Chapter III

MALAYSIA´S TRADE POLICY

Malaysia is situated in the central part of South East Asia with a population of 18 million. The government has followed a steady industrialization policy since independence in 1957. Since 1965, the government has introduced six five-year plans, the first Outline Perspective Plan (OPP1) for the period 1971-1990 and the New Economic Policy (NEP), the National Development Policy (NDP) replaced the NEP in 1990, it forms the basis for the second Outline Perspective Plan (OPP2) covering the period 1991-2000. With these policies as well as political stability, the economy of Malaysia has developed rapidly. Malaysia´s economic growth rates have averaged about 7 per cent per annum, the GDP growth rates were 5.4% (1987), 8.8% (1988), 8.5% (1992) and 8.0% (1993). The Malaysian economy is an open economy practicing free enterprise under a strong and stable government with a liberal foreign exchange regime, and financial stability. The average inflation rate has been less than 5% per annum over the years and its income per capita is about US$ 1,840.

3.1- CHANGES IN TRADE POLICY-

In Malaysia, trade has been an important contributor to the economic growth, and it will remain predominant in the future economic expansion plans. The export sector is a main source of growth for the economy of the country. Its share to the GDP was 72.7% in 1993 increasing from 68.8% in 1990 and 70.1% in 1992. It contributed to the increase in the Malaysian share of world merchandise trade to 2.6% in 1993 compared with 2.2% in 1992 and 1.7% in 1990.These factors were background for trade policy to evolve over time. It is very important for trade policy formulation to preserve a multilateral trading system that is liberal, predictable and stable. Malaysia has an open and an outward oriented trade regime replacing the largely import-substitution policies of the 1960s and early 1970s. It can be said that there has been no drastic change in trade policy in Malaysia since 1957, because quantitative restriction policies towards imported goods never had much importance as a measurement of protection policy, tariff rates tended to be low compared with other developing countries even during the import-substitution period and in addition the speed of import liberalization was mild. However, as a study by Yumiko Okamoto shows, there was a clear-cut change in trade policy in the mid-1980s when Malaysia revitalized the outward-oriented industrialization strategy launched at the beginning of the 1980s.

The transition from import substitution to export orientation.

Import substitution was adopted by the Malaysian Government after its independence in 1957. Tariff measures were taken to protect the young domestic industries from foreign competition. The importance of import substitution as source of industrial growth in the early phase of industrialization was recognized. However, there were some limitations. The success of import substitution was circumscribed by the limits of domestic market size, while import duties were imposed mainly for revenue purposes, exchange controls were not imposed. Qualitative restrictions were rarely adopted. The Government was concerned of a possible decline in revenue from imports resulting from an increase in tariff. Import substitution tended to aggravate balance of payment by diverting resources away from the production of exportable and by rendering the manufacturing sector increasely dependent on imports of capital and intermediate goods. It was clear that import substitution could not ensure rapid growth of the manufacturing sector and employment. The industrial structure under protective controls was not conducive to a successful export drive. Therefore, there emerged a need for an alternative industrialization strategy.

Export-oriented policies were initiated in the late 1960s. There were several reasons for this. The first is that import substitution did not give results as expected. Secondly, the success of Northeast Asia Countries NICs (and

Singapore) in achieving rapid growth through export-led industrialization. Further, there was a change in the intellectual climate towards greater emphasis on exports in many developing countries. In Malaysia export orientation and import substitution were pursued in a parallel fashion although export orientation was faveured more strongly.

There was change in trade policy when the government launched the second round import substitution strategy at the beginning of the 1980s. It emphasised the import substitution of intermediate and capital goods such as chemicals, cement, aluminum,steel, transport equipment and the degree of protection given to these goods was raised. However the heavy industrialization at the beginning of the 1980s did not result in good economic performance. Import-substitution industries were not performing as expected. Infant industries never grew and had prevented the export industry. Therefore, in order to overcome the economic recession of the mid-1980s and to remove the negative incentives to export-industries, the Government reinforced the outward-oriented development strategy. The import liberalization policy was a part of this strategy and proved to be indispensable. It can be seen in table 3.1 that both nominal and effective rates of protection declined for almost sectors. It shows a clear-cut liberalization policy.The effects to liberalize the economy are also indicated by figure 3.1. It is clear that import duty as percentage of the total import value declined.

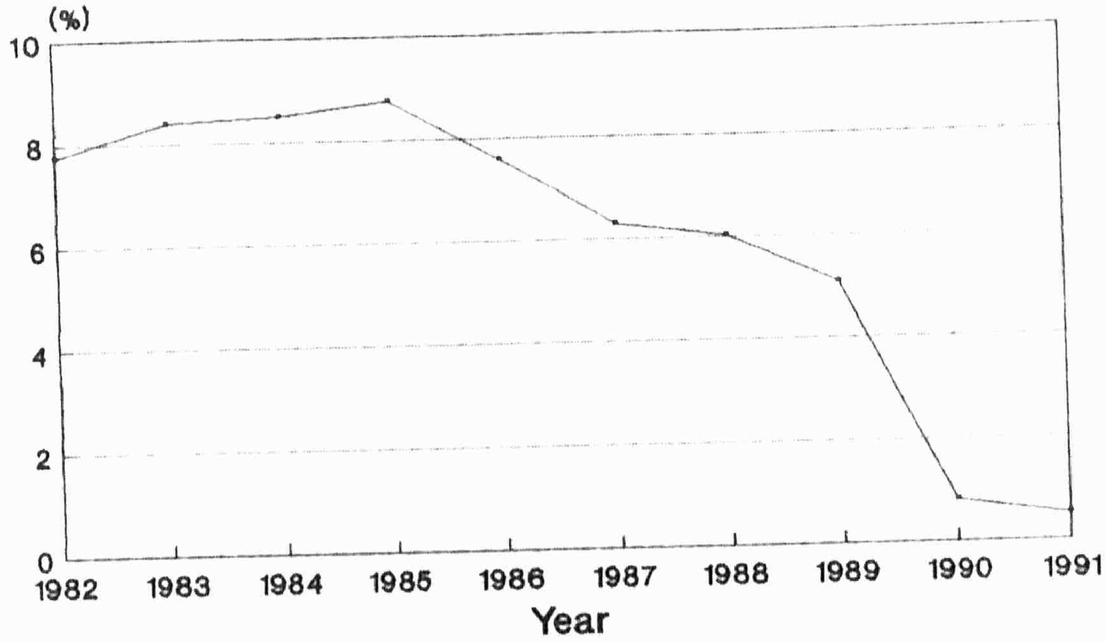
Table 3.1 : NOMINAL AND EFFECTIVE RATES OF PROTECTION FOR THE YEARS OF 1982, 1985 AND 1987

Industrial Classification	Nominal Rates of Protection(NRP)			Effective Rates of Protection(ERP)		
	1982	1985	1987	1982	1985	1987
Food manufacturing	2.65	6.18	4.67	4.55	13.87	9.17
Beverage	19.63	24.51	10.56	27.49	33.81	13.37
Tobacco	27.04	77.83	52.81	31.58	91.35	61.78
Textiles	13.62	9.44	5.44	29.16	17.36	7.91
Wearing apparel	20.13	19.70	16.26	39.99	44.54	40.15
Leather	19.52	22.52	19.53	64.21	73.65	58.50
Footwear	21.26	24.35	18.52	122.86	135.55	84.87
Wood & cork products	8.23	10.74	8.74	24.54	27.29	17.03
Furniture	36.21	32.65	18.23	83.39	71.72	37.18
Paper & paper products	2.37	4.81	4.21	1.98	5.39	4.28
Printing & publishing	2.78	3.65	2.64	3.55	3.30	1.33
Industrial chemicals	3.90	4.63	2.89	4.56	4.76	1.89
Other chemical products	4.22	4.30	3.05	4.81	3.36	1.66
Petroleum refineries	2.33	3.63	7.27	10.67	16.53	33.63
Rubber products	18.91	20.45	8.45	50.01	53.25	19.83
Plastic products	20.08	13.61	6.07	50.47	31.42	11.89
Pottery, China glass	20.38	21.84	16.41	38.96	40.31	29.28
Nonmetallic mineral Pro.	8.97	15.10	11.67	16.91	28.23	21.11
Iron & steel	5.72	4.12	3.09	24.62	10.73	2.18
Nonferrous metal	2.34	2.52	1.27	15.26	16.30	7.69
Fabricated metal produ.	5.53	11.40	6.57	8.19	24.21	12.81
General machinery	2.65	3.19	2.63	-0.45	-0.03	1.12
Electrical machinery	2.94	1.96	0.87	1.34	-1.15	-2.64
Transport equipment	5.89	13.87	4.21	5.66	15.30	4.16
Precision equipment	2.93	3.76	3.18	1.55	2.86	2.98
Standard deviation	9.43	15.52	10.51	29.14	32.32	21.88

Source : Yumiko Okamoto, The developing Economies, XXXII-4 (December 1994)

Note: NRP=100. (imports duty/import value)

AVERAGE TARIFF OF MALAYSIA
(%)



Source : by Yumiko Okamoto,
The developing countries
december, 1994

Figure 3.1

In 1968, the Investment Incentives Act was introduced and replaced the pioneer industries ordinance of 1958 when import substitution was adopted. The Act offered a wide range of incentives that includes specific export incentive such as export allowances which are deductible from taxable income, double deduction of export promotion expenses and accelerated depreciation allowances.

In order to promote manufactured exports, an major measure was taken by the establishment of Free trade Zones that have been operating more or less like "enclaves" with duty free access to imported inputs and machinery, while at the same time enjoying investment and export incentives.

The Industrial Master Plan (IMP) was introduced for the development of the manufacturing industry and industrialization strategy. To move towards outward-oriented industrialization, the incentive system was restructured to encourage greater efficiency and competitiveness, so that the restrictions and biases of the trade sector were removed. This can be seen in the current trade policy in the section below.

3.2 - CURRENT TRADE POLICIES

Malaysia has a liberal and outward-oriented trade policy, the Ministry of International Trade and Industry (MITI) is the principal agency responsible for formulating trade policy. General statement, Malaysian trade is quite open and minimal controls.

3.2.1. Objectives of trade policies are:

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

b) to undertake liberalization measures through regular reviews of trade regime.

c) to maintain and expand Malaysia´s trade with major trading partners.

d) to diversity and expand trade in non-traditional markets, especially countries in the South.

e) to promote and develop exports of manufactured and value-added resource based products.

f) to seek improved ad favourable market access for Malaysia´s exports of processed commodities and manufactured products.

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

3.2.2. Import and export controls.

MITI is responsible for issuing licenses for import and export of certain materials and manufactures under the Customs Act 1967 and Prohibition of Import Order and Export Order 1988. These controls were implemented to ensure the least negative effect on trade, and ensure adequate of supply of essential items, and protection of selected industries.

3.2.3. Domestic laws and regulations governing the application of trade policy.

In Malaysia, two important Acts governing the application of trade policies are the Customs Act 1967 which is supplemented by the Customs Regulations 1977 and the Exchange Control Act 1953. Other complement laws are laws governing import and exports of particular goods and laws that affect trade sector. These Acts are reviewied periodically.

Customs Act 1967 and Customs Regulation 1977 present most of the conditions for export and import of goods to ensure that trade is conducted consistent with the development objective of the country.

Exchange Control Act 1953 provides for the recording, monitory and supervision of payments to non-residents and to protect the country's foreign exchange position. Other major trade-related Laws and regulations are Patents Act 1983 and Patents Regulations 1986, Trade Mark Act 1976, and Trade Marks Regulation 1983, Food Act 1983, Free Zones Act 1990 and Free Zones Regulations 1991, Direct Sales Act 1992 and the Direct Sales Regulation 1993, and other laws and regulation on marking, labelling and packaging.

3.2.4. Trade Agreements

Trade agreement plays an important role in trade relations between Malaysia and other countries . Through trade agreements Malaysia as well as other developing countries can not only integrate into the world economy but also receive preferences that are given by international organizations and other countries. This is particularly important for a developing country like Malaysia.

Malaysia has been a contracting to many multilateral trade agreements such as General Agreement on Tariff and Trade (GATT) (1957); Tokyo Round Agreements (Agreement on

Technical Barrier to Trade, Multilateral Trade Negotiations Agreement-MT); The multi-Fibre Agreement (MFA).

Malaysia has signed Bilateral Trade Agreements which have been concluded on the basis of most favoured national principles as embodied in the GATT such as Double Taxation Agreements (DTAs); Bilateral Payment Agreements (BPAs); Investment Guarantee Agreements (IGAs).

Malaysia also has signed other regional and preferential agreements such as ASEAN Free Trade Area (AFTA), Global System of Trade Preferences Among Developing countries (GSTP).

3.3 - TRADE POLICY MEASURES

3.3.1) Tariffs.

Tariff is the main trade policy instrument, consistent with the principle of the General Agreement on Tariff and Trade (GATT)- since Malaysia is a party of the GATT, which seeks to liberalize world trade, settle trade disputes and prevent discrimination.

Tariff structure is part of the government policy to encourage and promote industrialization in the country. It includes tariff protection, import licensing, exemption from import duty and surtax on raw materials or component parts and machinery, draw back of import duties and surtax paid and refund of import duties and surtax. These protective measures and assistance depend on the degree of utilization of domestic raw materials and the level of local value added. For instance, the level of exemption on depends on whether the finished products are sold in the domestic market or exported. Full exemption from import duty is granted to a company manufacturing products for export if it imports raw material unavailable in Malaysia.

A full exemption is granted to a company manufacturing products for the domestic market if it has complied the equity condition stated in its manufacturing license. However,only a small number of deserving infant industries and strategic industries are given temporary protection through import tariff and import licensing. From 1988 to 1992, tariffs was reduced on more than 1,000 items. Tariff is used to protect domestic industry, but tariff reduction is very important to liberalize trade and encourage industrial developoment.

Preferential tariffs.

Under the ASEAN Preferential Trading Arrangement(PTA), to facilitate and expand trade among ASEAN countries, PTA promotes trade negotiations and the granting of preferential trade treatment by individual ASEAN countries to certain products produced in other ASEAN countries. Malaysia has accorded concessions to 3,277 items imported from ASEAN countries with level of preference ranging from 50 per cent to 100 per cent. Malaysia also enjoys the Generalized

Systems of Preferences (GSP), so that Malaysia is allowed by developed countries to import free of duty or at reduced rates.

Preferential rates are given to items from some other countries under Bilateral Trade Agreement (with Australia and New Zealand) or the Commonwealth Preferential Trading Arrangement. Preferential tariffs are very important for developing countries like Malaysia, it contributes significantly to trade expansion and creates convenient for Malaysia to get preference from other countries, so as trade sector can develop and expand faster.

3.3.2. Import prohibition

There are 14 items prohibited to be imported for reasons such as health, security and moral - according to the First Schedule of the Customs Orders 1988.

3.3.3. Import licenses and permits.

Most goods are permitted to be imported freely into Malaysia. The Customs Orders 1988, provides schedules containing lists of products that can be imported by licenses. These licenses are imposed to effect policies on health, sanitary, security or for economic reasons such as to promote and develop deserving infant and strategic industries and to ensure stability of supply and prices. In addition, imports are required to enforce other regulations such as quarantine regulations, customs valuations consistent with the Brussels definition of value, government procurement, technical standards, performance of the National Padi and Rice Authority (LPN) in adequate supply of rice to consumer at reasonable prices, customs regulation and procedure. Such import licenses and permits on one hand can protect domestic industry consistent with current regulations and encourage the use domestic resources, on the other hand it ensures trade liberalisation to be impletmented.

3.3.4. Sales tax is imposed at the same rate on imported goods and domestically produced goods (goods sold to FTZ/LMW are also exempted from sales tax). Excise duties are imposed on specified goods manufactured in Malaysia. Thus, sales tax encourages foreign partners to trade with Malaysia, thank to this, trade relations will be expanded. Furthermore, it also promotes domestic industry, enhance its competitiveness.

3.3.5. Free zones

The government has developed Free Trade Zone specially designed for export. The Free Trade Zone Act introduced in 1971 was replaced by the Free Zones Act in 1990. With the extension to commercial activities. Therefore. there are two types of free zones: Free Commercial Zone for trading company and Free Industrial Zone for manufacturing companies. Companies with at least 80 per cent of their production intended for export or companies must import raw materials from abroad may apply for location in these zones. Benefits enjoyed by business in the two zones are similar. Such as exemption from duties excise duties, sales tax and services tax on imports of raw materials, component parts and machinery required directly in the manufacturing process. To date, 11 free trade zones have been established. Free zones play an important role in atracting foreign investment due to their advantages. Further, Free Zones create convenient conditions to expand exports, especially, exports of manufactured products, so as it contributes to transition of trade structure from exports of primary commodity to manufactures exports.

3.3.6. Export licenses and permits

Most goods can be exported freely out of Malaysia, except a small number of items. Malaysia has introduced the prohibition of exports 1988 containing three schedules. Products totally prohibited from export such as corals, rattan, turtle eggs are listed in the first schedule. All goods destined for South Africa and Israel are also prohibited.

The second schedule lists products which require export license for reasons of health, sanitary and phytosanitary, protection, security, stability of supply. Textile products are required to emgerce quotas under the multi-Fibre Agreement. Products that can be exported when accompanied by permits issued by the relevant agencies are listed in the third schedule.

3.3.7. Export tax

Export tax is a source of revenue and to maintain adequate supply in the domestic market. However, the number of products subject to export tax is small, such as live animals and fish, birds, duck eggs, natural gums, rattan, crude palm and palm kernel oils, balks, logs and base metals. Export tax on rubber and pepper was abolished in 1991. Such export tax has contributed significantly to trade liberalization. For the purpose of research and development, export levy on sawn timber and cess on rubber production and export are imposed.

3.3.8. Export incentives and Facilities

Consistent with the Industrial Master Plan (IMP), the incentive system has been improved by providing specific incentives for exports. In Malaysia exporters can avail themselves of a wide range of export incentives and facilities provided by the Government under the promotion of investments Act 1986, Incometax Act 1967, Customs Act 1967 and Sales Tax Act.

Export incentives and facilities have three major objectives:

(1) Promote export of manufactured products

(2) Increase the value added in export sales.

(3) Encourage greater utilization of local indigenous materials in manufactured of exports.

Export incentives and facilities can be summarized as follows:

Double deduction for promotion of exports.

In order to assist resident companies reduce overhead costs and make their products more competitive in the external market, the Government has granted a double deduction on expenditure incurred such as overseas advertising, supply of free samples abroad, export market research.

Double deduction of export credit insurance premiums

To encourage export to penetrate into non traditional markets double deduction is allowed for premium payments in respect to export credit insurance insured with a company approved by the Minister of Finance.

Monetary incentives: Export Credit Refinancing (ECR) Scheme.

Export credit facilities are currently used as a toll to promote export under (ECR), the credit is extended by commercial banks to exporters of goods manufactured in

Malaysia. The maximum period of refinancing of all eligible products for pre-shipment is four months and six months for post-shipment. The current maximum interest rate for exporters under ECR is 4 percent per annum.

The pre-shipment facility is to provide working capital to exporters and importers in producing eligible goods for exports. The post-shipment financing is to provide immediate funds to exporters upon shipment of eligible goods sold on credit terms.

There were two more export incentives that were abatement of adjusted income for exports, and export allowance, introduced before 1994, but they are now no longer valid.

3.3.9. Export promotion

In order to promote exports, MITI organizes trade missions and facilitates the participation of Malaysian exporters in international trade fair. The Malaysia external trade development corporation (MATRADE) has been set up to provide a wide range of services of promoting export such as market research, market information, commercial intelligence, training and other related activities.

3.4 - TRADE-RELATED ASPECTS OF OTHER REGULATIONS.

3.4.1- Foreign Exchange Regulations

The present exchange control regime in Malaysia is liberal and applies uniformly to transaction with all countries except South Africa and Israel.

Direct and portfolio investment

No permission is required for a non-resident to under take direct or portfolio investment in Malaysia, all forms of inflow of foreign funds are permitted with out any restriction.

Remittance abroad

Payments to foreign countries may be made in any foreign currency (exept South africa and Israel). Payments within Malaysia is be in Ringgit. All payments to non residents for any purposes are freely permitted, only subject to a monitoring of remittances more than RM 10,000 each by completion of a single statistical form.

3.4.2. Export proceeds

Export proceed, which may be in any foreign currency (except South Africa and Israel) or in RM, must be repatriated to Malaysia within the period of payment specified in the export contract, not exceeding a maximum period of six months from the date of exports.

In order to consolidate the foreign exchange earning to meet the country´s foreign exchange liabilities and to ensure there is constant inflow of funds to maintain an active for exchange market, all foreign currency export proceeds must be sold immediately on receipt for Malaysia Ringit to an authorized bank.

Inter-company accounts

No permission is required for a company in Malaysia to maintain inter-company accounts outside Malaysia, provided the specified monthly returns are submitted.

3.4.3. Exchange rates

Exchange rate is not used as an instrument to influence the flow of trade. The external value of the Ringgit does not depend on rates of single currency but on a combination of foreign currencies. The central Bank´s role in the foreign exchange market is to ensure orderly market condition and to protect the market from over-exposure to undue risks.

3.4.4. Policies on Foreign Direct Investment(FDIs)

Malaysia´s policy on FDIs is a liberal policy. In order to encourage FDI, particularly in the export-oriented manufacturing sectors, the government has relaxed some of its regulations related to equity participation of foreigners.

For manufacturing companies that export at least 80 per cent of their products, foreign ownship is allowed to hold 100 per cent equity. For companies that export 50 per cent or more but less than 80 per cent, foreign ownership can be allowed up to 100 per cent, this depends on the level of investment in fixed assets or the level of value-added in the project, in other cases the foreign ownship will be determined by sectors such as the level of technology, size of the investment and the degree of utilization of local raw material.

3.5 - TRADE PERFORMANCE

3.5.1. Exports

Total exports increased rapidly from 3.6 billion in 1960 to 5.16 billion in 1970, 94.5 billion in 1991 and 121.2 billion in 1993. Export growth rate was 16.9% in 1993 and 13.5% for the period 1982-1992. Negative growth rate was only recorded during the recession years of 1985 and 1986 (-1.6% and -6.0% respectively) (table 3.2).

There was an important change in export structure by commodity from agriculture exports to manufactured exports. This reflects results of the Government´s export-oriented industrialization strategy. The share of agriculture exports declined from more than 50% in 1970s to 44% in 1980 and only 17% in 1992, while the share of manufactured exports rose from 8.5% in 1960 to 22.1% in 1980 and 74% in 1993. The manufactured exports increased 25.5% in 1993 from 16.5% in 1992, this reflects the resilience of Malaysia´s exports.

Table 3.2 : IMPORTS, EXPORTS AND BALANCE OF TRADE

Billion Malaysian Ringgit (billion US$)

Period	Imports		Exports		balance of trade
	Value	Annual %change	Value	Annual change	
1960	2.78		3.6		-0.85
1965	3.35		3.78		-0.43
1970	4.29		5.12		-0.87
1975	8.53		9.23		-0.70
1980	23.45		17.1		-4.7
1982	29.0(10.7)	+9.1	29.8(10.4)	+3.7	-0.9
1983	30.8(11.4)	+6.1	32.8(12.1)	+16.6	2.0
1984	32.9(12.2)	+6.9	38.7(14.3)	+17.9	5.7
1985	30.4(11.3)	-7.6	38.0(14.1)	-1.6	7.6
1986	28.0(10.3)	-8.3	35.3(13.1)	-6.0	7.4
1987	32.0(11.8)	+14.4	45.2(16.7)	+28.0	13.3
1988	43.3(16.0)	+35.6	55.3(20.5)	+22.2	12.0
1989	61.0(22.5)	+40.6	67.8(25.1)	+22.7	7.0
1990	799.1(29.3)	+30.0	79.6(29.5)	+17.4	0.5
1991	100.8(37.3)	+26.5	94.5(35.0)	+18.9	-6.3
1992	101.7(37.7)	+1.0	130.5(38.3)	+9.5	1.8
1993	117.4	+15.8	121.2	+16.9	3.79
1994*	84.3	29.9	83.7	22.5	-0.6

*From January to July

Figures in parenthesis are values in US dollars

Sources : - Malaysia annual economic report , many issues.

Other major contributor to total exports was mining exports which registered an important redutione of -4.2% over

1993, one of reasons for this is the general decline in world price of crude petroleum, which experienced a decline of 25% in world price in 1993 (table 3.3).

Table 3.3

MALAYSIA : EXPORTS BY MAJOR GROUPS

Unit : Billion

	Agriculture		Mineral		Manufactures		other	
	value	share	value	share	value	share	value	share
1960	2.4	66.1	0.8	22.2	0.3	8.5	0.11	3.2
1965	2.06	54.5	1.13	30.0	0.46	12.2	0.13	3.3
1970	3.1	59.2	1.34	25.9	0.6	11.9	0.15	3.0
1975	4.9	2.1	2.1	22.6	1.98	21.4	0.3	3.2
1980		44.0				22.1		
1985	12.3	32.2	13.2	34.5	12.2	32.1	0.44	1.2
1990	17.7	22.3	14.1	17.8	47.2	59.3	0.5	0.6
1991	17.3	21.3	14.6	15.5	61.4	62.7	0.43	0.5
1992	17.8	17.4	13.4	12.9	71.5	69.8	0.5	0.4
1993	18.1	15.0	12.4	10.3	89.7	74.0	0.8	0.7

Source: - Annual international Trade and industry report, 1993,1994.
- Annual report, Bank Negara Malaysia, Many years.

Within the manufacturing sector, the share of exports of non-resource-based industries are substantially higher than that of resource-based industries. Table 3.4 shows that the average export annual growth rate of electrical, electronic machines and appliances increased rapidly from 18.8% in the period 1981-1986 to 30.3 % in the period 1987-1992 and it was 58.6% in 1992, while the growth rate of other products declined. This group was the leading export group in Malaysia. (figure 3.1).

This is affected by increase in production of foreign companies, as one study by Yumiko Okamoto shows that the export structure was very much like that of the production structure of foreign companies and the importance of traditional, resource-based industries declined.

Table 3.4

MALAYSIA : EXPORTS OF MANUFACTURED GOODS

	81-86	87-92	1991	1992
	Average annual growth in %		% share	
Total exports	15.9	29.1	100.0	100.0
Resource-based	13.8	24.2	17.8	17.9
non-resourcebased	17.3	29.9	76.8	77.1
Of which:				
Electrical,electronic				
Machines, appliances	18.8	30.3	57.9	58.6
Textiles & Clothing	11.6	22.5	7.8	7.4
Transport Equipment	15.1	39.6	5.3	5.4
Iron & Steel	38.0	23.1	1.0	1.3
Fabricated Metal	7.5	29	1.3	1.3

Source : Malaysia Ministry of International Trade and Industry

The major export primary commodities recorded were palm oil, saw logs, saw timber, pepper, rubber and crude petroleum.

However, their proportion in total exports decreased caused by increasing level of locally processing of these items and their exports as manuactured goods. (table 3.5).

3.5.2. Imports

Total imports increased by 15.8% in 1993 from RM 101,490 million in 1992 to RM 117,423 million in 1993 (table 3.2).

Table 3.5 :

MALAYSIA : SELECTED COMMODITY EXPORTS

Unit : RM million

	1970	1980	1990	1991	1992	1993
Rubber	1,724	4,618	3,028	2,690	2,553	2,132
Palm Oil	275	2,515	4,932	5,012	5,654	5,772
Sawlogs & timber	852	2,616	n.a	4,099	4,128	7,459
Crude Petroleum	202	6,709	11963	10184	9,022	7,996
Liquefied natu-ral Goods						2,597
Tin	1,013	2,505	902	684	674	489

Source : Malaysia : Annual Economic Reports, many issues - Ministry of Finance.

Import value of machinery and transport equipment occupies a biggest proportion in total imports. It was 43% in 1985 going up

Composition of Manufactured Exports, 1992 - 1993

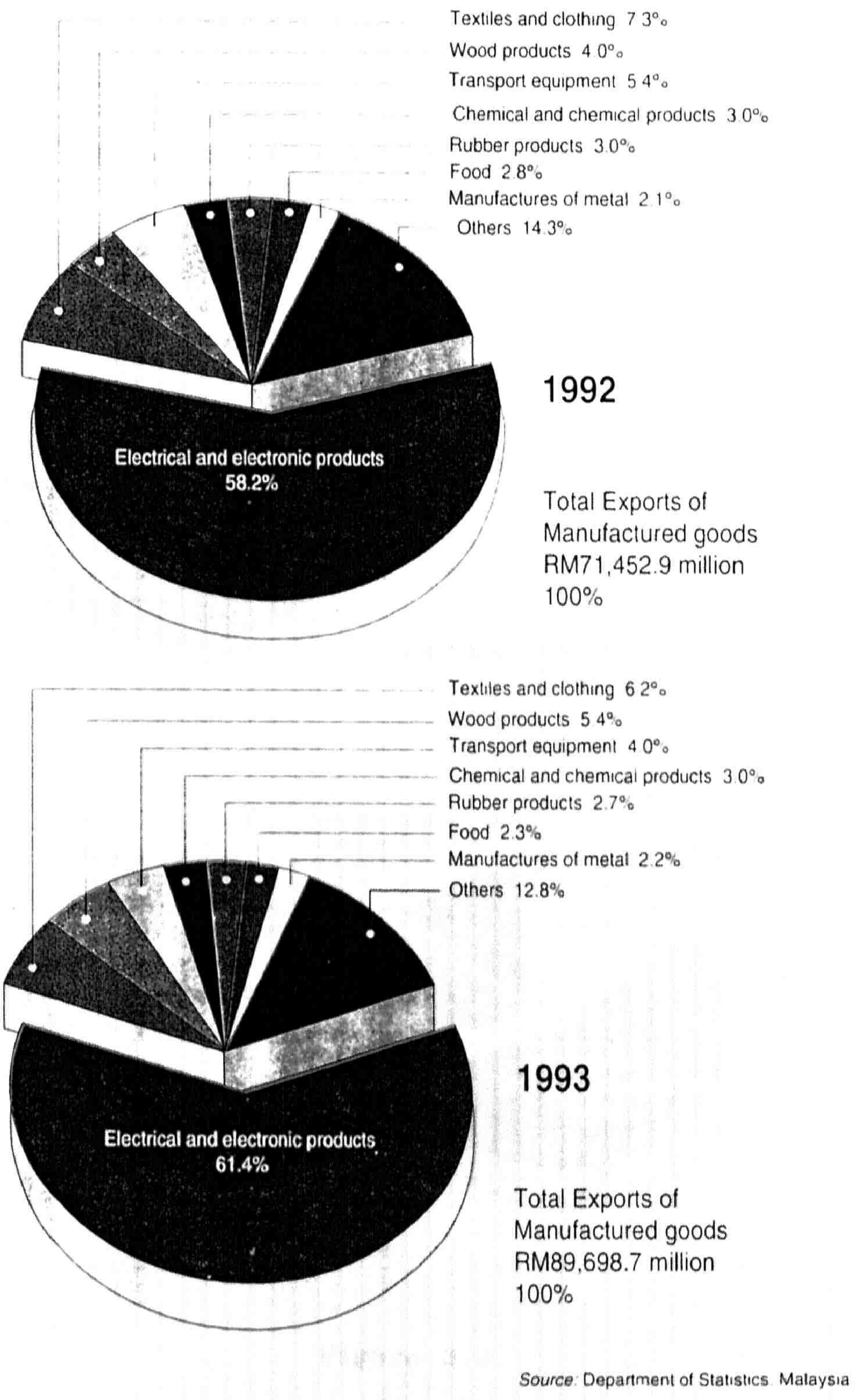
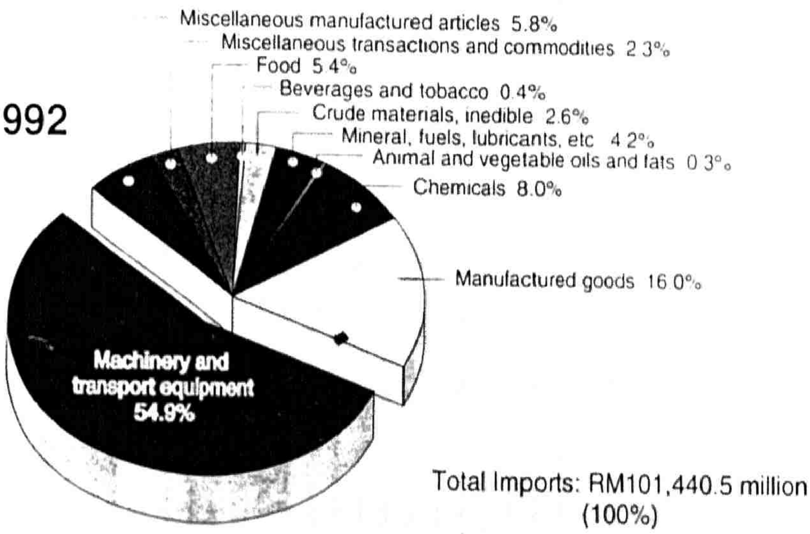


Figure 3.2

Composition of Imports by Commodity Sections, 1992 - 1993



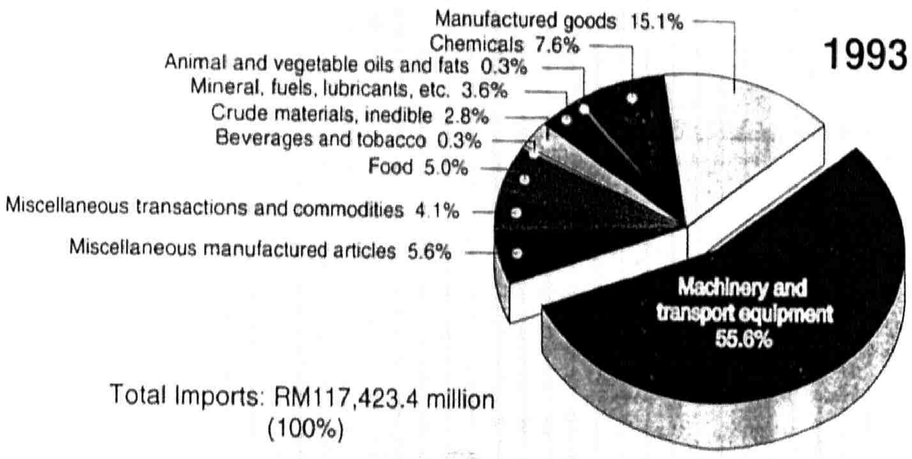


Figure 3.3

to 54.9% in 1992 and 55.6% in 1993.(figure 3.2). The value of manufactured imports increased from RM 93.1 billion in 1992 to RM 106.1 billion in 1993, this reflected the increase in economic activities and growing consumption.

Import value of some commodity groups rose very fast, especially miscellaneous transactions and commodity group grew up by 103.6% in 1993 from a negative -46.6% in 1992; Animal and vegetable oils and fats group grew up by 21.9% from a negative -16.1% in 1992 (table 3.6).

Table 3.6 :

MALAYSIA : IMPORTS BY COMMODITY

Unit : RM Billion

	1991			1992			1993		
	Value	% share	% change	Value	% share	% change	Value	% share	% change
Food	5,816.	5.0	6.3	5,467	5.4	6.4	5,139	5.1	12.1
Beverages & tobacco	390.3	0.3	(2.2)	399.2	0.4	(5.8)	423.8	0.4	44.7
Crude materials,include	3,261	2.8	24.0	2,630	2.6	(6.4)	2,810	2.8	10.1
Mineral, fuel,lubricant	4,242	3.6	(0.0)	4,243	4.2	(0.2)	4,253	4.2	5.8
Animal & vegetable oils	403.8	0.3	21.9	331.3	0.3	(16.1)	394.8	0.4	81.1
Chemicals	8,941	7.6	9.5	8,163	8.0	6.5	7,663	7.6	14.1
Manufactured goods	17,726	15.1	9.0	16,270	16.0	2.2	15,924	15.8	27.4
Machinery & transport equipment	65,323	55.6	17.3	55,711	54.9	2.9	54,164	53.7	36.3
Miscellaneous manufactured articles	6,526	5.6	11.2	5,868	5.8	3.9	5,650	5.6	25.6
Miscellaneous trasatios & commodities	4,793	4.1	103.6	2,354	2.3	(46.6)	4,408	4.4	10.2
TOTAL IMPORTS	117423	100.0	15.8	101440	100.00	0.6	100831	100.0	27.4

Source : Department Statistics, Malaysia.

From table 3.10, we can see that value of the imported consumption goods was only 16% of the total imports in 1993, while proportions of the investment goods and intermidiate goods were 40.9% and 42.7% respectively, imports of investment goods recorded the sharpest growth in the period 1987-1991 and in 1992.

The increase in total imports was affected by a part of appreciation of the US dollar to the RM in 1993, rising from US$ = RM 2.6238 to RM 2.7010 beginning the month of January 1993 and appreciation of the Yen to RM.

The continued expansion of imports has met the needs of expanding other sectors such as industry, agriculture and construction, with the increase in imports of intermediate and investment goods. The increase in imports of consumer goods was caused by the projected increases in consumption, the reduction in import tariffs in accordance with the implementation of the ASEAN CEPT and UR programme of tariffs reduction and the general liberalization of the economy.

3.5.3. Direction of trade

Since 1970, direction of Malaysian foreign trade has not changed. Japan, the United States, ASEAN and European Union, East Asia accounted for more than 80% of total foreign trade. ASEAN is still the largest trading partner of Malaysia which accounted for 24% of total trade remained since 1970. But there were some changes in order of importance of

Malaysia´s trading partners. East Asia comprising South Korea, Hongkong, Taiwan and China were major trading partners, the share of which in total trade increased significantly from 8% in 1970 to 12% in 1990 and 13% in 1993. In contrast the share of the EU in total trade has reduced from 22% in 1970 to only 13% in 1993. (table 3.7)

Table 3.7 :

DIRECTION OF TRADE (IMPORTS & EXPORTS BY MAJOR MARKET

	1970		1980		1990		1993		Average annual growth rate (%)
	RM mill.	% share	RM Mill.	% share	RM mill.	% share	RM milli.	% share	
United States	1,039	11	8,137	16	26,720	17	44,485	19	18
European Union	2,050	22	8,634	17	23,418	15	31,153	13	13
- UK	920	10	2,049	4	7,448	5	8,769	4	10
- Germany	371	4	42,292	4	6,486	4	8,914	4	15
Japan	1,694	18	11,795	23	31,563	20	47,959	20	16
ASEAN	2,276	24	10,208	20	38,010	24	57,001	24	15
- Singapore	1,434	15	8,138	16	29,852	19	44,193	19	16
East Asia	740	8	3,954	8	19,000	12	31,227	13	18
-South Korea	145	2	987	2	5,711	4	7,731	3	19
-Hongkong	158	2	851	2	4,021	2	7,362	3	18
-Taiwan	142	2	1,045	2	6,051	4	10,180	4	20
-China	295	2	1,023	2	3,186	2	5,912	3	14
Others	1,652	17	8,895	17	20,054	12	26,813	11	13
TOTAL	9,451	100	51,623	100	158765	100	238638	100	15

Source : Department of Statistics, Malaysia.

The Malaysian major trading partners were also the major foreign investors in Malaysia, especially in the manufacturing sector. Japan, Singapore and the United States are the largest markets, their share of merchandise trade increased from 8% in 1970 to 20% in 1993; 15%(1970) to 19% (1993)_ and 11% (1970) to 19% (1993) respectively.

Direction of exports

ASEAN was the largest export market with 25% share of total exports in 1970, 29% in 1990 and 28% in 1993. However, Malaysian exports to ASEAN was mainly to Singapore (22% share of total exports in 1993).

The United States took second place with 13% share in 1970 rising up to 20% share of total exports in 1993. The third position was taken by Japan (13%), actually its share of total exports has declined since 1980. Japan, US and Singapore together accounted for more than 50% of total exports. (table 3.8)

Manufactured goods continued to be the bulk of exports to ASEAN, US and Japan with a positive growth rate. Exports of pre-fabricated buildings, furniture and photo equipment increased while travel goods, apparel, footwear, scientific equipments reduced by 11.4% in 1993.

Exports to Japan were mainly inedible crude materials, mineral fuels and lubricants. In recent years, it added some other commodities such as machinery, transport equipment and final manufactured goods.

Exports to US were raw material and intermediate manufactured goods accounting 93% of the total exports to US in 1970. But today, it is changed, in 1993 machinery and

Table 3.8 :

DIRECTION OF MALAYSIA'S EXPORTS BY MAJOR MARKET

	1970		1980		1990		1993		Average annual growth rate (%)
	RM mill.	% share	RM Mill.	% share	RM mill.	% share	RM milli.	% share	
United States	671	13	4,609	16	13,487	17	24,631	20	17
European Union	1,047	20	4,962	18	11,863	15	17,549	15	13
- UK	342	7	779	3	3,136	4	5,102	4	13
- Germany	162	3	1,017	4	3,097	4	4,431	4	16
Japan	944	18	6,429	23	12,589	16	15,729	13	13
ASEAN	1,311	25	6,348	22	23,048	29	33,783	28	15
- Singapore	1,113	22	5,385	19	18,052	23	26,307	22	15
East Asia	330	6	2,112	8	9,605	12	16,139	13	18
-South korea	134	3	569	2	3,677	5	4,155	3	16
-Hongkong	64	1	529	2	2,523	3	4,994	4	21
-Taiwan	65	1	498	2	1,728	2	3,888	3	20
-China	67	1	471	2	1,675	2	3,094	3	18
Others	860	17	3712	13	9,054	11	13,383	11	13
TOTAL	5,163	100	28,172	100	79,646	100	121214	100	15

Source : Department of Statistics, Malaysia.

transport equipment and final manufactured goods accounted for 90% of the total exports to US.

Exports to Singapore has changed over time. In 1970, food, beverages, tobacco and inedible raw materials accounted for 87% of the total exports to Singapore, whereas in 1993, the major export goods were machinery and transport equipments accounting for 55%.

Direction of imports

The major sources of Malaysia´s imports were Japan, ASEAN, US and EU accounting for 71% of total imports in 1993 compared with 67% in 1970 and 69% in 1980. Imports from East Asia increased while that from EU, ASEAN declined. Since 1970, Japan has been the largest import source accounting for 17% of total imports in 1970 and 27% in 1993. Singapore has risen from fourth place in 1970 to the third place in 1993, similarly the US has moved from third position to second during the period 1970-1993, while UK took second place in 1970, now it was less important with 3% of total imports. (table 3.9).

Import structure has changed from more broad-based imports to imports of intermediate manufactured goods, machinery and transport equipment (table 3.10).

Imports from Japan include intermediate manufactured goods, machinery and transport equipment accounting for 90% of total imports. However, while the share of machinery and transport equipment increased from 42% of total imports in 1970 to 68% in 1993, the share of intermediate goods declined from 49% to 23% during the same time.

Imports from the US include machinery and transport equipment in the period 1970-1993. Its share of total imports increased from 59% in 1970 to 76% in 1993.

Import structure from Singapore has changed from more broad-based (78% of total imports in 1970) to imports of raw

Table 3.9 :

SOURCES OF IMPORTS BY MAJOR MARKET

	1970		1980		1990		1993		Average annual growth rate(%)
	RM mill.	% share	RM Mill.	% share	RM mill.	% share	RM milli.	% share	
United States	368	9	3,528	15	13,233	17	24,854	17	19
European Union	1,003	23	3,672	16	11,555	15	13,604	12	12
- UK	578	14	1,271	5	4,312	5	3,667	3	8
- Germany	209	5	1,274	5	3,389				
Japan	749	17	5,365	23	18,974				
ASEAN	965	23	3,860	16	14,962	19	23,218	20	15
- Singapore	320	8	2,753	12	11,800	15	17,886	15	19
East Asia	410	10	1,842	8	9,394	12	15,089	13	17
-South Korea	11		418	2	2,034	3	3,576	3	29
-Hongkong	94	2	321	2	1,497	2	2,368	2	15
-Taiwan	76	2	546	2	4,323	5	6,293	5	21
-China	229	5	551	2	1,511	2	2,818	2	12
Others	792	18	5183	22	11,001	14	13,429	11	13
TOTAL	4,288	100	23,451	100	79,119	100	117423	100	15

Source : Department of Statistics, Malaysia.

Table 3.10 :

MALAYSIA : IMPORTS BY ECONOMIC FUNCTIONS

	81-86	87-91	92	90	91	92	93
	Average annual growth in %			% share			
Investment goods (Inputs for manufacturing sector)*	1.2 (4.0)	37.2 (41.2)	4.2 –	30.0 (10.8)	37.7 (18.7)	42.0 –	40.9 -
Intermediate goods (Inputs for manufacturing sector)**	2.6 (8.3)	26.0 (24.3)	-3.6 –	50.3 (25.5)	45.3 (29.5)	41.3 –	42.7 (34.4)
Consumption	5.6	21.8	2.0	18.2	15.4	16.1	16

* Excluding "lumpy" imports such as aircraffts, ships and offshore oil installations

** For production of exportable only (estimates of the Central Bank)

Figures in parenthesis are values in US Dollars.

Source : Malaysia, Ministry of International Trade and Industry.

materials, intermediated manufactured goods and machinery , transport equipments (55%).

3.5.4. **Balance of trade**

Malaysia has recognized trade surpluses since 1970, except only in 1991,the trade deficit was RM 0.63 billion. It was caused by sharp increase in imports of investments and intermediate goods. (table 3.2)

Trade surpluses with the major trading partners were registered, except for Japan, Chinese Taipei, Indonesia, Australia, three European countries. Trade surpluses with EU, ASEAN increased rapidly from RM 0.04 billion and RM 0.3 billion in 1970 to RM 1.3 billion and RM 2.5 billion in 1980 and RM 3.9 billion and RM 10.6 billion in 1993 respectively. While, trade deficit with Japan has increased since 1988 and grew up by 32.6% in 1993 to RM 16.5 billion. (table 3.11)

There are some reasons for this, firstly the apprecia-tion of the Yen has led to increase in Malaysia´s total imports, in addition, the total imports increased by in-crease in imports which were resulted by the relocation of Japanese companies to Malaysia. Secondly, the economic slowdown in japan in 1990s led to significant slowdown in exports to japan and increase in imports from Japan by the local Japanese companies.

Table 3.11

TRADE BALANCE BY MAJOR MARKET

(RM million)

	1970	1980	1990	1993
United States	302	1,081	254	4,778
European Union	44	1,290	308	3,945
Japan	195	1,064	-6,385	-16,500
ASEAN	345	2,488	8,086	10,565
East Asia	-80	269	211	1,050
Others	68	-1,471	-1,946	- 46
TOTAL	875	4,721	528	3,791

Source : Department of Statistics, Malaysia.

However, it can be seen that both imports and exports were expanded. Despite the trade deficits, trade expansion occurred in almost all the markets.

3.5.5. Exchange rates

The exchange value of the Ringgit is determined based on a basket of currencies of countries that are significant trading partners of Malaysia. The strong performance of the Ringgit was due to the rapid economic growth in the country. The Malaysian Ringgit is effectively floating in the foreign exchange market. The strengthening of ringgit was attributed to both domestic and external development. The movement of the ringgit can be seen in the table 3.12.

Table 3.12:

MOVEMENT OF RINGGIT AGAINST SELECTED CURRENCIES

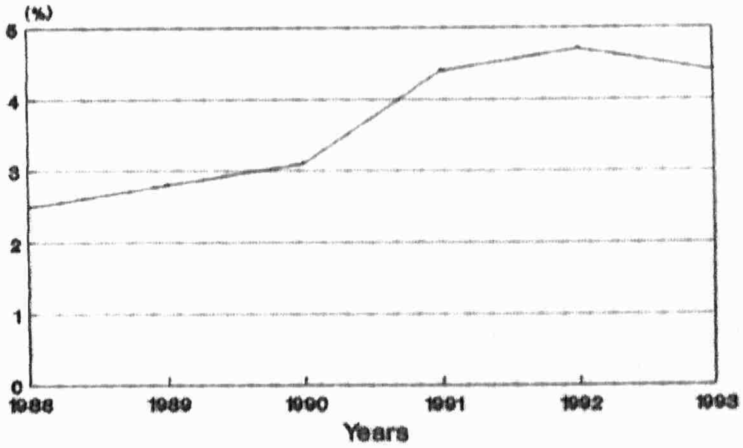
	US$	S$	STG	YEN	DM	SF
1980	-1.3	-4.2	-8.2	-16.4	12.5	10.2
1981	-1.2	-3.3	23.5	7.1	13.2	-0.1
1982	-3.2	-0.4	14.1	3.5	2.2	7.6
1983	-0.9	0.0	10.5	-2.2	13.2	7.8
1984	-3.6	-1.3	20.4	4.3	11.5	14.6
1985	0.5	-2.8	-18.7	-19.8	-12.5	19.5
1986	-7.2	-4.1	-9.1	-25.9	-26.4	-27.1
1987	4.4	-4.0	-18.1	-20.1	-15.2	-17.9
1988	-8.1	-10.6	-4.1	-5.6	-3.6	8.6
1989	0.5	-2.2	12.2	14.4	-5.0	2.2
1990	0.0	-7.9	-16.1	-5.7	-11.1	-16.8
1991	-0.9	-7.4	1.7	-8.2	0.2	4.7
1992	4.5	5.4	29.1	4.0	11.3	13.0

Source : Department of Statistics, Malaysia.

Inflation rate

The inflation rate in the country has been rising mildly as show in figure 3.4

INFLATION RATES 1988-1993
(%)



Source : Department of Statistics Malaysia.

Figure 3.4