed that trade was a two-way process, and that exports and imports should be in the hands of the private sector. The Government's main rôle was to spur enterprise - by providing the infrastructure, the stability and a conducive environment for trade and investment to flourish - and then to 'follow through' at the international level with efforts to secure stable and predictable market access. The Government was constantly reviewing domestic bottlenecks, whether in the form of licensing or administrative procedures; such reviews were essentially geared towards the expansion of imports and exports.

20. Deregulation and modernization of the administrative machinery to enhance growth and cope with new demands were being given priority. At various levels of economic policy formulation, including investment and trade, the private sector, which also included representatives of the international business community, was regularly consulted, including through annual dialogues with the Minister of International Trade and Industry and the Minister of Primary Industries and pre-budget sessions with the Minister of Finance. This approach was useful in providing accountability and in ensuring that policies and changes in policies, both domestic and external, were capable of being implemented. With its trading partners, Malaysia would adopt the same openness and spirit of dialogue that was practised with the private sector.

21. The representative of Malaysia assured all Council members that the development of Malaysia's trade policies would continue to be geared towards increased participation in the multilateral trading system, respecting the rules of conduct as espoused by the GATT.

### III. STATEMENT BY THE FIRST DISCUSSANT

22. The first discussant (Mr. Espinosa) described Malaysia as a developing country undergoing a rapid and planned transition towards a higher level of economic activity. The experience of the past six years had been due to the success of economic and trade policies based on pragmatism, flexibility and a clear concept of planning through long-term objectives and vision. Malaysia's basic objective was to become a developed country by the year 2020; however, its economy had already achieved a high level of economic development, showing some characteristics more like those of an OECD member State than a developing country.

23. In 1985, Malaysia was undoubtedly a traditional developing country, dependent to a high degree on a handful of agricultural and mineral products. Between 1985 and 1986, a fall in the prices of its main exports, averaging 45 per cent, caused a recession in the Malaysian economy, which was exacerbated by the loss of competitiveness due to the increase in the real effective exchange rate, reduced foreign investment and the overriding fiscal austerity. External upheaval and the loss of competitiveness resulted in an unprecedented crisis, which served as a catalyst for implementation of an effective structural adjustment policy, including export promotion, and an outward-looking economic management strategy.

24. According to the Secretariat report, the Government of Malaysia liberalized the domestic market, after a short period of fiscal incentives that doubled the consolidated deficit of the public sector in 1986, placing special emphasis on the promotion of direct foreign investment. The ultimate objective was to increase exports, which had become the driving force in the economy's growth.

25. Malaysia's principal foreign trade policies and practices complemented its economic management strategy, and included a diverse and complex series of instruments affecting imports. In addition to tariffs, for example, Malaysia maintained import licences, quantitative restrictions and health and phytosanitary permits; measures applicable to exports included direct incentives, licences and charges. Malaysia also granted trade preferences within the framework of ASEAN for the majority of manufactures and some agricultural products, with the objective of establishing a free-trade area within fifteen years. The strategy was completed by the devaluation of the local currency by 34 per cent between 1985 and 1988, and the implementation of a public investment programme to develop physical and human infrastructure.

26. Direct foreign investment by Japan, the United States, Chinese Taipei, Great Britain and Singapore, representing 52 per cent of total investment, increased by about 250 per cent in 1986. In 1987, as a result of increased investment and renewed competitiveness, exports rose by 29.6 per cent; the export increase led to a rise of 5.4 per cent in real GDP. From 1988 onwards, domestic demand complemented the growth in economic activity stimulated by the external sector, and consumption rose by 13.15 per cent while GDP increased by 8.9 per cent annually up to 1992. As a result, per capita GDP increased from US\$1,989 in 1985 to US\$3,094 in 1992.

27. Manufacturing grew considerably as a result of increased exports, and its share of GDP rose from 19.7 per cent to 28.8 per cent due to a small number of electronic products, including air conditioners and semi-conductors (for which Malaysia was the world's first and third largest exporter, respectively), as well as transport equipment, wood manufactures and metal products. In 1992, exports of manufactures represented 69 per cent of Malaysia's total exports. This development took place in a restricted number of markets since, in 1991, 63 per cent of total exports went to Japan, the United States, Singapore (for re-export), Chinese Taipei and Great Britain. The same countries or

territories supplied 67.4 per cent of Malaysia's imports during the same year. With successful implementation of the macro-economic and trade strategy, the level of competitiveness recovered rapidly; according to the World Economic Forum, in 1992 Malaysia was at the same level as Hong Kong and Chinese Taipei and ahead of the Republic of Korea. In the context of ASEAN, the Forum situated Malaysia only after Singapore.

28. A comparison of South-East Asia and Latin America raised the fundamental question of why the latter region suffered more severely from the external shocks of the 1980s and took much longer to recover. The answer was not the high cost of debt servicing nor heavy public expenditure, but rather the lower growth in exports as a percentage of GDP. The direct result was a higher ratio of debt servicing to exports in Latin America of 154 per cent, while the figure was 8.0 per cent in Malaysia and 6.9 per cent for South-East Asia as a whole. It was therefore not surprising that Malaysia undertook prepayment of its external debt in 1988, while the exact opposite occurred on the Latin American continent.

29. Malaysia's economy was proof for empirical studies that showed a positive correlation between the degree of opening of the economy to international trade and growth. It also underlined the importance of exports in such a process, especially in countries such as Malaysia with small economies that could not otherwise benefit from economies of scale. Nevertheless, rapid growth had overstretched the economy and caused bottlenecks that could jeopardize future economic management. There was a significant shortage of labour in the manufacturing industries in particular, causing an increase in wages and laying the basis for higher costs. There were also increased indications of inflation, that could have a negative effect on exchange rates, the competitiveness of exports and consequently the accelerated rate of growth of the economy. The discussant wished to hear the views of the Malaysian delegation, and to know what remedies were proposed to deal with that potential danger.

30. The second problem facing the Malaysian economy was the increasing deficit caused by lower savings and an increase in desired investment; the deficit was around 6.2 per cent of GDP. The Malaysian delegation was asked to comment on plans to finance the investment required to achieve the goals set out in the Second Outline Perspective Plan 1991-2000, which envisaged annual growth of 10.5 per cent in the manufacturing sector.

31. A third obstacle was the dependence of the economy on an external sector which, in turn, depended upon few products and limited markets, with a clear trend towards a trade deficit. Although the economy had diversified, in addition to traditional products it had concentrated on electrical and transport goods whose future in international markets depended on the tastes of consumers, technology and international prices. As far as markets were concerned, the markets mentioned represented over 63 per cent of Malaysia's global trade and 52 per cent of total direct foreign investment. The discussant expressed particular interest in knowing how Malaysia viewed this situation, and what countermeasures it intended to implement, if necessary. He asked the reasons and objectives for re-exports of goods to Singapore. The Malaysian delegation was also asked to explain its concerns regarding the trend towards regionalization in North America. Considering that ASEAN had an increasing share in the development of Malaysia's global trade, the discussant enquired how the two situations were related.

32. In 1992 and at the beginning of 1993, there had been a trend towards higher inflation; there was degree of laxity in the management of the money supply between 1989 and 1990, followed by better control in 1992. Bearing in mind that price stability was a prerequisite for the functioning of an outward-looking growth strategy, the delegation of Malaysia was asked to comment briefly on future management of monetary policy, prices and wages.

33. The State had played an important rôle in re-launching the economy in 1985, the discussant noted. Despite the fact that one of the objectives of economic policy was to increase the rôle of the private sector, it seemed there was a high level of intervention and support in key sectors such as transport, where the PROTON Saga automobile accounted for 64 per cent of the domestic market. The Malaysian delegation was asked to relate how privatization plans were being implemented and, in particular, what rôle the State would play in the automobile industry in the near future.

34. The discussant commented that, despite the considerable economic and trade expansion over the past six years, Malaysia had not increased its level of commitment to the multilateral trade system represented by GATT; Malaysia's commitment was currently that of the traditional developing country that it had been prior to the crisis of 1985. Malaysia was asked to explain this imbalance, and describe how it intended to contribute to the Uruguay Round in a manner commensurate with its level of economic development.

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#### IV. STATEMENT BY THE SECOND DISCUSSANT

35. The second discussant (Mr. Hamilton) stated that, by any yardstick, Malaysia's economic performance since independence in 1957 had been impressive. Enormous strides had been made in developing the domestic economy and in broadening its domestic production and export base. Through a policy of careful planning and management by Government, in close partnership with industry and agriculture, a sound economic base had been established.

36. Since the New Economic Policy was launched in 1971, Malaysia had consciously set out to improve the standard of living of its citizens through carefully targeted economic policies which had moved away from import substitution to export promotion. In consequence, living standards had risen, employment had grown to the stage where shortages were now apparent in the skilled, high tech and service industries, and labour had to be imported. Malaysia provided a good case study of how strategic economic policy planning could lead to often spectacular results.

37. Through encouragement of domestic savings and a policy of openness to foreign direct investment for targeted sectors, Malaysia had achieved notable successes in producing and exporting electronics and electrical goods, textiles and telecommunications equipment. There were plans to further diversify this structural base. Manufacturing, which accounted for 70 per cent of exports, would increase to a forecast 82 per cent by the end of the century. Despite declining importance in terms of GDP, agriculture and resource products would continue to be important not only to supply domestic needs, but also for export.

38. Against this background, it was clear that international trade played a central rôle in Malaysia's economic and social development. In the 1960's, trade accounted for 50 per cent of GDP. By 1992, this had risen to 80 per cent. The TPMR report noted that Malaysia was the 16th largest importer among GATT members. Malaysia's trade policy objectives as identified in the Reports included the maintenance of an open and strong multilateral trading system based on GATT; export promotion and development, in particular of higher value products; opening up new markets for both primary and manufactured goods; and strengthening regional economic, trade and investment cooperation, in particular with other ASEAN countries.

39. The discussant first focused on three key aspects of Malaysia's external trade policy: tariffs, licensing - both import and export, and the use of incentives. The tariff was the main form of trade protection, although in Malaysia's case administrative measures appeared to play an important part. Malaysia's simple average m.f.n. tariff was 15 per cent. The level of protection was regularly reviewed and unilateral reductions had been implemented on some 1,700 tariff items since 1988. In the 1993 Budget speech, the Government stated that protection for infant industries should be reduced once they had established themselves, to ensure they continued to remain competitive, which the discussant considered a welcome policy statement. He noted it would be helpful to have further details of the criteria on which these reviews were based, and what the Government's intentions were in light of the 1993 Budget statement. The average effective rate of protection for manufacturing had declined from 45 per cent in 1969 to 17 per cent in 1987, although it remained uneven across sectors (e.g. transport equipment 230 per cent; sawmilling 233 per cent; and -145 per cent for palm oil products).

40. Malaysia had approximately 11,500 tariff lines at the nine-digit level. According to the Secretariat report, there were only 1,000 tariff lines at the seven-digit level under the old CCCN system. There appeared to have been a dramatic increase in the number of tariff lines, which suggested increased

complexity for Malaysia's trading partners. As domestic protection was reduced, the opportunity could also be taken to simplify the tariff structure, the discussant noted.

41. A surprising fact in Malaysia's case was that the level of protection afforded to agriculture was generally lower than that applied to industry. The tariff structure was for the most part transparent with the predominant use of ad valorem rates, although specific duties and alternative duties were sometimes used. As well, tariff peaks were evident in several sectors including food products, textiles, rubber products, chemicals, machinery and cars.

42. Turning to licensing, Malaysia's system of import and export licences appeared on first encounter to be complex and therefore a possible impediment to trade. Council members would have read the Secretariat's description of the four Schedules that are attached to the 1988 Customs (Prohibition of Imports) Order. It was not his intention to describe each schedule. However, as he understood it, the objectives of the import licensing régime were essentially two-fold: to provide protection to domestic producers against imports, and second to ensure compliance with phytosanitary, safety, environment and copyright requirements.

43. An important question was whether the import licensing régime was in practice an impediment to trade. There appeared to be a degree of discretion inherent in the operation of the system, and this might be of concern to some of Malaysia's trading partners. As Malaysia's economy developed further, an important question would be whether the distortions inherent in any import licensing system were assisting or impeding economic growth. It would seem in any case desirable to simplify the import licensing system to enhance transparency by separating out the industry protection rôle from that of phytosanitary, health and environmental objectives.

44. The list of products for which an export licence was required also appeared to be long, covering some 760 tariff lines. The aim of export charges was to encourage domestic production and to protect the environment. While there had clearly been important policy objectives that had led to the development of the export licensing system, for example in the forestry sector, the Secretariat report had pointed to some of the distortions inherent in the use of such restrictions. As with import licensing, the discussant stated it would be interesting to hear of any plans Malaysia had to simplify this system to minimise the potential for distortions.

45. Malaysia had also recently announced moves to simplify its use of duty and tax concessions. Two important programmes, the Abatement Incentive for Exports and the Export Allowance were to be abolished on 1 January 1994. Other schemes included duty draw backs and excise draw backs on parts or essential inputs or components. A notable feature was the increased emphasis to be given to export promotion schemes under the Sixth Malaysia Plan (1991-95). The goal was to develop new markets in Latin America, Indochina, West Asia, Africa and Europe. Again it was worth noting the comment that, given the overall competitive position of Malaysia's exports, the economic rationale for the use of incentives had diminished.

46. Even a cursory examination of Malaysia's trade policy showed how important an open and strong multilateral trading system was for its future economic development. Malaysia had been an active participant in the Uruguay Round and played a key rôle in the Cairns Group. Access to new markets and enhanced trade rules was critical to Malaysia's future. In this context it was noticeable that Malaysia had not yet fully integrated itself into the GATT system. It had, for example, very few tariff bindings and, until its recent welcome adherence to the Agreement on Technical Barriers to Trade, belonged to none of the Tokyo Round Agreements.

47. The decision to join the TBT Code no doubt demonstrated an appreciation that GATT membership brought with it not only obligations, but rights as well. Both went together, the discussant stated. The Uruguay Round provided an opportunity for Malaysia to fully integrate itself into the GATT system through the single undertaking. Malaysia's trading partners would obviously welcome its adherence to a broad range of Codes. Further, a binding on only half its tariff lines might still not give Malaysia's trading partners the security they sought against tariff increases or surcharges on the remaining unbound portion of the tariff.

48. Malaysia had stressed the importance of developing and enhancing its economic, trade and investment links with its ASEAN neighbours. This was understandable. Intra-ASEAN trade was expanding at a healthy rate. ASEAN accounted for 29 per cent of Malaysia's exports and 20 per cent of imports in 1991. ASEAN members had recently agreed to implement the Common Effective Tariff Scheme (CEPT) which was designed to achieve a free trade area in fifteen years covering all manufactured products and processed agriculture products. The CEPT had been notified to the Committee on Trade and Development (CTD), but few specific details on the tariff reduction programme had yet been made available. This was a major new initiative in the field of intra-ASEAN cooperation and one that was of key interest to Malaysia's trading partners. The discussant asked how Malaysia saw the relationship between the eventual AFTA and the multilateral system as was hoped would emerge from the Uruguay Round.

49. Additionally, an examination of Malaysia's trade policy would not be complete without a comment on the constraints Malaysia faced in its own export markets. A TPRM provided the opportunity to scrutinise a contracting party's trade policy, but trade policy was not formulated in a vacuum. Domestic trade policy orientation could be heavily influenced by the degree to which the external environment was supportive of trade development. Among major concerns, Malaysia had identified tariff escalation on processed palm oil, wood and cocoa, textile quotas under the MFA and import quotas in major markets on footwear, rubber and fruit products. There was growing concern at its exposure to anti-dumping and countervailing duty (AD/CVD) investigations (another reason perhaps for joining the relevant Codes) and possible loss of access to GSP rates in the future.

50. The discussant concluded by stating that the Uruguay Round provided the opportunity to address major concerns - both those of Malaysia's trading partners who wanted to see it more fully integrated into the multilateral system and Malaysia's concern to ensure the right external conditions were in place to support its planned export expansion and structural diversification.

V. STATEMENTS BY MEMBERS OF THE COUNCIL

51. Council members thanked the discussants for their constructive introductions; they generally complimented Malaysia and the GATT Secretariat for the efforts made in preparing their respective reports, which provided a good basis for the review.

52. The representative of Mexico stated that Malaysia provided one of the best demonstrations that an open régime could have an extremely favourable impact on an economy's growth and on the standard of living. The rôle played by the external sector in Malaysia's economy had been essential, and in recent years the economy had grown at a rate well above the average for other developing countries. Per capita income had also increased regularly, and as a result of prudent management of macroeconomic policy, Malaysia had enjoyed low rates of inflation.

53. The Government of Malaysia should be congratulated on its firm determination to continue with its economic reform process, especially the opening up of its trade régime. However, although Malaysia had liberalized its trade policy, it had not fully integrated into the multilateral trade system. He hoped that this inconsistency was only temporary, and noted with appreciation Malaysia's intention to increase its percentage of bound tariffs in GATT as part of its contribution to the Uruguay Round, and also to accede to the Agreement on Technical Barriers to Trade (TBT) before the end of the year. He trusted that this was not simply an exception, and that Malaysia would accede to the other Tokyo Round agreements.

54. Lastly, Table 2 of the report by the Government of Malaysia highlighted the growing importance among total exports of a manufacturing sub-sector that traditionally made intensive use of labour: machines, electrical and electronic appliances, which represented 58.6 per cent of total exports in 1992. He therefore asked for the opinion of the delegation of Malaysia on whether the industrial, trade and more particularly labour policies followed by the Malaysian authorities had not distorted the industrial structure, as well as the pattern of exports, in favour of activities that involved low wages and reduced value added.

55. The representative of Japan noted that South-East Asia was one of the few areas of the world where rapid economic growth had been taking place, particularly in Malaysia where a remarkably high rate had been maintained since the latter part of the 1980s. Japan believed Malaysia's success was to be attributed to appropriate trade policies, which were export-oriented and focused on industrialization.

56. Malaysia had promoted economic growth through actively inviting foreign investment and technology. Malaysia also recognized the importance of human resources, as shown through the Look-East Policy. Looking at Malaysia's individual trade policies, the representative made comments on three points:

- Japan welcomed Malaysia's offer to increase its share of bound duties in the course of the Uruguay Round and would appreciate further effort in the same manner. He called on Malaysia to participate in the Tokyo Round codes;
- Malaysia had taken log-export restriction measures, which Japan had been requesting Malaysia to eliminate for some years. On the contrary, however, the measures had been further strengthened in the State of Sabah; and
- on foreign investment, Japan understood that Malaysia had put several restrictions on foreign investors. He therefore urged Malaysia to further liberalize its investment policy, which was important to keep up the dynamism of its economy. In this context,

Japan also emphasized the importance of enhancing the capacity of Malaysia's infrastructure.

57. In conclusion, Malaysia had benefitted from an open and strong multilateral trading system. Japan hoped Malaysia would continue to make a further liberalization effort to achieve the successful conclusion of the Uruguay Round.

58. The representative of Korea stated that it was readily apparent that Malaysia was a country "on the move". Growth rates were high and per capita income was steadily rising. The savings rate was high, the importance of industrial goods to the economy was rising rapidly, and agriculture's importance to the economy was declining. In reviewing the trade statistics prepared by the Secretariat, he was reminded of the increasing importance of Korean-Malaysian trade.

59. There were many positive aspects about Malaysia's trade and economic policies. Malaysia was export oriented, so it was committed to maintaining a strong multilateral trading system. The country had played an active rôle in the Uruguay Round, and it was committed to a rule-based trading system. Malaysia had never taken safeguard, anti-dumping, or countervailing duty actions, foreign direct investment was encouraged, and steps were being taken to promote diversification and value-added exports. In addition, Malaysia's currency was freely convertible and its monetary policy was focused on achieving steady and sustainable economic growth.

60. Of course, there was room for improvement. Malaysia's share of bound tariffs was very low, and Malaysia had joined only one of the Tokyo Round codes. In addition, import licensing was widespread, export duties were levied, price controls were employed, tariff escalation was prevalent in industrial sectors, and tariff peaks were widespread and particularly pronounced. Tariff peaks were frequent in sectors such as textiles, clothing, rubber products, printing, chemicals, electrical machinery and transport equipment. Tariffs on certain motor vehicles peaked at between 140 and 300 per cent, and the effective rate of protection was around 230 per cent in the transport industry. The Secretariat reported that it was Malaysia's policy to discourage imports of completely built-up vehicles. Tariffs and licensing procedures were employed to discourage imports of assembled vehicles and disassembled vehicles were subject to a lower tariff.

61. In addition, the representative was concerned that an ASEAN trade preference scheme might lead to more trade distortion by giving ASEAN produced automotive components a 50 per cent preference. Local content requirements also had a negative impact on automobile and automobile component imports. Local content goals of 60 per cent were established for vehicles with engines of two litres or less, and local content requirements for certain domestically produced components needed to be observed if preferential tariffs for the remaining imported parts were to be granted.

62. Concerning the Secretariat remarks that Malaysia accorded preferential treatment of certain goods from Australia and New Zealand, the representative asked which goods were given preference, what preference was given, and under which GATT articles the action was taken.

63. The representative then asked when Malaysia intended to liberalize its automobile import régime, specifically:

- when tariff peaks on assembled vehicles would be eliminated;
- when local content requirements would be abolished;

- if there was any plan to eliminate the 50 per cent excise tax break granted to the PROTON project;
- if there were any assurances that the Second National Car Project would not result in added trade distortion in the sector; and
- he requested more information about the Brand to Brand Complementarity (BBC) scheme, noting that certain companies not normally associated with the ASEAN group participated in the scheme. He asked what a firm was required to do to become involved in the programme, noting that written details would be particularly appreciated.

64. The representative of Singapore, speaking on behalf of the ASEAN countries, stated that Malaysia was a key player in ASEAN economic cooperation. As the Secretariat report pointed out, the increasing share of manufactured goods in Malaysia's total exports, as well as in imports, was a reflection of its growing integration into the international production process. In addition, moves to diversify its economy in all sectors boded well for the achievement of stable and sustainable economic growth.

65. Malaysia was playing a key rôle in the setting up and implementation of the ASEAN CEPT scheme, which would be an important tool in bringing about closer ASEAN economic cooperation. Besides promoting ASEAN cooperation, Malaysia had also taken a leading rôle in promoting South-South cooperation. Through its active leadership in the G15, Malaysia had striven to bring about greater economic cooperation among developing countries.

66. Imports into Malaysia had been growing strongly. The average annual growth rate of imports for the period 1982-1992 was 14 per cent, exceeding even the average growth rate for exports. Notwithstanding possible concerns over import surges, there had not been any recourse by Malaysia to restrictive measures to curb imports. This was in sharp contrast to action taken by some contracting parties, who readily took to quantitative restrictions and other such action to cope with import surges.

67. Consistent with its outward-looking policy and willingness to allow foreign competition in its domestic market, the level of tariffs had been progressively reduced on a broad range of goods, and the process was continuing. Furthermore, Malaysia's commitment to an open and outward-oriented trade régime, replacing the import-substitution policies of the 1960s and 1970s, should be given due recognition and encouragement.

68. However, there were factors, both national and international, that could dampen or impede Malaysia's economic growth. Domestically, there was recognition that infrastructural development needed to keep pace with rapid economic expansion. The lag between the two was cause of concern as economic growth could be adversely affected. There was also a shortage of skilled labour to meet the demands of a rapidly expanding economy. At the international level, Malaysia's ability to export was dependent on the accessibility to markets, and the country was vulnerable to the vicissitudes of the international economy. An early conclusion of the Round would result in the opening of markets, not only for Malaysia but for all developing countries.

69. The representative of Hong Kong observed that in recent years there had been a significant shift in Malaysia's trade policies towards closer regional integration within ASEAN. Hong Kong always maintained that it was important that regional cooperation arrangements were open, liberal and outward-looking. They should be GATT-consistent, complementary to its multilateral approach to trade, and non-discriminatory against other economies. He looked forward to Malaysia, being a supporter of the multilateral trading system, upholding GATT principles and working towards a strengthening of the open trading system. He was encouraged by the statement made in its Report that Malaysia was

fully committed to the successful conclusion of the Uruguay Round, and had accepted the Draft Final Act as the basis for negotiations to conclude the Round. He particularly welcomed Malaysia's willingness to increase the scope of its tariff bindings in the context of the Uruguay Round. He believed that Malaysia could further contribute to the process by bringing its tariff régime in line with the objectives set out in the Montreal Decision.

70. He noted that Malaysia had recently acceded to the Agreement on Technical Barriers to Trade and very much welcomed this development. He hoped that Malaysia would also consider joining the other Tokyo Round MTN agreements, particularly the Import Licensing, Anti-dumping and Subsidies Codes. From the Secretariat Report, the representative noted that harmonization of national standards was under consideration in the ASEAN Committee on Standards and Quality. He asked for confirmation that such an exercise would not result in technical barriers to trade that discriminated against outside economies. Although there was no explicit inconsistency between Malaysia's import licensing system and the relevant GATT provisions, the representative nevertheless considered it important that Malaysia sought to further improve the transparency of its import licensing régime. He looked forward to Malaysia removing the uncertainty that might be created by the existing régime and believed that accession to the Import Licensing Code would be a significant step in this direction.

71. In the area of government procurement, he noted that foreign suppliers could qualify for bidding on public contracts if they were registered with the Ministry of Finance and their equity in the company or joint venture did not exceed 30 per cent. Foreign suppliers only secured 1.6 per cent of total procurement contracts in 1990. Although Malaysia was not yet a signatory to the Agreement on Government Procurement, he felt that Malaysia should aim to adopt more open public procurement policies.

72. The representative concluded by noting that Hong Kong had earlier submitted some written questions, and looked forward to the responses of the Malaysian delegation.

73. The representative of the European Communities said that the review of Malaysia's trade policy gave an opportunity to study the case of a developing country making rapid economic progress and which, formerly essentially a primary producing country, had become an important centre for manufacturing industry. This performance was largely due to the generally prudent macroeconomic management of the country, which had sustained structural transformation measures and allowed real benefits to be obtained from a high level of productivity. This strong economic growth meant that the social stability of the multiracial State of Malaysia could be maintained and direct foreign investment promoted.

74. Malaysia's economic development owed a great deal to the rôle played by foreign direct investment; since 1987, 60 per cent of investment in the manufacturing sector had been based on foreign capital. Investments had led to trade, and the share of exports and imports of goods and services in GDP had risen from approximately 50 per cent in the 1960s to almost 80 per cent in 1992. As far as generalized tariff preferences were concerned, the European Communities received a substantial share of GSP exports (more than 49 per cent) from Malaysia.

75. Overall, since independence in 1957, Malaysia had drawn considerable benefit from its membership in the GATT system. The question was whether or not Malaysia had made its contribution to the system and whether it now accepted obligations equal to the benefits it derived from the system. The reply to that question was obviously no: bound duties were less than 1 per cent of Malaysia's customs tariff and Malaysia had joined only one of the Tokyo Round Agreements, although it had become

an observer in most of the relevant committees. In this sense, there was a strong contrast with Mexico, for example, which had bound 100 per cent of its tariff duties.

76. In the case of tariffs, where the average m.f.n. rate was approximately 15 per cent, it should be noted that there were wide variations among the rates, with extremities of more than 50 per cent in some industrial sectors and more than 300 per cent for some automobiles. Trade policy and the related measures still left room for a high degree of intervention and support, for example, through the import licensing régime (with discretionary authority) and export licences. Additionally, there were other types of aid given to sectors deemed to be priority areas: provisions for the local sector, investment aid and the discretionary system of awarding public contracts.

77. Malaysia's (Uruguay Round) offer was relatively modest as it proposed to bind duties on approximately 33 per cent of tariff lines, covering 48 per cent of imports. Despite Malaysia's constructive attitude regarding intellectual property and services, the Communities considered that the sum of concessions granted so far by Malaysia was not equal to the benefits it could expect from the Uruguay Round or to its objective level of development. It was high time that Malaysia assumed obligations in keeping with its status among the main exporters and importers in the GATT system (sixteenth place).

78. The representative of New Zealand stated that New Zealand and Malaysia shared a close and friendly cooperative relationship, which had been developed over the last 40-odd years. The central paradox, however, he saw in Malaysia's trade policy was that, while the rapidly growing Malaysian economy depended heavily on international trade, with 80 per cent of GDP contributed by trade in goods and non-factor services, this trade dependence was not matched fully by Malaysian integration into the multilateral trading system based on the GATT.

79. There were several examples of this apparently incomplete integration in the GATT system: less than one per cent of all Malaysia's tariff lines were bound; until earlier in the month Malaysia was a member of none of the Tokyo Round Codes; and at the same time Malaysia was developing regional preferential trading arrangements on tariffs. Malaysia had demonstrated a clear policy commitment to reducing tariffs. The security of bindings, however, was nevertheless particularly important. He encouraged Malaysia, because of its rôle in the international trading system, to go well beyond its current Uruguay Round offer to bind 33 per cent of its tariff.

80. Concerning tariff peaks, the representative hoped that in the context of Malaysia's commitment to the GATT system, and its underlying premise of permitting efficient resource allocation, Malaysia would be able steadily to reduce those peaks in future. He welcomed Malaysia's recent decision to take on both the obligations and the rights of membership of the Code on TBT. He hoped Malaysia would be in a position to take the domestic steps necessary to accept the obligations of the other key Codes such as Anti-Dumping, Subsidies, Customs Valuation and Import Licensing soon. In this context, the parliamentary consideration of anti-dumping and countervailing legislation seemed a positive step, and he asked whether legislation to meet the other obligations of the Subsidies Code was also being developed.

81. Agreeing with the Secretariat comment that care should be taken that regional liberalization does not stand in the way of broader multilateral liberalization, he hoped Malaysia would be able to reassure its trading partners of its practical commitment to the multilateral trading system at the same time as intra-ASEAN links were further developed.

82. As the Secretariat report noted, a fair amount of discretion existed in import licensing, while the standards system was still developing. These factors had the potential to reduce security of access for exporters. New Zealand had been aware of occasional problems, for example, due to the absence of an international standard on pesticide residues in apples in the Malaysian regulations. Nevertheless, the Malaysian authorities were willing to try to resolve problems quickly in these areas. He saw this as primarily an area where Malaysia might concentrate on reducing the scope for discretion so as to improve the security of access. He warmly encouraged the existing policy trend towards more transparent standards based on international norms, and welcomed Malaysia's membership in the TBT Agreement as a valuable step in this area.

83. Immigration procedures could be a real obstacle to services trade, even where related to policies designed to attract foreign investment.

84. The Secretariat report noted the external constraints that Malaysia faced, including from potential displacement of exports to the United States as a result of NAFTA. This underlined the benefits Malaysia could gain from fuller integration into the GATT system, which would position Malaysia well to defend an open, liberal multilateral trading system.

85. The representative of Australia stated that the Malaysian trade régime was one of the most liberal in the region. Australia found it encouraging that the Malaysian Government was committed to unilateral trade liberalization and also to supporting regional and multilateral trade liberalization initiatives.

86. Australia recognized that Malaysia was attempting to reform further its trade policies and practices, particularly through implementation of macroeconomic policies of its so-called "Second Outline Perspective Plan" and "Industrial Master Plan". It seemed that these domestic policies also reflected Malaysia's multilateral objectives. Australia would not, of course, wish to see regional trade liberalization working to the detriment of multilateral liberalization.

87. Although aware that non-tariff and discretionary measures still operated in some areas, Australia welcomed the fact that the tariff was the main trade policy instrument used in Malaysia. Malaysia's unilateral reduction of tariffs on a range of manufactured goods, including the recent liberalization affecting about six hundred items, was to be commended. The representative encouraged Malaysia to carry its liberalization process further, to include the high tariffs and import licensing measures maintained on a small number of manufactured goods such as motor vehicle parts and processed and semi-processed steel.

88. Australia hoped the protection Malaysia gave infant industries would be reduced as these industries matured, and noticed that Malaysia still tended to be receptive to applications for infant industry status. The paper products industry was an example. In Australia's view, it would be beneficial if Malaysia could find a balance between legitimate trade concerns and industry sensitivities in formulating its protection and assistance policies.

89. In contrast to the lower tariffs on imports on manufactured goods, Malaysia's tariffs on many agricultural products were relatively high. In addition, non-tariff measures applied to a range of agricultural products. These measures were of concern, and Malaysia was encouraged to liberalize them. Australia noted that Malaysia's revised national agricultural policy involved creating a more dynamic, modern agricultural sector, with efficient agribusiness, farms and agricultural enterprises. Malaysia was therefore to be complimented on the new policy; however, Australia would be most

concerned if incentives under the new policy were used to extend tariff or non-tariff protection. Such protection would be detrimental, not only to the interests of agricultural exporting nations, but also to the longer-term development of Malaysia's own agricultural sector.

90. The representative called attention to Malaysia's "discretionary" forms of non-tariff protection. Examples of such protection included: restrictions on the number of pharmaceutical products registered for sale by the Ministry of Health; restriction by the Department of Civil Aviation on the number of pilot training schools; restrictions imposed by relevant bodies and Ministries on the recognition of professional qualifications granted by overseas tertiary institutions; and "uplift duties" applied to sole agent importers. She asked for clarification of the criteria used in implementing the restrictions.

91. To conclude, the representative of Australia welcomed Malaysia's commitment to join the TBT Code before the end of 1993, and hoped that, in the meantime, Malaysia would adopt relevant international standards wherever possible.

92. The representative of Canada, making comments in addition to written questions submitted to Malaysia, noted the rôle that a prudent macro-economic policy had played in contributing to Malaysia's remarkably strong levels of economic growth throughout the 1980s and 1990s. Inflation had been kept below that of Malaysia's major trading partners, and productivity gains since 1980 had continually been higher than nominal wage increases. The importance of a fairly firm commitment to trade liberalization as a contributing factor to this growth could of course, not be underestimated. Malaysia should be encouraged to continue these policies.

93. Canada fully concurred with the Secretariat assessment that Malaysia, as the 16th largest world trader, still had a long way to go in fully integrating itself into the GATT system, and in taking on the responsibilities that went with its position in world trade. In Canada's view, the Malaysian offer in the context of the Uruguay Round - to bind 33 per cent of tariff lines, covering 48 per cent of imports - could be significantly improved. The representative stated that an early Malaysian accession to the Tokyo Round codes on Customs Valuation, Anti-Dumping, Subsidies/Countervail, Import Licensing and Government Procurement, would seem an appropriate manner in which Malaysia could express a greater commitment to the multilateral trading system based on the GATT.

94. In many instances, import licensing was used not for sanitary-phytosanitary, safety, or environmental or copyright protection reasons, but rather as a measure to protect domestic producers. Equally, evidence suggested that measures such as adjustment and investment assistance were used in a highly discretionary way to protect domestic producers, as were increased tariffs for infant industries. Canadian authorities also viewed tariff escalation as a significant trade barrier in respect of certain resource products.

95. Finally, the representative of Canada asked the Malaysian delegation to provide as much information as possible on how far it had gone in removing quantitative restrictions and non-tariff barriers as set out in the annex to the GATT document L/7111 (Description of Common Effective Preferential Tariff among ASEAN members).

96. The representative of the United States praised Malaysia's success in achieving among the highest growth rates in the world along with an equitable distribution of income, saying it should serve as a model for other developing countries. The United States believed that the privatization of key sectors - including telecommunications, power and transport - and an increasing national emphasis on private sector initiative, would help to maintain Malaysia's economic development. Similarly,

Malaysia's clear movement toward a more open and transparent trade régime would benefit both its economy and the trading system in general.

97. Nevertheless, in contrast to Malaysia's success as a trading nation, its integration into the GATT system thus far was quite limited. It was particularly noteworthy that less than one per cent of tariff lines were bound, and that Malaysia had joined only one of the MTN Agreements. The United States welcomed Malaysia's active participation in the Uruguay Round, and expected that the successful conclusion of the Round would eliminate this anomaly.

98. Malaysia attached importance to regional integration as part of its development strategy. In this connection, it was understood that Malaysia was one of only two ASEAN countries to have actually begun initial tariff cuts, following ASEAN's January 1992 decision to seek a free trade area (FTA). The Malaysian delegation was asked to describe the status of the ASEAN FTA (AFTA), including when Malaysia intended to make the next round of tariff cuts under the Common Effective Preferential Tariff scheme. The United States' representative also enquired whether Malaysia and its ASEAN colleagues intended to notify the GATT of AFTA under Article XXIV. Use of the "enabling clause" would be less appropriate, the United States believed, given the ASEAN nations' significant economic development.

99. The United States welcomed Malaysia's reduction or abolition of tariffs in late 1991 for over 600 items, including selected textile, food, chemical, computer and non-ferrous metal products. However, these changes were not bound, and Malaysia's high tariffs on value-added agricultural products had not been reduced. Lowering those tariffs would help Malaysia carry out its national agriculture policy, which called for a market-led, commercialized and efficient agricultural sector. The United States appreciated Malaysia's constructive participation in Uruguay Round market access negotiations. Malaysia's offer to bind 33 per cent of its tariff lines represented a substantial increase over the current low level of bindings, although the breadth of these bindings would still fall well short of other developing countries that had bound, or had offered to bind, their entire tariff schedule.

100. Despite a number of advances towards autonomous liberalization of Malaysia's trade régime, import licensing procedures provided substantial discretionary power for the granting of licenses, including the possibility of amendment or revocation without access to legal recourse. He asked whether Malaysia had any plans to limit such licensing requirements and/or reduce their discretionary nature.

101. On quantitative restrictions, he understood that the Government of Malaysia had not issued permits to import chickens and chicken parts into Peninsular Malaysia since 1983, and into East Malaysia since 1991. In the United States' view, this de facto ban unjustly excluded chicken exports from participating in the rapidly growing Malaysian market. He also noted recent increases in the import quota for Virginia leaf flue-cured tobacco and hoped that this quantitative restriction would be eventually be removed.

102. Malaysia's sales tax régime might in general be non-discriminatory but it had been seen to have discriminatory effects on certain product areas, especially imported fruits and other agricultural products. This de facto discrimination resulted from the stated difficulty encountered by the Government of Malaysia in collecting taxes from domestic producers of those products. The United States' representative asked whether the Government of Malaysia was taking steps to correct the differential in sales tax paid by importers and domestic producers.

103. The Government of Malaysia had indicated its intention to remove the provisions on abatement of income for exporters of manufactured and agricultural products beginning January 1993. He welcomed the decision and hoped it had been implemented as planned. In its report, the Government of Malaysia had listed briefly its regulations on double deductions for certain expenses incurred by exporters and for double deductions for export credit insurance. Given the success of Malaysian exporters throughout the world, the representative asked whether those provisions were still viewed as necessary.

104. Noting that foreign investors often were required to meet export performance requirements to qualify for majority ownership, the representative expressed the view that relaxation of those requirements would encourage increased foreign investment. He also noted that Malaysia maintained a number of local content requirements as a condition for access to fiscal incentives. As this raised questions with respect to conformity with GATT Article III, he asked what were the Government of Malaysia's intentions with respect to those measures. The representative commended Malaysia's commitment to protection of intellectual property rights, stating that the enforcement of measures against software piracy were much appreciated by U.S. industry and served as a model for other countries in the region. He hoped that the same level of enforcement would be extended to other areas, such as video and audio tape piracy.

105. The United States welcomed Malaysia's active participation in GATT discussions on trade and environment. In this connection, it was noted that Malaysia maintained export restrictions on a number of products - such as logs and rattan - for environmental reasons. While appreciating Malaysia's goal of protecting its natural resources, the representative asked whether the Government of Malaysia could provide further information on how the export restrictions of logs and rattan served environmental purposes, including the alternatives Malaysia had considered and the trade effects of those alternatives.

106. In concluding, the representative observed that the fact that Malaysia's success was achieved through reliance on market forces and economic openness should be instructive to both developed and developing countries alike.

107. The representative of Switzerland observed that Council members were no doubt struck by Malaysia's impressive growth in GDP, per capita income, exports of manufactures, as well as parameters such as control of inflation and public expenditure. Malaysia was now a full member of the club of countries with dynamic economies, to such an extent that the declared goal of the Government to make Malaysia a fully developed country by the year 2020 almost appeared to be a modest objective.

108. Malaysia's authorities had been able to progress rapidly from an import substitution policy to an export promotion policy. This basic transition in the orientation of Malaysia's economic policy was accompanied by gradual measures aimed at greater liberalization of financial markets, rules on foreign investment and trade policy. The Swiss delegation was particularly struck by the Malaysian economy's capacity for adaptation. The authorities were able to react rapidly to each crisis, whether internal or external. Citing a few examples during the past decade: the 1982 budgetary deficit amounting to 19 per cent of GNP was brought down to 4.5 per cent by 1985; the 1985 recession was overcome through measures that included fiscal incentives and liberalization of foreign investment: the inflation rate, which rose alarmingly during the first months of 1992, induced the Government to tighten monetary policy.

109. On the negative side, the representative noted that in some sectors, for example textiles, food products, beverages, electrical machinery and some chemical products, many tariffs were still too high. A greater degree of harmonization would be preferable. Furthermore, while the Malaysian offer in

the Uruguay Round negotiations would increase the level of bound tariffs to 33 per cent of all lines, it would be desirable if tariff rates on lines already bound could be lowered to 30 per cent, for example. As pointed out in the Secretariat report, the import licensing system was not very transparent, because the justification for the inclusion of some goods in the list of products subject to import licensing was not clear. In this context, the Malaysian authorities were encouraged to accede to the Tokyo Round Agreement on Import Licensing Procedures.

110. The representative also noted that there were many rules on foreign investment, particularly those concerning the maximum equity authorized under foreign ownership. In this connection, the Swiss delegation wondered whether it would not be advisable to simplify those rules. However, the delegation realized that there was no restriction on the subscription of foreign capital. The representative was interested to know whether the Malaysian authorities intended to modify or eliminate the regulations on transfers of capital, which were the subject of surveillance for statistical reasons.

111. The Swiss delegation noted with interest that Malaysia attached great importance to a strong, stable and open multilateral trade system. Malaysia therefore intended to continue to work towards a rapid and equitable conclusion to the Uruguay Round. In that spirit, Malaysia was strongly encouraged to become a full participant in the GATT system by signing all the Tokyo Round Agreements. With regard to regional and preferential agreements, Malaysia had long participated in the ASEAN integration process. It was important, nevertheless, to bear in mind that such integration should not seek to replace the global system but to complement it. This could only be achieved if regional integration efforts respected precise and universally recognized rules. Since the beginning, GATT had recognized this principle of complementarity through the adoption of clear criteria under Article XXIV.

112. The representative of India welcomed Malaysia's strong economic performance. He noted two major characteristics of the country's trade policies, that Malaysia had not been directly involved in any GATT dispute settlements to date, and had not taken any anti-dumping measures or imposed countervailing duties.

113. The representative praised Malaysia's Uruguay Round offer to substantially increase its level of tariff bindings. Observing that there existed a link between a country's trade policies and constraints in the international environment, he noted that Malaysia's exports faced such barriers as tariff escalation, quotas under the Multifibre Arrangement (MFA), and unilateral measures. The representative nonetheless urged Malaysia to continue its progress in trade liberalization.

114. The representative of Norway, speaking on behalf of the Nordic countries, noted that Malaysia's economy had undergone a profound structural transformation over the last decades, which had enabled it to enjoy relatively high growth for quite some time. This squared well with the Government's stated goal of making Malaysia a fully developed country by the year 2020. The Nordic countries welcomed both the objective and the development toward it, and hoped to see Malaysia assume its responsibility as a developed country soon.

115. Regarding the foreign trade situation, the Nordic countries observed that exports had constituted a main driving force behind Malaysia's economic growth. Although the current account had shown a deficit in recent years, the balance of payments was maintaining a steady surplus due to an inflow of foreign investments. Another sign of the successful policy transformation was the fact that Malaysia had become much less dependent on a small number of commodities, with now a larger variety of manufactured exports.

116. The Nordic countries recognized that Malaysia had made some efforts towards liberalizing its import régime and bringing it into conformity with the GATT. The main foreign trade instrument was the customs tariff, with duties applied ad valorem and on an m.f.n. basis. However, a number of other measures giving protection to domestic producers were maintained, e.g. import licensing, local content regulations, and some discretionary provisions in government procurement. Although the average applied m.f.n. tariff rate was 15 per cent, almost no tariffs were bound under the GATT. Overall, the Nordic countries welcomed the future transformation of Malaysia into a developed country, and at the same time encouraged Malaysia to further liberalize its foreign trade régime and aim for prompt and full integration into the GATT system.

117. Observing that Malaysia had in recent years actively sought closer regional economic cooperation through the establishment of fora such as AFTA, APEC, EAEC and the G15, the representative asked what had been the experience of Malaysia with these fora to date and what rôle EAEC and APEC were intended to have in a trade context. A frequent term used by Malaysian authorities was "open regionalism". The representative enquired what the term meant, and whether Malaysia could substantiate rumours that formal trade links might be established between AFTA and NAFTA in the near future.

118. On the Tokyo Round Codes, the representative asked whether Malaysia foresaw signing any of codes, and if so when and which ones. The Nordic countries strongly urged Malaysia to consider signing as many such agreements as possible. The representative noted that Malaysia was preparing provisions on anti-dumping, and asked about the status of this work and when the provisions would be implemented.

119. The representative asked what plans Malaysia had for binding its tariffs in the GATT and whether reduction or elimination was foreseen on items subject to peaks over 50 per cent, in particular duties on automobiles. Noting that Malaysia had established a free commercial zone (FCZ) in one of the country's biggest ports, Port Kelang, the representative asked about the status of the project and whether plans existed for other FCZs as well. He also inquired about the purpose of the recently established Malaysian External Trade Development Corporation (MATRADE), and about what was to be expected on the establishment of commercial presence by foreign companies.

120. The representative of Pakistan welcomed the reduction of barriers to trade in products of interest to the two countries, as well as Malaysia's rôle in strengthening the multilateral trading system. He commended Malaysia for its intention to increase the level of bound tariffs, and to join the TBT Code. He hoped that trade between the two countries might become more balanced in the future, and said that Malaysia's success served as a rôle model for his country in terms of export promotion and attracting foreign direct investment.

121. The representative of Argentina stated that Malaysia's macroeconomic indicators highlighted a spectacular performance in terms of growth of GDP and Malaysia's assumption of a leading rôle in international trade. There had been a large degree of industrial diversification, and this could be seen in the importance assumed by a large number of sectors such as electronics, textiles and transport equipment in industry, and petroleum, timber and palm oil in mining and agriculture.

122. The process of growth and industrial expansion was marked by demand for skilled labour. Malaysia's unemployment rate was very low, in 1991 only 4.3 per cent. Malaysia was the world's largest exporter of air-conditioners and the third-largest exporter of semi-conductors. The use of GSP was also significant. Malaysia had adopted a trade policy directed towards foreign markets on the basis of a strong, open and viable trade system; nevertheless, it had not yet fully integrated into the

GATT. The percentage of bound tariffs was extremely low. Regional agreements, especially the preferential agreement with ASEAN, undeniably gave rise to doubts concerning the possibility of stimulating trade, especially with third countries. Excessively strict rules of origin, however, might discourage non-ASEAN suppliers.

123. The Malaysian Government had maintained a wide range of investment incentives for sectors such as manufacturing, agriculture and tourism. The Government now appeared to be more selective in encouraging investment. Projects exporting less than 20 per cent of production could have foreign ownership up to 30 per cent. In some cases (high technology products or priority products for the domestic market) foreign ownership was permitted up to 51 per cent.

124. The average tariff level, at 14 per cent, was reasonable. However, import licensing was disputable, particularly the Third Schedule, which included products whose import was prohibited except by virtue of an import license. The purpose of the prohibition was to afford "protection of a temporary nature to local manufacturers". Quantitative restrictions applied on imports of coffee and round cabbages. On government procurement, the report by the Secretariat appeared to indicate that there was a degree of discretionary authority, which excluded foreign suppliers whose equity exceeded 30 per cent.

125. The main objectives of Malaysia's trade policies were: maintenance of a multilateral trading system based on the GATT; improved market access for Malaysia's exports of primary commodities and manufactured products; the development and promotion of exports of higher value-added manufactured and resource-based products; expansion of trade with major trading partners; diversification of trade into non-traditional markets; strengthening trade with ASEAN countries; and expansion of trade links within East Asia. To achieve those objectives meant promoting the marketing of goods in third countries, and each of Malaysia's trading partners had some responsibility to ensure that certain trade measures did not lead to a "chilling" effect. Otherwise, it could lead to the promotion of preferential trade with consequent adverse effects for third countries.

## VI. RESPONSE BY THE REPRESENTATIVE OF MALAYSIA AND FURTHER COMMENTS

126. The Council invited the representative of Malaysia, in giving his responses, to focus on three major themes, as detailed below.

### (i) Macroeconomic and structural issues

127. The representative of Malaysia registered the appreciation of the Malaysian delegation for the constructive comments made by the discussants and members of the Council. His responses covered specific issues raised verbally by members of the Council, as well as written questions submitted earlier.

#### Infrastructure

128. Several members of the Council had made the observation that the rapid expansion of the Malaysian economy had caused strains on the infrastructure, the representative stated. The Government was fully aware that this could impede development efforts and specific measures were being considered to alleviate the problem. This was clearly reflected in Malaysia's medium and long term development plans, within which the objectives of infrastructure development would be:

- to provide an efficient system that would focus on greater multimodalism, and enhanced complementarity among modes as well as ensure adequate and timely supply of facilities to meet development requirements in the 1990s;
- expansion and upgrading of roads and highways, railways, airports and ports, to be undertaken in a coordinated approach; and
- to integrate land use and management, growth of development centres, transportation, communications, energy and conservation of natural resources.

#### Manpower Development

129. There was currently a shortage of manpower, especially skilled manpower. As a short-term measure, Malaysia was taking in foreign labour - 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 was promoting more capital-intensive industries and greater mechanisation in the plantation sector.

130. Correspondingly, the Sixth Malaysia Plan aimed for enhanced labour productivity, improvement in the labour market, improved access to educational and training opportunities and a better system of wage adjustment that related wage movements to productivity changes. In addition to programmes initiated by the Government, the private sector, through their associations, would be encouraged to set up industry specific training centres to meet the needs of particular industries.

#### Investments - Savings Gap

131. Another issue highlighted by the Council members was the widening gap between investments and savings. This was certainly an issue that needed to be addressed quickly, in view of the increasingly intense competition for foreign direct investments. In response, the main measure taken by Malaysia to expand domestic supply of capital was to encourage savings, and this was effected through the following monetary and fiscal measures:

- higher contribution rates to the Employees Provident Fund (EPF), by 1 percentage point each for both employees and employers, with effect from January 1, 1993;
- issuance of Malaysia Savings Bonds (MSB) in February 1993;
- imposition of stricter guidelines on credit card operations;
- tax exemption on interest income earned carried by individuals from corporate bonds; and
- extension of withholding tax exemption on deposits of less than RM50,000 placed in selected financial institutions.

### Manufacturing Sector

132. The representative noted that observations had been made highlighting the narrowness of Malaysia's manufacturing sector, comprising mainly the electrical and electronic industries, textiles, and the transport equipment industry. He wished to point out that in the early stages of industrialization, the electronics industry was characterised by the production and export of electronic components, especially semi-conductors. This had since changed with consumer and industrial electronics contributing a larger share of export earnings from the industry. The export of semi-conductors, which comprised 66.7 per cent of all electronic product exports in 1988, only accounted for only 38.9 per cent in 1992. Diversification into new industries, such as ancillary and supporting industries and chemical and petrochemical industries, was also being undertaken. Malaysia also promoted the establishment of greater value-added, high-technology and resource-based industries.

133. Malaysia would continue to promote foreign direct investment (FDI) in the manufacturing sector. However, in view of increased competition from the newly emerging free-market economies and the expected decline of FDI from developed nations, which were facing prospects of slower or stagnating growth, new investment in the manufacturing sector from domestic sources would need to be actively promoted.

### Incentives

134. On incentives, the representative stated, members of the Council would have noted from the Government and Secretariat reports that there was a clear shift in Malaysia's policy. The Malaysian Government would continue to provide a conducive environment for investments in the manufacturing sector. In this regard, investment incentives should only be regarded as the "icing on the cake"; Malaysia believed that the most important factors determining continued investment flows include political and economic stability, the provision of improved infrastructural facilities, and availability of skilled labour.

135. Malaysia's stage of economic development, and the highly competitive world economic and trade environment, demanded that Malaysian industries maintain a cutting edge. To this end, the Government had reviewed the structure of tax incentives to enable the private sector to be more competitive and resilient and to be less dependent on tax incentives. The current focus was to provide investment incentives aimed at the creation of more competitive, efficient and self-reliant industries. In the long-term, the thrust of the Government's assistance would no longer be on tax incentives, but on non-fiscal incentives including the following:

- development and improvement of infrastructural facilities, i.e. utilities, information technology, industrial estates, high-technology parks, specialised industrial estates, transport and shipping facilities, and free zones;

- establishment of more training centres to develop skilled manpower for the various sub-sectors;
- liberal expatriate employment guidelines to allow the inflow of foreign skills and know-how; and
- liberal foreign equity ownership guidelines for priority sub-sectors, e.g. for high technology industries.

136. The first discussant enquired whether Malaysia's infrastructural development plans included specific measures for expansion of port facilities. He noted that, despite the diversification of electronics production, the manufacturing sector still appeared to be highly concentrated. For firms locating within free trade zones, he asked what incentives were available.

137. The representative of Malaysia confirmed that the expansion and upgrading of Malaysia's four major ports was an important priority under the 6th Malaysia Plan. In terms of diversification, he stated that Malaysia was making vigorous efforts to expand its markets, especially by concluding bilateral payment arrangements with new trading partners.

(ii) Trade policy and trade measures

- Measures affecting imports

138. The representative of Malaysia noted that numerous observations had been made with respect to Malaysia's import régime, in particular the licensing system. On the question of discretion used in the issuance of import licenses, he pointed out that discretion had always been exercised in a responsible manner, and at every step of the decision making process there were checks and balances to ensure accountability. The Malaysian Government was always concerned over the consistency of interpretation of its policies and laws.

139. Secondly, he drew attention to the statement in the Secretariat report that no legal appeal was allowed if the licence was refused. He felt that this was not a fair reflection of the situation. In order to alleviate concerns that had been expressed, he clarified that applicants did have recourse to appeals to the Ministers responsible. Additionally, any aggrieved party could, under the administrative laws, file an appeal to the courts. He repeated that Malaysia continually reviewed its import régime, with the aim of making the system more transparent and implementable, as well as to reduce the number of items subject to licensing requirement, in particular those effected for protective reasons.

140. On quantitative restrictions, a number of delegations had raised concern regarding items such as milk and chicken wings. These concerns would be addressed within the context of the Uruguay Round, as Malaysia was ready to fulfil the requirements contained in the Agriculture Text. Review of the non-tariff measures affecting those and other agricultural products was also undertaken in line with recommendations under the new National Agricultural Policy.

141. For the information of the Council, the representative noted that the Malaysian Parliament had already passed the legislation on Anti-dumping and Countervailing Duty. The manual of operations and regulations for the implementation of this law was being prepared in consultation with the GATT Secretariat and countries having extensive experience in the area. The representative had indicated in his earlier statement that this legislation took into account the provisions of the Anti-dumping Code and improvements envisaged in the Uruguay Round's Draft Final Act.

142. With regard to tariffs, current procedures for reviewing the tariff structure would be continued. Tariffs would be regularly reviewed and changes announced in the Annual Budget. In the course of the review, due attention was given to concerns such as tariff peaks and tariff escalation. With reference to tariff setting, while it was not customary for foreign exporters to make direct representation to the Special Advisory Committee on Tariffs, this did not preclude the possibility of such representation being made through the respective trade associations during the annual dialogues with the ministers, as referred to in his earlier statement.

143. Tariff protection was provided only to a small number of deserving infant industries and to strategic industries. Infant industries were those newly established that required protection to enable them to compete on an equal footing with imports in the initial stages. Strategic industries required protection in view of the large investment and the long gestation period. Among the pre-requisites for considering tariff protection for these industries were that:

- local industry should have the capacity to supply at least 90 per cent of the domestic market;
- the locally manufactured product was of acceptable quality; and that
- the price to consumers was comparable with the imported price.

144. In the evaluation of tariff protection, consideration was given to the degree of utilisation of domestic raw materials, the level of local value added to be achieved, the level of technology of the industry and the spin-off effects on the economy. The guidelines established pertaining to tariff protection specified that the duration of protection should not be more than 5 years for most industries. Protection granted was subject to review by the Special Advisory Committee on Tariffs. With specific reference to the preferential tariffs accorded to Australia and New Zealand, the representative noted that they were provided under Article 1.2(a) of the General Agreement. Products covered were mainly dairy and leather products.

145. With reference to questions on the Free Industrial Zone raised by some delegations, the representative stated that Zone facilities were provided to export-oriented industries to enable them to enjoy minimum custom control and formalities in their imports of raw materials, parts, machinery and equipment as well as in exports of finished goods. Criteria for the location of companies in the Free Industrial Zones were that the companies must export at least 80 per cent of their production and import most of their raw materials and components. Additionally, the existence of equity or ownership regulation in any business venture was an universally applied phenomena, he stated. Malaysia did not see how it could act as a trade protective device, because the manner in which a particular entity conducted its business was purely based on commercial considerations.

146. Some delegations had made reference to local content requirements. In this regard the representative clarified that local content requirements were applicable for (i) the automotive industry, and (ii) products that were granted fiscal incentives. For the automotive industry, the development of a components parts industry was seen as means of upgrading local engineering and technical skills, as well as development capabilities to manufacture sophisticated, quality products. It was Malaysia's intention to see that the components parts industries would be competitive in international markets. Additionally, the local content programme was aimed at promoting the development of an integrated motor vehicle industry and its linkages with other sectors, and to develop indigenous capability in that industry. The local content requirements for products granted fiscal incentives were aimed at creating linkages as well as the utilisation of local raw materials. However, companies were not required to comply with the content requirement if they did not wish to avail themselves of the fiscal incentives.

147. Regarding the issue of "uplift", the Malaysian Customs Act followed closely the concept of valuation of the CCC, i.e. the Brussels Definition of Value (unlike that of the GATT Customs Value Code), which was based on the national concept of open market value. Normally, goods were sold to sole agents at a special price, lower than the open market value. Therefore, the objective of the Customs "uplift" was to bring it to the level of an "arms length" transaction. The "uplift" was normally imposed after a thorough investigation lasting about 3 months. Sole agents were allowed an opportunity to defend their interests, and could also appeal against any decision on "uplifts".

148. On the National Paddy and Rice Authority, the Government had no immediate plan for privatization. The importation of rice would still rest with the Authority for reasons elaborated in the Secretariat report. On sales taxes for fruits and certain agricultural products, the representative pointed out that, under the law, there was no discrimination between imported and domestic fruits. The authorities, however, were fully aware of the collection problems and were looking at possible administrative solutions to address them.

149. Some concerns were raised on government procurement policy. Generally, Malaysia practised an open tender system with respect to government procurement. However, equity ownership of companies or joint ventures bidding for government tenders was limited to 30 per cent in order to meet certain socio-economic development objectives. Foreign companies were free to bid for government tenders upon meeting this condition.

150. The second discussant welcomed Malaysia's statement on reducing the degree of discretion applicable to licensing and asked for confirmation on the right of foreign exporters to appeal to the ministers concerned. Concerning infant and strategic industries, he asked how the designation was made for the latter.

151. The representative of Malaysia confirmed the right of exporters to appeal to the appropriate minister, adding that Malaysia's new anti-dumping and countervailing duty laws were in the process of being gazetted. On infant and strategic industries, he said they were administered under that same criteria.

152. The first discussant enquired whether attention would be paid to tariff peaks and the presence of tariff escalation, and asked which industries were currently designated as strategic. On government procurement, he asked how foreign-owned firms could increase their level of participation.

153. The representative of Canada asked if it would be possible to specify under which laws exporters could launch appeals, and whether the existing procedures had been used successfully in the past. He enquired whether the formulation of Malaysia's anti-dumping and countervailing duty laws meant that the country would soon be joining the Tokyo Round Code on Anti-dumping. The question of additional Code memberships by Malaysia was also asked by the representative of the European Communities.

154. The representative of New Zealand asked if Malaysia's new anti-dumping and countervailing duty laws took into consideration the relevant sections of the Uruguay Round's Draft Final Act. He also questioned how international competitiveness could be achieved by infant industries if tariff protection was provided. The representative of Senegal asked whether protection to infant industries would end even under situations when the firms had not yet gained competitiveness.

155. The representative of Malaysia responded that such former infant industries as electrical products and cassette recorders no longer received protection (and were no longer on the list of promoted industries). Strategic industries for Malaysia, such as steel and cement, were subject to a review of protection after the five-year initial period had expired.

156. A listing of the specific laws applicable to appealing licensing decisions could not be cited. Exporters to Malaysia were required to follow the appeals procedures as established for individual ministries. Concerning restrictions on imports of certain wheat flours, Malaysia's concern was to achieve supply and price stability. Domestically, the price of wheat flour was subject to price control.

157. Membership in additional Tokyo Round Codes was being considered by Malaysia, but the Government was proceeding cautiously. Developments in the Uruguay Round would be an important factor. Policies on government procurement would be also be affected by the Uruguay Round, while the issue of Malaysia's tariff peaks "would be given due consideration".

158. The second discussant enquired how Malaysia, in regard to protection for infant industries, was able to resolve the issue of domestic prices being higher than international prices as a result of the higher tariff rates. The representative of Malaysia replied that, with the exception of flour milling products, levels of protection for even strategic industries were reduced steadily over a fixed time period.

159. The representative of Canada asked how an importer or foreign exporter making a licensing appeal would know where to pursue that appeal within a ministry, as well as what offices had been established for this purpose. The representative of Malaysia answered that circulars for this purpose are issued by the ministries concerned, and that ministries are instructed to be clear and informative in responding to enquiries. Usually the macroeconomic section of the ministry was the appropriate office to approach; for issues involving foreign investors, the Malaysian Industrial Development Authority (MIDA) should be contacted.

- Measures affecting exports

160. The representative of Malaysia, in respect of the specific enquiry concerning the cess on rubber, clarified that the cess collected on rubber production and exports were specifically channelled for financing research and development. Export restrictions on logs and rattan were aimed at conserving forest resources and this was in line with international obligations under the International Tropical Timber Agreement and UNCED. Export restrictions and the reduction of annual felling were among the measures taken to complement the overall programme for sustainable forest management.

161. The representative of the European Communities commented that, as an alternative to the ban on rattan exports, a system of restrictions on domestic production might be superior. The representative of Australia asked whether an increase in tariffs on certain packaging papers was planned, as a means of supporting the domestic industry concerned.

162. The representative of Malaysia responded that discussions on policies for forest products were held under the auspices of the International Tropical Timber Organization. On packaging-paper tariffs, no specific decision had yet been made.

(iii) Malaysia in the international trading system

GATT and the Tokyo Round Codes

163. The representative of Malaysia noted the general concern expressed with regard to Malaysia's integration into the multilateral trading system, represented by the GATT and Tokyo Round Codes. As pointed out in the opening statement, Malaysia was committed to the strengthening of the multilateral trading system and consequently endeavoured to assume responsibilities commensurate with its level of economic development. Malaysia had also indicated in the Uruguay Round negotiations a readiness to expand its schedule of concessions from a coverage of 1 per cent to 48 per cent of total trade. Malaysia had already acceded to the Agreement on Technical Barriers to Trade on 3 July 1993, and was seriously considering participation in various other Tokyo Round Codes. Malaysia's fuller integration into the multilateral trading system would be facilitated by a favourable external environment, and particularly the successful conclusion of the Uruguay Round.

Regional integration

164. In the context of regional integration, Malaysia's ultimate objective was the promotion of a more liberal international trading environment. Participation in regional trading arrangements and fora was seen as supplementing and complementing the multilateral trading system. The concept of "open regionalism" that Malaysia promoted entailed the removal of barriers to trade among countries within a regional trading arrangement, without the erection of additional barriers to trade with countries outside such arrangements, and was thus consistent with the provisions of Article XXIV of the General Agreement.

165. As to the request for information on the CEPT and the ASEAN Free Trade Area (AFTA), ASEAN had recently submitted additional information on its implementation to the Committee on Trade and Development. Further progress on implementation of the scheme would be duly reported to the Committee. Under the implementation programme, non-tariff measures would simultaneously be examined by the ASEAN member countries in an effort to ensure the full realization of the benefits accruing from tariff reductions. The harmonization of standards would be undertaken with the view of facilitating trade.

166. Finally, the representative pointed out that there were some questions, such as recognition of professional qualifications and the establishment of pilot training schools, which were best addressed within the framework of the Uruguay Round negotiations on services

167. The first discussant said that, as a means of helping to maintain the GATT system, trading partners would welcome Malaysia's membership in additional Tokyo Round Codes and greater participation in the Uruguay Round negotiations. He asked the Malaysian delegation whether the Government accepted the idea of a single Uruguay Round package (ie. as envisaged under the Punta del Este Declaration). He commented that the concept of "open regionalism" under the AFTA should be a means of strengthening the GATT system.

168. The second discussant commented that Malaysia's trading partners would welcome a higher level of tariff bindings, as well as membership in additional Tokyo Round Codes

169. The representative of New Zealand enquired as to which Tokyo Round Codes Malaysia was seriously considering for membership. The representative of Malaysia responded to the question of a single Uruguay Round package by stating that Malaysia stood by the Punta del Este Declaration.

## VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

170. 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

171. 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.

172. 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.

173. 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.

174. 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.

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

176. 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.

177. 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.

178. 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.

179. 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

180. 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

181. 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.

182. 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.

183. 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.

184. Council members welcomed the fact that Malaysia had not taken any safeguard, anti-dumping or countervailing measures.

185. 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.

186. 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.

187. Some participants noted that Malaysia's government procurement system had restrictive elements and that the foreign share in government purchases was very low.

188. 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.

189. 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.

190. 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.

191. 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.

192. 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.

193. 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.

194. 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

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

196. 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.

197. 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

198. 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.

199. 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.

200. 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.

201. 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.

202. 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 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.

203. 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.