

IV. TRADE POLICIES BY SECTOR

(1) INTRODUCTION

1. The Malaysian economy is relatively open to both trade in goods and foreign investment, although rice and automotive products are notable exceptions. The electronics sector appears to offer a striking example of the benefits of an open regime in fostering development. The sector has drawn significant flows of foreign direct investment (FDI), has had fairly little tariff and non-tariff protection, and has grown to account for approximately 2.5% of global electronics production: it has been among the main engines of Malaysia's growth, and its strong external competitiveness was an important element in Malaysia's recovery from Asian financial crisis, with the sector accounting for more than half of Malaysia's total exports. By contrast, the domestic automotive sector has been relatively sheltered from foreign competition; it has been protected by high tariffs and supported by various other incentives; the sector has been successful in winning a large share of the domestic market but, contrary to stated objectives, its exports are modest, suggesting perhaps a certain lack of external competitiveness.

2. The Government's recently launched Eighth Malaysia Plan envisages a further gradual opening of the services sector. The services sector, which accounts for over half of Malaysia's GDP, is not yet as open to trade as agriculture and manufacturing. This is largely because of restrictions on foreign direct investment, which is necessary for the establishment of commercial presence, the main mode of delivery for most services. Commercial presence is generally confined to joint ventures, in which combined foreign ownership cannot exceed 30%. Insofar as barriers to commercial presence restrict competition in the provision of services, they tend to impair efficiency in the sector, so that the prices paid for these services, both by businesses and households, are higher than would be the case in a more competitive market. The resulting higher costs of doing business could hamper the competitiveness of all firms in Malaysia that require essential services (such as energy, finance, telecommunications, and transportation) as inputs in their production and delivery of goods and services.

3. The Government's plans to further open the financial services sector to international competition, reform measures undertaken by the Securities Commission, and steps taken to promote corporate governance and corporate restructuring are all mutually supporting.

(2) AGRICULTURE

(i) Main features

4. The contribution of agriculture (together with forestry and fisheries) to GDP and employment declined gradually from 9.2% and 16.7% in 1997 to 8.4% and 15.5% in 2000, respectively (Table I.2). Land area used for palm oil has increased significantly, partly reducing the land available for other agricultural commodities; the lack of arable land and the small average size of farms are constraints on the development of the agriculture sector in Malaysia (Table IV.1). Labour shortage has forced the sector to rely heavily on foreign labour; in 2000, there were some 190,000 foreign workers, accounting for 13.4% of total agriculture employment.

Table IV.1
Production of selected agricultural commodities and land use, 1990, 1995 and 2000

	Land area used ('000 hectares)			Production ('000 tonnes)		
	1990	1995	2000	1990	1995	2000
Industrial commodities						
Rubber	1,823.1	1,727.0	1,430.7	1,291.0	1,089.0	616.0
Palm oil (crude)	1,984.2	2,540.1	3,376.7	6,094.6	7,810.5	10,842.1
Cocoa	419.8	234.5	105.0	247.0	131.0	70.0
Pepper	11.5	8.6	11.5	31.0	13.0	24.0
Pineapple	9.3	9.1	10.2	168.3	140.0	184.0
Tobacco	10.2	10.5	15.0	10.2	10.0	7.2
Food commodities						
Paddy	662.6	666.3	699.1	1,885.0	2,127.0	2,140.0
Coconut (million units)	313.6	273.5	165.2	1,257.0	1,389.0	578.6
Vegetables	32.8	42.5	43.8	609.6	718.0	379.1
Fruit	177.5	303.7	211.4	870.5	1,020.0	1,017.7
Total^a	5,637.8	5,769.0	6,075.0	..	..	..

.. not available.

a Total includes land use by other agricultural crops and livestock production.

Source: Data provided by the Malaysian authorities; and Economic Planning Unit (2001a), *Eighth Malaysia Plan 2001-2005*, Kuala Lumpur.

5. Malaysia's main agriculture and forestry products include rubber, palm oil, cocoa, rice, vegetables, fruit, meat (poultry, pork, mutton, and beef), pepper, tobacco, and flowers. During the period under review, production of palm oil, rice, fruit, vegetables, livestock, pepper, tobacco, and flowers increased while that of rubber, sawlogs, and cocoa declined.¹ Malaysia's self-sufficiency ratio is more than 70% for poultry, fruit and vegetables and about 65% for rice, while for beef it is 18%, mutton 10% and milk 5%.

6. Although labour productivity in the agriculture sector increased marginally during the period under review, it remains lower than that in manufacturing.² The sector's share in Malaysia's trade also declined substantially: the share of agricultural exports in Malaysia's total exports fell from 13.0% in 1997 to 10.9% in 1999, while the share of agricultural imports in Malaysia's total imports remained almost unchanged at 6.7% in 1997 and 6.9% in 1999 (Tables AI.1 and AI.2).

(ii) Policy objectives for the sector

7. Agricultural policies are guided mainly by the Third National Agricultural Policy (NAP3), adopted in 1999 for the period 1998-2010. The NAP3 aims to further improve the market-driven and commercially oriented environment for Malaysia's agriculture sector, in order, *inter alia*, to raise productivity and thereby improve the sector's competitiveness. Thus, in the NAP3, emphasis has been placed on expanding and modernizing domestic food production and management, encouraging large-scale and organized agriculture, and shifting agricultural production from mono-cropping to mixed farming as well as from monoculture to polyculture so as to intensify land use and increase productivity.

¹ Bank Negara Malaysia (2001b).

² Ministry of Agriculture (2001).

(iii) Main policy instruments in the agriculture sector

8. Malaysia's laws and regulations related to activities in agriculture have remained unchanged since its previous Trade Policy Review.³ The Ministry of Agriculture administers policies on agriculture⁴; a number of product-specific agencies are also involved in supervising and supporting agriculture.⁵ Attempts are being made to revamp the various agricultural agencies through their consolidation, corporatization, and privatization.⁶

9. Overall, Malaysia maintains liberal agricultural trade policies, especially as far as tariff and non-tariff border measures are concerned. Generally speaking, import tariffs on agricultural products (HS chapters 01-24) are low, averaging 3.5% in 2001, if non-*ad valorem* duties are excluded. A wide range of products are subject to import licensing as well as sanitary and phytosanitary (SPS) measures. Non-border measures, notably production subsidies, are also used.

10. Although Malaysia included selected agricultural products in its WTO Schedule XXXIX, for tariff quota purposes, these quotas do not appear to be used in practice⁷; the authorities grant tariff quotas to applicants on request, according to the amount demanded. Malaysia has reserved, but not used, the right to apply the special safeguard provisions under the WTO Agreement on Agriculture. However, these products remain subject to import licences whose validity varies by product. According to the authorities, Malaysia does not use minimum price restrictions on imports.

11. Since the previous Review of Malaysia, there has been no substantial change in its policy on price and export controls. The authorities maintain that no investment incentives, such as concessional access to credit, are accorded to the agriculture sector. Access to credit is accorded for food production to smallholders and entrepreneurs under the Fund for Food Programme (3F Fund). Malaysia has no export subsidy programmes subject to reduction commitments. Crude palm oil, rubber, pepper, and some timber products are subject to export taxes (Chapter III(3)(ii)).

12. With a view to maintaining food security and eradicating poverty, the Government provides support and accords protection to two main subsectors in agriculture, i.e. rice (for food security and poverty reasons) and tobacco (for poverty reasons). The authorities maintain that trade liberalization in these two subsectors is to be undertaken on a gradual basis, accompanied by structural adjustment programmes. It would appear that production subsidies and input subsidies (in the form of a fertilizer subsidy) are only applicable to rice production. The largest outlay in connection with Malaysia's domestic support programme involves the financing of a minimum price for rice. The Government maintains a Guaranteed Minimum Price and a Paddy Price Subsidy for paddy farmers. Under the Guaranteed Minimum Price scheme, BERNAS (a privatized enterprise involved in state trading)

³ There are various laws and regulations applied to the agriculture sector. For example, overall import and export licensing procedures are regulated by the Customs (Prohibition of Import) Order 1998 and the Customs (Prohibition of Export) Order 1998, while imports and exports of plant and planting material are regulated by the Plant Quarantine Act 1976 and Plant Quarantine Regulations 1981.

⁴ Food processing industries are regulated by the Ministry of International Trade and Industry, incentives issues for agricultural activities are under the Malaysian Industrial development Authority, and export and import tariffs on agricultural products are regulated by the Ministry of Finance.

⁵ For example, the Malaysian Pineapple Industry Board, Malaysian Cocoa Board, Malaysian Rubber Marketing and Licensing Board, Malaysian Timber Board, Malaysian Tobacco Board, Malaysian Palm Oil Board.

⁶ In 1998, four agencies involved in rubber sector were amalgamated to form one agency, the Malaysian Rubber Board. Land development agencies have also been privatized. The Federal Agricultural Marketing Authority is also on the list of bodies in the privatization programme (Economic Planning Unit 2001b).

⁷ Poultry and poultry products, swine and swine products, fresh milk, and round cabbage.

undertakes to buy paddy from farmers at not less than the guaranteed minimum price, which is currently RM 55 per 100 kg. for both long and medium grains. Under the paddy price subsidy programme, the Government makes fixed payments (currently RM 24.81 per 100 kg.) to farmers for the paddy sold by them to any commercial rice mill. This subsidy is in addition to the price received by the farmers for the paddy, and constitutes the largest source of domestic support for agricultural production. (Table IV.2). A comprehensive review of the rice sector is currently under way and is expected to be completed in 2002.

Table IV.2
Overview of domestic support measures, 1996-98

Type of measures	Description	Value (RM million)		
		1996	1997	1998
Drainage and irrigation facilities	General services that benefit rural and smallholding farmer	287.0	202.0	301.0
Research and development	General services provided to most crops and agricultural programmes	30.0	20.0	90.0
Marketing services	General services provided for marketing of produce of smallholders	21.5	20.9	56.7
Extension services	General services that benefit rural and small holding farmers and include pesticide inspection services and transfer of information and results of R&D to producers	4.4	1.9	0.2
Price support and guaranteed minimum price	Guaranteed minimum price and paddy price subsidy are provided to paddy farmers in the context of poverty redressal and uplift of the socio-economic well-being of paddy farmers	411.1	420.6	416.0
Fertilizer subsidy	Measure is aimed at increasing productivity and encouraging good agricultural practices amongst smallholders	90.0	114.9	131.0
Investment subsidies (credit concessions)	Measure is aimed at reducing production costs and encouraging individual farmers and smallholders to be less reliant on out-right subsidy	nil	nil	nil

Source: WTO documents G/AG/N/MYS/7, 10 December 1997, and G/AG/N/MYS/13, 14 September 2000, and data provided by the Malaysian authorities.

(3) MINING AND QUARRYING

13. Malaysia's mining and quarrying sector experienced negative growth in 1999 and 2000; its contribution to GDP declined from 7.3% in 1997 to 6.9% in 2000. The sector's share in total employment has been about 0.5% since 1997, indicating that its labour productivity is well above the national average (possibly because of its high capital intensity).⁸ Malaysia has been a net exporter of mining products; such exports constituted 7.9% of total merchandise exports in 1999.⁹ Major mining products include crude petroleum, natural gas, metallic minerals (such as gold, copper, tin, iron ore), non-metallic minerals (such as sand and gravel, clays, limestone, silica, and kaolin), and energy minerals (coal).¹⁰

14. The wholly state-owned company, PETRONAS, established under the Petroleum Development Act (1974), continues to be the main vehicle for the appropriation of resource rents from oil and gas; it has exclusive rights of ownership, exploration and production, and is responsible for planning, investment, and regulation of all activities relating to exploration of petroleum

⁸ Estimated from Ministry of Finance (2001a), *Statistical tables, Table 6.1*.

⁹ Based on UNSD, Comtrade database, SITC Rev.3.

¹⁰ In 1999, Malaysia produced about 4,500 million cubic feet of gas and 608,000 barrels of crude petroleum per day, while total production of metallic minerals, excluding gold was 701,583 tonnes; gold production amounted to 3,449 kg. Production values were RM 1,239 million for non-metallic minerals, RM 369 million for metallic minerals, and RM 31 million for energy mineral (coal).

resources. Foreign investment or participation in the upstream industry is accepted in the form of production-sharing contracts (PSC); by the end of 2000, PETRONAS had signed more than 60 PSCs with foreign companies. Investments in downstream activities, such as processing, refining, and distribution, are regulated by MITI and the Ministry of Domestic Trade and Consumer Affairs (MDTCA). Licences for the processing and refining of petroleum and the manufacture of petrochemical products are issued by MITI, while the MDTCA issues licences for the marketing and distribution of petroleum products. Besides PETRONAS, the refining of petroleum products is undertaken by private companies, including three major oil companies, and more than six major oil companies are engaged in the distribution and retailing of petroleum products and lubricants.

15. Tariffs on mining products, including crude petroleum and gas, have been eliminated since 1997 and 2000, respectively. Mining products, including crude oil and petroleum products, are not subject to any import restrictions, except for barite, which requires an import licence. With regard to foreign investment, majority foreign-equity participation of up to 100% is permitted in the extraction or mining and processing of mineral ores. In determining the percentage, the following criteria are taken into consideration: the level of investments, technology and risk involved in the projects, the availability of Malaysian expertise in the areas of exploration and mining, and level of value added involved in the projects. Currently, there is no export duty on petroleum products; export duties for crude oil and tin are 10% and 0-25%, respectively.

(4) MANUFACTURING

(i) Features

16. Malaysia's manufacturing sector contracted (in terms of value added at constant prices) by 13.4% in 1998, but recovered rapidly in 1999 and 2000, growing at the rates of 13.5% and 21%, respectively.¹¹ The sector's contribution to GDP increased from 29.9% in 1997 to 33.4% in 2000; during the same period, its share in total employment also increased from 26.9% to 27.5%.¹² The main manufacturing subsectors in Malaysia are electrical machinery (including electronics), machinery and equipment, food, chemical and chemical products, and basic metals; these contributed 68.6% of total value added in the manufacturing sector in 2000.¹³ Between 1994 and 1997, value added grew notably in machinery, tobacco, transport equipment, products of petroleum and coal, electrical machinery, and basic metals, while it declined in leather and leather products (Table IV.3). Data provided by the authorities indicate that labour productivity in Malaysia's manufacturing sector registered growth of 16.2% in 2000, (16.8% in 1999)¹⁴, while real wages in the sector grew by 4.6%, leading to a decline in unit labour costs. The sector's share in Malaysia's trade also increased substantially; the share of manufactured exports in total exports increased from 76.4% in 1997 to 80.3% in 1999, while the total share of manufactured imports in total imports increased slightly from 83.1% to 83.7% in 1999 (Tables AI.1 and AI.2). Machinery and transport equipment, chemicals, and textiles and clothing are among Malaysia's main manufactured exports and imports.¹⁵

¹¹ Bank Negara Malaysia (2001c).

¹² Labour productivity, as measured by real sales value of products per employee, increased during 1999 and 2000. In 2000, the sector accounted for the major share of new workers employed (52.7% or 215,600 persons) (Bank Negara Malaysia, 2000).

¹³ The share of electrical machinery alone was 30.0% of total manufacturing value added.

¹⁴ Productivity is measured in terms of value added per employee.

¹⁵ Malaysia is the eighth largest clothing supplier to Japan and the 18th largest supplier to the EU and the United States.

17. Between 1996 and 2000, the manufacturing sector's share of total private investment increased from 26.3% to 38.4%¹⁶, although overall private investment declined substantially, from RM 79.4 billion to RM 46.5 billion during the period. In 2000, 805 manufacturing projects were approved, with total investment of RM 33.5 billion, of which RM 19.8 billion involved foreign participation.¹⁷

Table IV.3
Manufacturing value-added in Malaysia, 1994-1997
(Per cent)

	Value-added		
	Structure in 1994	Structure in 1997	Change since 1994
Processing of estate-type agricultural products in factories off estates	3.52	3.05	38.81
Food	4.71	3.90	32.26
Beverages	0.87	0.79	44.20
Tobacco products	0.98	1.23	99.71
Textiles	3.22	3.14	55.90
Footwear (except rubber footwear), other wearing apparel and made-up textile goods	2.03	1.68	31.91
Wood products	6.52	5.11	25.24
Furniture and fixtures	1.31	1.41	72.61
Printing, publishing and allied industries	2.68	2.71	61.83
Paper and paper products	1.67	1.41	34.84
Leather and leather products	0.13	0.07	-19.14
Rubber products	3.48	3.59	65.22
Chemicals and chemical products	8.17	8.59	68.04
Products of petroleum and coal	2.95	3.35	81.23
Non-metallic mineral products	4.68	3.94	34.67
Basic metal industries	2.72	3.35	97.00
Metal products	4.05	4.05	59.89
Machinery except electrical machinery	4.76	5.98	100.92
Electrical machinery	29.79	30.02	61.04
Transport equipment	4.76	5.80	94.51
Miscellaneous manufacturing industries	7.00	6.84	56.26
Total	100.00	100.00	59.84

Source: Bank Negara Malaysia (2001d). *Monthly Statistical Bulletin, "Value-added by Manufacturing Industries"* [Online]. Available at: http://www.bnm.gov.my/pub/msb/200102/vi_05.pdf [30 March, 2001].

(ii) Policy objectives for the sector

18. Malaysia's main policy objectives for the manufacturing sector include: targeting high value-added investment flows (particularly FDI); strengthening competitiveness; enhancing export potential; keeping down the costs of doing business, and improving the business environment; increasing the supply of skilled workers, and enhancing capacity building for training and skills development; fostering the development of strong industrial linkages, upgrading technology, and developing indigenous technological capabilities.

¹⁶ Bank Negara Malaysia (2001a).

¹⁷ Bank Negara Malaysia (2001d).

(iii) Main policy instruments for the sector

19. Malaysia's average MFN applied tariff on manufacturing imports increased from 9.7% in 1997 to 11.0% in 2001 (excluding *ad valorem* equivalents of specific duties); the number of duty free lines increased from 4,155 to 4,336 during the period. The higher average rate can be attributed to increases in applied MFN tariffs on automobiles, construction equipment, certain appliances, and alcoholic beverages in 1998.¹⁸ Since 1997, tariffs on selected manufactured products have been reduced either on unilateral basis or under Malaysia's WTO and ITA commitments.¹⁹ Manufacturers are exempted from duties on imports of raw materials/components that are not available locally.

20. A number of manufactured goods are subject to discretionary import licensing for public morals, security, and safety reasons as well as for protection purposes (Chapter III(2)(iv)). Malaysia also has an export licensing scheme for a number of manufactured goods. Export duties are not applicable to manufactured products. Malaysia provides incentives to promote exports by means of import duty exemptions, duty drawback facilities, export credit refinancing scheme, export credit insurance and guarantee schemes (Chapter III(3)(iv-vi)). It also exempts exports from sales tax.

21. Since 31 July 1998, Malaysia has allowed 100% foreign equity ownership in manufacturing without export requirements²⁰; this was initially set for the period until 31 December 2000 but was extended for another three years until December 2003.²¹ Foreign participation in companies that do not possess a manufacturing licence requires approval from the FIC; the level of foreign participation approved is determined on a case-by-case basis. Companies with manufacturing licences are exempted from FIC approval. Various tax and non-tax incentives are accorded to manufacturing investment (Chapter III(4)(ii and iii)).

22. Companies are eligible to apply for import duty and sales tax exemption on machinery and equipment used for storage, treatment, and disposal of toxic and hazardous waste, energy conservation, waste recycling, and utilizing biomass as a source of energy, provided they are not produced locally. The Technology Acquisition Fund (TAF) was established in September 1997 to facilitate the acquisition of strategic and relevant technology by the Malaysian small and medium-sized enterprises (SMEs) through partial funding.²² Since 23 November 1998, a Rehabilitation Fund For Small and Medium Industries has been in place to provide financial assistance to viable SMEs facing temporary cash-flow problems owing to the financial crisis.²³

23. Owing to an acute labour shortage since August 1995, Malaysia has adopted a policy not to provide incentives to labour-intensive manufacturing industry.²⁴ This policy is not applicable to:

¹⁸ In the 1998 budget, duties on automobiles, vans, and motorcycles were increased from 32-200% to 40-300% for CBU and 5-42% to 30-80% for CKD, and duties on construction equipment were raised from 0-35% to 5-50%.

¹⁹ These include electrical parts and apparatus, articles of leather and apparel, certain pharmaceuticals, capital goods, intermediate goods, components and machinery, products of papers, woven fabrics, footwear, sewing machines, and products covered by the "Information Technology Agreement". See APEC (2001b, 2001c, 2001d).

²⁰ However, activities that involve small and medium-sized enterprises, like paper packaging, plastic packaging (bottles, films, sheets, and bags), plastic injection moulded components, metal stamping and metal fabrication, steel service centres, wire harness, and printing are excluded from this relaxation. Foreign equity participation for these activities is limited to 30% if the products are domestic-market oriented (APEC, 2001a).

²¹ Ministry of International Trade and Industry (2001).

²² Ministry of Finance (2001b).

²³ Bank Negara Malaysia (2001e).

²⁴ Projects with a capital investment per employee ratio of less than RM 55,000 are defined as labour-intensive Ministry of Finance, (2001b).

projects located in the eastern corridor of Peninsular Malaysia, Sabah, and Sarawak; projects with minimum 30% valued added or with a managerial, technical, and supervisory index higher than 15%; projects listed as promoted activities; and high technology products.²⁵ Manufacturing companies that employ 50 or more workers, and companies with a paid-up capital of RM 2.5 million and above employing from 10 to 49 employees are required to contribute to the Human Resources Development Fund (HRDF) for the purpose of retraining and skill-upgrading of workers. In the Third Outline Perspective Plan 2001-2010 launched on 3 April 2001, emphasis has been placed on strengthening the manufacturing sector by developing strong linkages, industrial clusters and SMEs as well as on improving the technological base.²⁶

(iv) Key subsectors

(a) Automobiles and their parts

24. Following a slowdown during the financial crisis, Malaysia's automobile industry recovered substantially in 1999 and 2000, with volume growing by 53.4% and 19.1%, respectively.²⁷ Sales of passenger cars, commercial vehicles, motorcycles, and scooters increased during these years. In 2000, Malaysia had one of the biggest automobile markets in South East Asia, with sales of 347,174 units of passenger cars and commercial vehicles.²⁸ By the end of 1999, about 9.9 million motor vehicles were registered in Malaysia. Imports of automotive products decreased from US\$3,057 million in 1997 to US\$1,351 million in 1999 or around 2.1% of total imports. Exports of automotive products accounted for 0.4% of total exports in 1999.²⁹ Automobile exports for 1999 and 2000 were: 18,117 and 16,270 units for passenger cars; 1,336 and 1,113 units for commercial vehicles; and 29,146 and 29,341 units for motorcycles, for the respective years.

25. In 2000, there were 12 assemblers of commercial and passenger vehicle in Malaysia. National car assemblers Perusahaan Otomobil Nasional Berhad, with national brand name PROTON³⁰, and Perusahaan Otomobil Kedua Sdn. Berhad³¹, with national brand name PERODUA, held 79% of the total automobile market and 93% of passenger car market.³² Other assemblers are mainly joint-venture companies involving local firms and major foreign automobile companies; the latter also promote their own products in the market and have small market shares.

26. Malaysia's automotive market is protected both by tariff and non-tariff measures. Tariffs on automobiles were raised in October 1997; currently, they range from 42% to 80% on completely knocked down (CKD) cars, and from 140% to 300% on completely built up (CBU) cars.³³ Most

²⁵ Ministry of Finance (2001b).

²⁶ Economic Planning Unit (2001c).

²⁷ Bank Negara Malaysia (2000).

²⁸ Passenger cars alone accounted for 86% of total sales in 2000.

²⁹ UNSD, Comtrade database, SITC Rev 3.

³⁰ Perusahaan Otomobil Nasional Berhad is a joint-venture company originally involving the Malaysian Government through HICOM Bhd (70%), Mitsubishi Motor Corporation, Japan (15%), and Mitsubishi Corporation, Japan (15%). PROTON is now controlled by PETRONAS, however, since the latter bought a 27.2% stake in the carmaker from HICOM in 2000.

³¹ Perusahaan Otomobil Kedua Sdn. Berhad is a joint-venture of local companies with Daihatsu Motor Co Ltd (20%) and Mitsui & Co Ltd (7%) (PERODUA, 2001).

³² It would appear that market shares are affected by the down-payment requirements on loans for vehicles: 15% for vehicles valued at RM 40,000 and below and 30% for vehicles over RM 40,000. Bank lending for purchases of passenger cars and commercial vehicles was around RM 1,800 million and about RM 1,200 million at end 1999 and 2000.

³³ Similarly, import tariffs on vans range from 5% to 40% for CKD vans and from 42% to 140% for CBU vans. Tariffs on multi-purpose vehicles are 10-40% on CKD vehicles and 60-200% on CBU vehicles.

automobile parts and components, except tractor parts (duty free), are subject to 25-30% tariffs, (Table IV.4).³⁴ Motor vehicles, chassis fitted with engine for ambulances and motor vehicles, chassis not fitted with engine and parts thereof, bodies for ambulances, and road tractors for semi-trailers (completely build up and old) are subject to discretionary import licencing.³⁵ Imports of automotive products and components/parts are not subject to quality control inspections; there is no import prohibition for products that do not conform to the various standards, except for seat belts, which require import permits from SIRIM Berhad (Chapter III(4)(iv)).

Table IV.4
Tariffs on automotive products, 2001

Description	Engine capacity (cc)	Tariff on CBU	Tariff on CKD
Cars	Less than 1,800	140	42
	1,800-2,000	170	42
	2,000-2,500	200	60
	2,500-3,000	250	70
	3,000 and above	300	80
Multi-purpose vehicles	Less than 1,800	60	10
	1,800-2,000	80	20
	2,000-2,500	150	30
	2,500-3,000	180	40
	3,000 and above	200	40
Vans	Less than 1,800	42	5
	1,800-2,000	55	10
	2,000-2,500	100	30
	2,500-3,000	125	40
	3,500 and above	140	40
Road tractors for semi-trailers	n.a.	n.a.	30
Tractors for agriculture purposes	n.a.	n.a.	0
Other tractors	n.a.	5-25	5-25
Buses	n.a.	0	30
Parts of tractors	n.a.	n.a.	0-5
Multi-sourcing parts	n.a.	n.a.	42-80
LPG cylinders	n.a.	n.a.	0
Parts of other motor vehicles	n.a.	n.a.	25-30

n.a. Not applicable.

Source: Data provided by the Malaysian authorities.

27. Under the ASEAN Free Trade Area (AFTA) agreement, South-East Asian countries were to have cut import duties on automobiles to 0-5% by 2003. Malaysia asked for two-year extension to meet this deadline covering 218 tariff lines on CKD and CBU automotive products; the request was approved by ASEAN Trade Ministers on 1 May 2000.

Motorcycles are subject to import tariffs of 30% on CKDs and 80-120% CBU. Imports of tractors for agriculture purposes are duty-free, and tariffs on road tractors and buses are zero for CKD and 30% for CBU vehicles.

³⁴ Tariffs on multi-sourcing parts range from 42% to 80%; and the tariff on LPG cylinders is zero.

³⁵ APEC (2000a).

28. A number of internal taxes, such as sales tax at 10%, excise tax at various rates³⁶, and road tax at RM 0.13 to RM 3.16 per cc, based on engine displacement, are imposed on all vehicles. National cars receive 50% reduction in the excise tax. All assemblers and manufacturers including PROTON and PERODUA must source certain amounts of parts and components locally. Local content of passenger vehicles (including multi-purpose vehicles) up to 1,850 cc must be at least 60%; for passenger vehicles ranging from 1,851 cc to 2,850 cc and commercial vehicles up to 2,500 GVW (gross vehicle weight) it must be at least 45%; and for passenger vehicles above 2,851 cc and commercial vehicles above 2,500 GVW must source "mandatory deletion programme" items locally. Under the local-content policy for the automotive sector, there are 30 items on the mandatory deletion list, which local automotive assemblers/manufacturers must source locally.³⁷ For commercial vehicles above 2,500 GVW, this condition may be relaxed based on the recommendation of the Joint Technical Committee on Local Content (JTCLC), a committee comprising component manufacturers. All local assemblers including the national car manufacturers are subject to the same list. Malaysia is to phase out current local-content requirement on automobiles by 31 December 2001.

29. Malaysia's promotion schemes for its motor vehicle industry notably include Pioneer Status or Investment Tax Allowance under the Promotion of Investment Act, 1986. The industry is also eligible for incentives for high technology industries, R&D, and training. Imports of machinery and equipment for manufacturing are exempt from import duty and sales tax if the goods in question are not produced locally.

30. High levels of tariff protection together with other forms of assistance for the domestic automotive industry might have been justified initially, on "infant industry" grounds, when the first national car company was established in 1983 under the National Car Project (a Second National Car Project involving a second company was started in 1993). The stated objective of the policy was to promote domestic production and exports of automotive products.³⁸ The two national car companies have secured large shares of the domestic market but few cars have been exported from Malaysia, suggesting perhaps that the companies lack a certain competitiveness in the world market, and possibly raising questions about the net benefit of the assistance and its structure. However, the authorities maintain that, from development perspective, PROTON and PERODUA created about 220 vendors (component suppliers), of which about 40 are regarded as having export capability.

(b) Electronics

31. The Malaysian electronics industry constituted approximately 2.5% of global electronics output in 1999.³⁹ The sector is the largest contributor to Malaysia's manufacturing output, employment, and exports; after a 4.2% decline in production in 1998, output growth of 22.5% was recorded in 1999 and 31.8% in 2000.⁴⁰ In 1999, the sector employed 361,100 people, around 16% of total labour force in the manufacturing sector.

³⁶ Excise tax on multi-purpose vehicles is 45%, on vans 30%, commercial vehicles nil, and on cars from 25% to 65% on cumulative basis, based on the car values.

³⁷ Moreover, these items are not allowed to be imported as CKD parts.

³⁸ Ministry of International Trade and Industry (1996).

³⁹ MIDA (2001b).

⁴⁰ As of July 2000, there were about 900 companies in Malaysia; 36 companies were engaged in the production of semiconductors; 170 in passive components and display devices; 45 in computers, computer peripherals and data storage devices; 120 in telecommunication equipment; 40 in consumer electronics. Besides, more than 400 companies engaged in contract manufacturing and production of plastic moulded parts and components.

32. During the period 1996-2000, exports of electronics products more than doubled⁴¹; they accounted for 44.7% of total exports in 2000, up from 36.5% in 1997. Semiconductor devices make up the largest share of exports. Principal markets for Malaysia's exports of electronics are the United States, Singapore, Chinese Taipei, Japan, and Hong Kong, China. Imports of electronic products, which are mainly used for further processing in the export-oriented electronics industry, have increased alongside exports, although the rate of increase was lower than that of exports (Table IV.5). The United States is among the main sources of imports of electronic products. Data provided by the authorities indicate that duty-free imports comprised over 97% of total Malaysian imports of electronic products during the period 1997-2000.

Table IV.5
Performance of Malaysia's electronics industry, 1996-2000

Year	Production (1993=100)		Output		Employment		Exports		Imports	
	Index	Growth %	RM (bil)	Growth %	No.	Growth %	RM (bil)	Growth %	RM (bil)	Growth %
1996	163.3	12.6	76.0	7.0	329,100	5.1	64.6	13.8	68.0	6.6
1997	200.5	22.8	85.6	12.6	343,300	4.3	80.8	25.0	75.7	11.3
1998	192.1	-4.2	103.5	20.9	320,600	-6.6	114.2	41.3	96.6	27.6
1999	232.8	21.2	129.8	25.4	381,000	18.8	144.9	26.9	108.3	12.1
2000	337.2	44.8	167.1	28.7	416,976	9.4	166.8	15.1	141.0	30.2

Source: Information provided by the authorities.

33. The electronics industry accounted for 36.1% of total fixed assets held by foreign investors as of 31 December 1998; 100% foreign equity participation has been allowed for export activities. It is the only sector where the majority of investment comes from foreign investors; in 1999 and 2000, foreign investment constituted 84.5% and 83.6%, respectively, of approved capital investment in the electrical and electronic product industries.⁴²

34. Based on average MFN tariffs applied to computing and accounting machinery, radio, TV, and communication equipment⁴³, the overall tariff fell during the period 1997-2001. This is the consequence of Malaysia becoming a signatory to the Information Technology Agreement (ITA), which provides for the elimination of tariffs on most IT products (which are mainly electronics products) by 2000, except for nine HS lines, on which tariffs will be eliminated by 2003, and for 20 lines on which they will be eliminated by 2005.⁴⁴ Tariffs on electronic products have minimal effect on imports of electronic products as most electronic components imported into Malaysia enter for further processing in the export industry and therefore enjoy duty-free access.

⁴¹ The sharp increase in electronics exports expressed in ringgits in 1998 was the result of a sharp devaluation of the ringgit; in terms of US\$, this increase was only 1.1%.

⁴² Estimated from MIDA (2001c, 2001d, 2001e).

⁴³ Between 1997 and 2001, the average tariff on office, computing, and accounting machinery declined from 0.1 to nil, and the average tariff on radio, TV, and communication equipment was reduced from 8.3 to 6.8% (WTO Secretariat estimates, based on data provided by the Malaysian authorities).

⁴⁴ ITA Schedule of Malaysia.

(5) SERVICES**(i) Features**

35. In 2000, services accounted for about 53.4% of Malaysia's GDP and 48.7% of employment. Services, like other sectors, experienced a downturn in 1998, but recovered in 1999 and 2000. In 2000, the sector grew by 4.8% in terms of value added at constant prices. Malaysia continues to have a large deficit in its services trade (Table I.1).

36. Services imports and exports may be delivered through cross-border supply, consumption abroad, commercial presence, and the presence of natural persons. For the delivery of a number of services in Malaysia, a commercial presence is required. Foreign professionals can be employed both by foreign affiliates and Malaysian companies. In both cases the number and category of professionals are regulated by the Malaysian authorities. By contrast, in the Multimedia Super Corridor, all restrictions on foreign ownership and the presence of foreign professionals have been removed, so as to facilitate the development of these projects.

37. Malaysia has signed and ratified the Fourth and Fifth Protocols of the GATS, covering basic telecommunications and financial services, respectively. Except for changes associated with these Protocols, Malaysia's GATS Schedule has remained unchanged since its previous Review; sectors in which Malaysia has made commitments include professional services (such as legal services), communication services, construction and related engineering services, financial services, health related social services, tourism and travel related services, and transport services.⁴⁵ Malaysia has not made any horizontal commitments covering cross-border supply and consumption abroad. Commercial presence is generally limited to joint ventures in which equity by foreigners is limited to 15% by a single or grouped foreign interest or to an aggregate foreign interest of 30%. Any proposed acquisition of 15% or more of the voting power by any single foreign interest or associated group, or by foreign interests in the aggregate of 30% or more of the voting power of a Malaysian company and business requires FIC approval. However, a holding of more than 30% may be allowed on a case-by-case basis, depending on the activities involved. National treatment reservations have been taken for all dealings in land, property, and real estate as well as for tax incentives and Bumiputera preferences.

38. The authorities maintain that no disputes concerning services trade have taken place since 1997. Malaysia is a signatory to the ASEAN Framework Agreement on Services (AFAS), which was signed on 15 December 1995.

(ii) Policy objectives for the sector

39. The Government considers that an efficient and competitive services sector would assume a significant role in supporting the transformation of the economy as Malaysia strives towards becoming an industrialized nation by 2020; it intends to liberalize the sector in a gradual and progressive manner. It envisages liberalization under the framework of GATS in accordance with prevailing domestic fundamentals and the ability of the sector to accommodate changes without impinging upon the orderly development of the sector.

⁴⁵ Malaysia's commitments on legal and tourism services, which are not mentioned elsewhere in this report, include the following: entry for legal services is permitted only through a corporation incorporated in the Federal Territory of Labuan; and the services may only be supplied to offshore corporations established in the Federal Territory of Labuan; and entry for tourism and travel related service activities is permitted only through a joint venture with Malaysian individuals and/or Malaysian-controlled corporations.

40. Like in the manufacturing sector, Government-private sector consultations are a part of the procedures in formulating Malaysia's policies and strategies in services. The authorities maintain that inputs and views from private sector organizations are fully taken into account in policy formulation.⁴⁶

(iii) Financial services

(a) Overview

41. In 2000, financial services (and real estate and business services) contributed around 12.5% to GDP and around 5.5% to total employment, indicating that the sector's labour productivity is more than twice the national level. Although banking remains the largest manager of financial assets, its share has declined gradually with the increasing share of non-bank intermediaries in Malaysia (Table IV.6). The market share of the Employees Provident Fund (EPF), which is based on compulsory contributions of employers and employees, has also gradually increased.

42. In principle, applications to provide any financial services require the approval of Bank Negara Malaysia. Companies involved in insurance, fund management, and securities brokerage may have 51% foreign equity and at least 30% Bumiputera equity. For companies involved in finance/banking and venture capital, 70% of equity must be local comprising at least 30% Bumiputera equity. For companies involved in asset management, 100% foreign ownership is allowed if the companies manage only foreign investors' funds; 70% is allowed if managing both foreign and local investors' funds. Companies offering investment services may be 100% foreign owned if they offer advisory service to the companies within the same group; if the companies do not provide these services, 51% foreign holding is allowed and at least 30% must be owned by Bumiputera.

43. Upon signing the Fifth Protocol of the GATS, Malaysia made changes to its 1995 GATS commitments; these are incorporated into the Government's current regulatory framework. It bound: 51% ownership in existing joint-venture insurance companies by existing foreign shareholders that were original owners of these companies; trades for own account (or account of customers outside Malaysia) that may be routed to member companies of the stock exchange for execution by a foreign stockbroking company incorporated in Malaysia⁴⁷; and six new licences for life reinsurance business up to 30 June 2005. It allowed: the establishment of majority or wholly foreign-owned fund management companies; up to 30% foreign shareholding in the Malaysian National Reinsurance Berhad and the Malaysian Life Reinsurance Group Berhad; five experts for each commercial bank or merchant bank in trade financing, corporate finance, treasury management and information technology; and new entry into offshore investment banking services.⁴⁸

44. In 1999, Malaysia unilaterally relaxed its regulation restricting offshore banks and offshore investment banks to lend in foreign currencies only.⁴⁹ On 7 July 1999, the Controller of Foreign Exchange agreed to allow Labuan Offshore Banks to grant medium- to long-term financing denominated in ringgit to specific groups of resident companies that are undergoing financial restructuring under the Corporate Debt Restructuring Committee, or involved in infrastructure

⁴⁶ Examples of such associations are the Bar Council, the Malaysian Institute of Accountants, the Institution of Engineers Malaysia, the Institute of Surveyors, the Real Estate and Housing Developers Association, Association of Banks, the Construction Industry Development Board, Malaysian Travel and Tour Association, the Association of Private Hospitals, the Malaysian Medical Association, and a number of other relevant bodies.

⁴⁷ Subject to terms and conditions, yet be finalized.

⁴⁸ WTO document GATS/SC/52/Suppl.3, 26 February 1998.

⁴⁹ These changes were not bound in Malaysia's GATS Schedule.

projects, and multimedia companies accorded Multimedia Super Corridor status, subject to certain conditions.

45. The Securities Commission, the regulatory authority for securities and futures, has made a concerted move towards a more disclosure-based regulatory regime for public-listed companies; the Commission also focuses on enhancing corporate governance standards for such companies (Chapter III(4)(ix)).⁵⁰ With a view to the overall long-term development of the capital market, the Securities Commission has also released a Capital Market Masterplan, which is aimed at attaining further deregulation and liberalization for the development of the Malaysian capital market.

Table IV.6
Share in total assets of the financial system by institution, 1997-2000
(RM billion and per cent)

	1997	1998	1999	2000
Total (RM billion)	1,117.2	1,093.1	1,172.3	1,243.0
Shares in total (per cent)				
Bank Negara Malaysia ^a	9.8	11.4	12.5	12.0
Banking system	63.0	58.7	56.0	54.8
Commercial banks	43.6	42.0	41.2	41.3
Finance companies	13.6	11.3	9.9	8.8
Merchant banks	4.0	3.6	3.3	3.0
Discount houses	1.9	1.8	1.6	1.7
Provident, pension and insurance funds	17.1	19.4	20.6	21.7
Employees provident fund	11.9	13.5	14.3	14.9
Other provident funds	2.0	2.3	2.4	2.6
Life insurance funds	2.2	2.4	2.7	3.1
General insurance funds	1.1	1.2	1.2	1.1
Development finance institutions ^b	1.4	1.8	1.9	2.0
Savings institutions ^c	1.7	1.7	2.2	2.6
Other financial intermediaries ^d	7.0	7.0	6.8	6.9

a Includes Bank Negara Malaysia and Currency Board.

b Includes Malaysian Industrial Development Finance Berhad (MIDF), Agricultural Bank of Malaysia, Borneo Development Corporation, Sabah Development Bank Berhad, Sabah Credit Corporation, Development Bank of Malaysia, and Industrial Bank Berhad.

c Includes National Savings Bank, Bank Kerjasama Rakyat, and the co-operative societies.

d Includes unit trusts, building societies, Pilgrims Management Fund Board, Credit Guarantee Corporation, and Cagamas Berhad.

Source: Bank Negara Malaysia (various issues), *Annual Report*, Kuala Lumpur.

46. Prudential regulation of the banking sector is particularly important as no private or public deposit-insurance system exists. Malaysia discontinued the two-tier regulatory system on 7 April 1999. No banking institutions have gone bankrupt since 1997; however, two ailing institutions have been merged with other banking institutions. An insurance guarantee scheme fund (IGSF) for general insurance business, mainly funded by levies from general insurers, was established in 1997; the IGSF has been used to partially meet the liabilities of three insolvent insurers, which went into liquidation. A new Insurance Act was brought into force on 1 January 1997 with a view to strengthening regulation of the insurance industry.

⁵⁰ The corporate governance initiative is pursuant to the recommendations made in the Finance Committee Report on Corporate Governance, which was released to the public on 26 March 1999. The Report covers three broad areas: the development of the Malaysian Code on Corporate Governance; reform of laws, regulations and rules; and training and education. The Finance Committee on Corporate Governance was established in 1998.

(b) Banking

47. Malaysia's banking system has suffered from the downturn in the economy after the outbreak of the Asian financial crisis, and the collapse of property and stock markets. In 1998, it recorded a decline in assets, pre-tax loss coupled with negative loan growth, and increase of non-performing loans (NPLs) (Table IV.7).

Table IV.7
Performance of the Malaysian banking system, 1996-2000
(RM million and per cent)

Financial year ending	1996	1997	1998	1999	2000
Net interest income	13,389	16,713	14,856	14,873	18,550
Pre-tax profit	8,721	7,655	-5,732	4,660	9,669
Total capital ^a	45,210	58,788	60,403	59,936	63,817
Loans	319,305	401,865	394,422	373,840	390,253
Deposit	358,088	434,299	432,404	447,292	460,268
Non-performing loans (6 months) ^b	12,480	25,053	52,406	46,241	48,157
Non-performing loans (3 months)	..	..	76,953	64,930	63,122
Loans /deposit (%)	89.2	92.5	91.2	83.6	84.8
Return on assets (%)	2.0	1.3	-0.9	0.7	1.5
Return on equity (%)	27.5	17.5	-12.3	9.8	20.4
General provisions ratio (6 months) -% ^{c,b}	1.8	2.0	2.2	2.2	2.2
General provisions ratio (3 months) -% ^c	..	..	2.0	1.9	1.9
Net NPL ratio (6 months) -% ^{d, b}	1.9	4.1	8.1	6.4	6.3
Net NPL ratio (3 months) -% ^d	..	..	13.6	11.0	9.6
Risk weighted capital ratio (%)	10.4	10.5	11.8	12.4	12.3

.. Not available.

a Total capital = Tier 1 capital + Tier 2 capital.

b For years 1996 and 1997, NPL, general provisions ratio and net NPL ratio are based on actual classification.

c General provisions ratio = General provisions/(gross loans - interest in suspense - specific provisions).

d Net NPL ratio = (NPL - interest in suspense - specific provisions)/(gross loans - interest in suspense - specific provisions).

Note: All data are excluding Islamic banks.

Source: Bank Negara Malaysia (2001), *Annual Report 1997* [Online]. Available at: http://www.bnm.gov.my/pub/ar/1997/bk_en.pdf 19 February 2001. Bank Negara Malaysia (2001), *Annual Report 1998* [Online]. Available at: http://www.bnm.gov.my/pub/ar/1998/1998bk_en.pdf 19 February 2001. Bank Negara Malaysia (2001), *BNM Periodic Reports* [Online]. Available at: <http://www.bnm.gov.my/pub/index.htm> 21 February 2001. Economic Planning Unit (2001), *Investment Indicators* [Online]. Available at: http://www.epu.jpm.my/kei/key_economic_indicators.html 22 February 2001.

48. Banking services are provided by commercial banks, finance companies, merchant banks, discount houses, and credit guarantee cooperations. The number of banks has decreased since 1995; as of 30 June 2001, there were 27 commercial banks (including 2 Islamic banks)⁵¹, 12 finance companies, and 10 merchant banks licenced in Malaysia.⁵² The operation of banking institutions is governed by the Banking and Financial Institutions Act, 1989, while the Islamic banks are governed by Islamic Banking Act 1983. The activities of offshore banking business are governed by the

⁵¹ The second Islamic bank (Bank Muamalat Malaysia Berhad) commenced operations in October 1999.

⁵² In 1995, there were 37 commercial banks, 40 finance companies, and 12 merchant banks licenced in Malaysia.

Offshore Banking Act 1990.⁵³ Banking licences are granted by the Minister of Finance upon the recommendation of BNM. No new banking licences, except for offshore banking licences, have been awarded to foreign or local investors since 1997.

49. Bank Negara Malaysia (BNM) has overall supervisory and regulatory responsibility for banks. The supervisory process is conducted via on-site examination as well as off-site supervision by BNM. All foreign banks must be locally incorporated to operate in Malaysia.⁵⁴ The parent banks of such locally incorporated foreign-owned banks are allowed to hold 100% interest in their Malaysian subsidiaries; for companies involved in insurance, fund management and securities brokerage, 51% foreign equity is allowed, and at least 30% Bumiputera equity is required; in contrast to insurance institutions, there is no requirement for divestment of share-holding in favour of Malaysian interests. Foreign parties may also acquire up to an aggregate of 30% equity interest in existing Malaysian-owned banks. There are no foreign-ownership restrictions for offshore banks in the Labuan International Offshore Financial Centre; entry can be in the form of a branch or a subsidiary. Three investment bank licences in offshore banking have been issued since 1997.⁵⁵ Foreign banks can extend loans only in partnership with domestic banks.

50. Out of 27 commercial banks, 14 are foreign owned. In 2000, these foreign-owned banks controlled about 24% of total assets, gross loans, and deposits in the commercial banking sector. As at 31 December 2000, finance companies and merchant banking industries had 1.6% and 3.9% foreign equity participation, respectively. Although new branches and automatic teller machines are being authorized for domestic banks, foreign banks may not establish new branches, including off-site automatic teller machines.

51. Since March 1998, financial institutions have been required to publish and report key indicators of financial soundness, such as NPLs and capital adequacy, both at bank level and on consolidated basis, on a quarterly basis (for listed banking institutions) or half-yearly basis (for all other banking institutions). On 25 March 1998, BNM announced an increase in the minimum risk weighted capital ratio of finance companies from 8% to 9% by the end of 1998 and to 10% by the end of 1999, and an increase in the minimum capital funds from RM 5 million to RM 300 million by mid-1999 and subsequently to RM 600 million by the end of 2000.⁵⁶

52. In 1998, the BNM introduced a programme to consolidate finance companies into fewer institutions; to this end, the Government provided incentives including an exemption from stamp duty and from real property gains tax, and tax credit amounting to 50% of the accumulated losses of banking institutions to be acquired.⁵⁷ The programme was extended in 1999 to all domestic banking institutions, and on 14 February 2000, the Government granted approval for the formation of ten banking groups, which were completed by the end of 2000.⁵⁸ Currently, the five largest banking groups in terms of asset size account for 55% of the banking system's gross loans and deposits. The largest banking group is more than double the size of the second largest group, accounting for approximately 20% of the market. No monopoly banking activities are allowed by law. While there is no competition law encompassing the banking sector, based on the recommendations in the Financial Sector Masterplan (FSMP), the authorities intend to develop anti-trust regulations.

⁵³ APEC (2000a).

⁵⁴ A foreign bank is a bank that is incorporated in Malaysia and is majority owned by foreign parties.

⁵⁵ APEC (2000a) and Oh (2001).

⁵⁶ Bank Negara Malaysia (2001f).

⁵⁷ Bank Negara Malaysia (2001g).

⁵⁸ Accordingly, 51 of 54 existing banking institutions were consolidated into the ten banking groups, and 96% of the total assets of the domestic banking sector were consolidated.

(c) Insurance

53. After a decade of rapid growth, the Malaysian insurance sector experienced a setback in 1998 against the backdrop of the Asian financial crisis. The combined premium income of life and general insurance sectors declined from RM 11.1 billion in 1997 to RM 10.9 billion in 1998 (Table IV.8). A recovery has been observed since 1999; total premiums grew in 1999 by 8.5% and by 17.7% in 2000.⁵⁹ Reinsurance premium placed outside Malaysia has declined gradually and the domestic retention rate of Malaysian insurance business increased over the last five years.⁶⁰ Total insurance fund assets amounted to RM 50.6 billion (US\$13.3 billion) in 2000; they comprised mainly private debt and corporate securities, government papers, loans, cash and deposits, and properties. Insurance fund assets represented 4.1% of GNP in 2000.

Table IV.8
Overview of Malaysian insurance sector, 1996-2000

	1996	1997	1998	1999	2000
Number of registered companies	145	146	147	145	141
Direct life insurance	5	7	7	7	7
Direct general insurance	40	40	40	38	36
Direct composite insurance	13	11	11	11	10
General reinsurance	7	8	9	10	9
Composite reinsurance	0	0	0	0	1
Life reinsurance	0	1	1	1	1
Insurance brokers	37	37	37	37	36
Adjusters	43	42	42	41	41
Life insurance agents	92,018	84,667	88,764	88,786	87,375
General insurance agents	25,222	29,177	33,695	37,864	41,233
Total premium (RM million)^a	9,714.6	11,132.3	10,902.9	11,829.9	13,928.2
Per cent of GNP	4.1	4.2	4.1	4.2	4.1
Life insurance premium (RM million)	5,209.2	5,970.7	6,217.2	7,152.7	8,870.3
General insurance premium (RM million)	4,505.4	5,161.6	4,685.7	4,677.2	5,057.9
General reinsurance placed outside Malaysia	1,164.7	912.6	737.2	651.2	420.8
Retention rate (%)	79.5	85.0	86.4	87.8	89.6
Insurance funds assets (RM million)	30,926.4	34,958.5	39,324.5	45,397.3	50,571.0
Life insurance assets (RM million)	20,729.4	23,306.7	26,314.8	31,707.0	36,777.3
General insurance assets (RM million)	10,197.0	11,651.8	13,009.7	13,690.3	13,793.7

a Net of reinsurance premium placed with and outside Malaysia.

Source: Bank Negara Malaysia (2001i), *Insurance Annual Report 2000 Chart 2: Insurance Key Indicators* [Online]. Available at: <http://www.bnm.gov.my/pub/dgi/1999BI/Chart-2.pdf> 26 February 2001; and Bank Negara Malaysia (2001), *"Life and General Insurance Funds Statement of Assets"* [Online]. Available at: http://www.bnm.gov.my/pub/msb/200012/iv_02.pdf 26 February 2001.

54. The insurance sector in Malaysia comprises life and general insurers (direct insurers and professional reinsurers), insurance brokers, adjusters, and registered agents.⁶¹ Currently, out of

⁵⁹ Bank Negara Malaysia (2001h).

⁶⁰ Bank Negara Malaysia (2001c, 2001j, 2001k).

⁶¹ In addition to the conventional insurance activities, insurance services on Islamic principles (Takaful) have been provided by two companies in Malaysia; these companies operate both family takaful and general takaful business. Products offered by Family Takafuls include individual plans, mortgage plans, credit

63 insurers, 23 are foreign owned. Foreign shares accounted for 72% and 36% of total life and general premium, respectively, for the year 2000. At the end of 2000, there were 832 insurance branch offices, 30 brokers and 105 loss adjusters branch offices.⁶² Total employment in the insurance industry (excluding insurance agents) increased slightly from 19,480 in 1996 to 21,780 in 2000 (figures as at June of the respective years). At the end of 2000, foreign shares amounted to 42%, 64% and 58% of total equity, assets, and premiums in the insurance industry. As at December 2000, there were 83 offshore insurance and insurance-related companies in Labuan.

55. The insurance industry in Malaysia is regulated by the Insurance Act 1996, and offshore insurance by the Offshore Insurance Act 1990.⁶³ Bank Negara Malaysia (BNM) is in charge of the overall supervision of Malaysia's insurance sector. A company wishing to engage in general insurance and reinsurance business must obtain a licence issued under the Insurance Act 1996. Application for a licence is made to the BNM, which reviews the application and makes a recommendation to the Minister of Finance on whether a licence should be granted and the conditions, if any, to be applied. Licences are issued by the Minister of Finance. Currently, no new licences are being issued for the conduct of direct insurance business pending the consolidation of existing insurers in the industry. Licences for insurance broking or loss adjusting business are issued by BNM. Insurance agents are not licenced by BNM but registered by the mandatory trade associations. Since 15 February 1996, offshore insurance activities have been supervised by the Labuan Offshore Financial Services Authority.

56. Under the Insurance Act 1996, insurers are required to maintain the statutory minimum margin of solvency. Except for the restriction on investments of the Malaysian insurance fund in foreign assets, there are no restrictions on the investment of assets exceeding the amount required to satisfy the minimum margin of solvency.

57. Pursuant to Section 12 of the Insurance Act 1996, direct insurers are prohibited from carrying on both life and general insurance businesses; this prohibition is not applicable to an insurer that was lawfully carrying out both businesses on the date the Act entered into force (1 January 1997). BNM approval is required for an insurer to conduct businesses other than insurance business; to date, the BNM has not allowed any insurer to offer banking services.

58. Insurers must be incorporated in Malaysia; direct branching is permitted only in the case of reinsurance. A locally incorporated insurer must obtain the approval of the BNM prior to opening any office in or outside Malaysia, while for a branch of a foreign reinsurer, approval is necessary only for the opening of an office in Malaysia. Entry by foreign insurers into the Malaysian insurance market is currently permitted through investment in existing insurance companies, subject to an aggregate foreign shareholding limit of 30%. For existing joint-venture insurance companies, existing foreign shareholders that were the original owners of the companies are allowed to own up to 51% of the total shares. For the insurance sector, foreign equity ownership of up to 51% is allowed and at least 30% of the total equity must be held by Bumiputera. Insurers with foreign shareholding exceeding the permitted level are required to divest to meet the permitted level. As at October 2000, seven new licences for non-life reinsurance business and one licence for life reinsurance business had been

plans, group term, and hospital plans, while General Takafuls mainly offer marine, motor, life, personal accident, and engineering cover. Takafuls are regulated under the Takaful Act 1984.

⁶² With effect from 1 December 1998, eligible offshore insurers were allowed to underwrite selected liability and large and specialized risks on a co-insurance basis and sell ordinary life policies and investment-linked products to high net-worth Malaysian residents (Bank Negara Malaysia, 2001j).

⁶³ Recent policies and measures implemented in the insurance sector are described in Bank Negara (2001i), Chapter 2.

issued to foreign reinsurers since 1995.⁶⁴ On 19 July 1999, BNM invited applications for the six licences for professional life reinsurance business offered under Malaysia's GATS Schedule.⁶⁵ A director, chief executive officer or manager of a licenced insurer must not be disqualified under the Act, must fulfil minimum "fit and proper" criteria set out in the Regulations, and except for a non-executive director representing a foreign shareholder, must reside in Malaysia throughout the period of his appointment.

59. A degree of self-regulation by the industry is also practised through market agreements, rules and codes issued by the four mandatory associations representing general insurers, life insurers, insurance brokers, and loss adjusters. General insurers, for example, adopt an inter-company agreement for general insurance business. Insurance agents are subject to registration requirements enforced by the life and general insurance associations. Under a guideline issued by the BNM, insurers are not permitted to engage in any unfair or deceptive acts or conduct that constitute unfair trade practices.⁶⁶

60. There are no legal obligations on domestic economic operators to use specified companies or in-house funds for specified insurance activities. Motor insurance coverage for third-party death and injury is compulsory under the Road Transport Act 1987 for all vehicles travelling on Malaysian roads; the premium rate is specified in the motor tariff. Foreign Workers Compensation Scheme cover, under the Workmen's Compensation Act 1952, is also compulsory. Under a market agreement, insurers must cede a percentage of business written to the national reinsurer, Malaysian National Reinsurance Berhad (MNRB).⁶⁷

61. Approval is not required before a new insurance product is offered to the public. In the case of life insurance products, an insurer must notify the particulars of a new product to the BNM at least 30 days before offering the product to the public. Tariffs for fire and motor insurance businesses, specifying the minimum level of premiums that may be charged by insurers, are set by the industry and approved by the BNM. Tariff reviews proposed by the industry are subject to the BNM approval. The authorities intend to remove such minimum pricing regulation gradually once the market is ready to compete on the basis of services rather than premium pricing.

62. In view of difficulties faced by some insurers in 1998, the minimum capital requirement for direct insurers was reduced to RM 35 million; for other insurers the requirement was kept at RM 50 million. Following the recovery of insurance business, the minimum capital requirement for direct insurers was reinstated to RM 40 million by 31 December 1999, to RM 50 million by 31 December 2000, and to RM 100 million by 30 June 2001. In line with the revision of the minimum capital requirement, the solvency margin for all insurers was reduced to RM 30 million, to be achieved by 1 January 1999; the margin was raised to RM 40 million, to be achieved by 1 January 2000, and to RM 50 million, by 1 January 2001.⁶⁸ Minimum paid-up share capital requirements for insurance brokers and adjusters unimpaired by losses remained unchanged during this period (RM 500,000 and RM 150,000 respectively).

⁶⁴ APEC (2001b).

⁶⁵ Bank Negara Malaysia (2001m).

⁶⁶ These include entering into any agreement to commit any act of boycott, coercion or intimidation resulting in a market monopoly of insurance business.

⁶⁷ The level of cessions to MNRB under the agreement, which commenced in 1973, was reduced in 1999 (the level of cessions varies by class from 7.5% to 25%), with a view to giving direct insurers an opportunity to retain a higher proportion of risks for their own account. The authorities are of the view that these market arrangements have played a vital role in helping to develop domestic capacity.

⁶⁸ The BNM also revised the ratio of admitted assets for margin of solvency on three occasions: 70% by January 1999, 90% by January 2000, and 100% by January 2001.

63. In order to promote life insurance business, 12 insurers had been given approval to carry on investment-linked insurance business by the end of 2000.⁶⁹ On 10 May 2000, the Prudential Framework of Corporate Governance for Insurers was issued, to enhance the corporate accountability of insurers and promote the interest of their stakeholders.⁷⁰ Accordingly, each insurer was required to set up its own internal audit department by 31 December 2000.

(iv) Telecommunications

(a) Structural change in the telecommunications sector

64. The telecommunications sector in Malaysia has continued to grow since 1997. The number of resident and business telephone lines increased from 3.8 to 4.4 million between 1996 and 1999, with a penetration rate (i.e. number of telephones per 100 persons) of 20.3% in 1999. At the end of 2000, the total number of cellular phone subscribers reached 5.1 million.⁷¹

65. As of 1 June 2001, there were six network facility providers.⁷² Equity in four telecommunications companies in Malaysia was partly held by foreign investors; foreign ownership ranged from 21% to 52%.⁷³ The main provider is Telekom Malaysia Berhad, which holds about 95% of the fixed line market. Telekom Malaysia has a *de facto* monopoly to provide back-bone infrastructure in the Multimedia Super Corridor, on the grounds that the company possesses the relevant infrastructure to do so.

66. In the cellular mobile communication sector, there were five companies with eight licenced cellular networks providing services as of June 2000; the largest company, through its two cellular networks, captured 33.5% of total mobile subscribers. Since 1997, the number of Internet service providers has increased from two to seven (five new licences were issued in 1998). The two companies that had licences earlier remain the only Internet service providers offering nationwide coverage.⁷⁴ The types of services provided by the licenced telecommunication operators are listed in Table IV.9.

Table IV.9
Market structure of telecommunication and multimedia in Malaysia, 2001

Type of service	Licences granted	Number of subscribers	
Domestic network operators	7	4.6 million ^a	(as of 2000)
International network operators	5	..	
Cellular/personal communication services	8	5.1 million	(as of 2000)
Internet service providers	7	1.7 million ^b	(as of 2000)
Paging services	30	..	(as of 2000)
Pay phone & public facsimile services	4	149,300 ^c	(as of 2000)
Trunk radio system	17	..	
Very small aperture terminal services	5	..	

Table IV.9 (cont'd)

⁶⁹ Specific approval is not required for a licenced insurer to provide health and medical insurance.

⁷⁰ Bank Negara Malaysia (2001h).

⁷¹ Ministry of Energy, Communications & Multimedia (2001).

⁷² These companies include Telekom Malaysia Bhd; Celcom (Malaysia) Sdn. Bhd., Maxis Communications Bhd.; Digi Telecommunications Sdn. Bhd; and Time dotCom Sdn.

⁷³ The authorities indicate that the degree of foreign equity participation in Telecom Malaysia is difficult to ascertain since the shares are floated.

⁷⁴ One company offers Internet service only in Kuala Lumpur and was supposed offer countrywide coverage by the end of 2000; the four others are yet to start commercial operations.

Type of service	Licences granted	Number of subscribers
CT2/telepoint service	1	..
Financial electronic transaction	3	..
Radio maritime service	8	..
Mobile satellite services	4	..
Telecommunications satellite network services	1	..
Radio location services	3	..
Satellite broadcasting services	2	..
Mobile data services	3	..
Mobile radiocommunication services	1	..
Private information services	3	..
Public electronic data interchange service	1	..
Value added network data services	55	..
Value added services (premium rate)	19	..
Telecommunication personal services	1	..
Public internet kiosk services	1	..
Power line carrier	3	..
Wireless video communication network	1	..
Private telecommunication network	3	..
Common subscriber directory services	1	..
Community interactive multimedia services	1	..
Amateur satellite	1	..
Broadcaster-radio	12	..
Broadcaster-television	8	..

.. Not available.

a Overall fixed-line subscribers.

b Dial-up subscribers.

c Number of payphones only.

Source: Malaysian Communications and Multimedia Commission (2001), *List of Licensees Under The Repealed Acts* [Online]. Available at: <http://www.cmc.gov.my/licenframe-repealed.htm> 15 March 2001.

(b) Policy objective and regulating authority

67. With the objective of emphasising the convergence of telecommunications, broadcasting, and information technology, a new Communication and Multimedia Act 1998 (CMA) was promulgated⁷⁵, and the Ministry of Energy, Telecommunications and Post was restructured and renamed the Ministry of Energy, Communications and Multimedia, established in 1998. At the same time, the Malaysian Communications and Multimedia Commission Act (MCMCA) 1998, enacted with effect from 1 November 1999, established the Communications and Multimedia Commission (CMC). The Multimedia Super Corridor is being established with a view to making Malaysia a major global centre for communications and multimedia information services.⁷⁶

⁷⁵ Accordingly, the Telecommunication Act 1950 and Broadcasting Act 1988 were repealed.

⁷⁶ The Corridor is 50 kilometres long and 15 kilometres wide stretching from Kuala Lumpur City Centre in the north to the Kuala Lumpur International Airport at Sepang in the south. Within the Corridor, investors are eligible for duty-free imports of multimedia equipment, income tax exemption, and investment tax allowance up to ten years; 100% foreign ownership is allowed, fast-track processing of visas for foreign professionals apply, and there are no restrictions on the number of foreign professionals that can be employed per company.

68. The Ministry of Energy, Communications and Multimedia is responsible for the formulation of policies and long-term planning of the telecommunications sector⁷⁷, while the CMC is responsible for the supervision, with a view to encouraging competition and ensuring orderly and efficient development of telecommunications services. The CMC is also empowered to develop a spectrum plan and issue spectrum assignment, apparatus assignment, and class assignment, and represents Malaysia in various international telecommunications fora.⁷⁸

69. The CMA has introduced the concept of self-regulation and provides for formation of various industry fora to prepare voluntary industry codes with respect to access and interconnection, technical standards, consumer matters (including the protection of customer information), and content. Compliance with a registered industry code of conduct constitutes defence against any action in court. If voluntary codes are not complied with, the Commission may impose mandatory codes of conduct.⁷⁹

(c) Licences and their conditions

70. The licensing regime under the CMA is based on network and application services rather than telecommunications and broadcasting. Licences are granted to four categories of service providers: network facilities providers (NFPs)⁸⁰, network services providers (NSPs)⁸¹, application services providers (ASPs)⁸², and content application services providers (CASPs).⁸³ The Minister for Energy, Communications and Multimedia has discretion in granting licences, determining policies and issuing regulations, while the CMC advises the Minister and enforces policies and regulations. Since 1997, no new licences have been issued for basic and mobile telephony services.

71. Two types of licences, individual and class⁸⁴, are issued for each category of service.⁸⁵ A number of services are not subject either to individual licences or to registration requirements under

⁷⁷ Until 31 March 1999, the telecommunications industry was regulated by the Malaysian Telecommunications Department (Jabatan Telekom Malaysia, JTM), while the broadcasting industry was regulated by the Ministry of Information.

⁷⁸ CMC participates in the activities of the International Telecommunications Union (ITU), the International Telecommunications Satellite Organization (INTELSAT), the International Maritime Satellite Organization (INMARSAT), the Asia-Pacific Telecommunity (APT), the APEC meetings dealing with telecommunications, bilateral meetings on frequency coordination of satellite networks and Joint Technical Committees between Malaysia and Thailand, and cooperation with ASEAN dialogue partners.

⁷⁹ Malaysian Communications and Multimedia Commission (2001a).

⁸⁰ Network facilities providers are owners of facilities such as satellite earth stations, broadband fibre optic cables, switching equipment, radio communications and broadcasting transmission equipment, mobile communications base stations, etc.

⁸¹ Network service providers provide the basic connectivity and bandwidth to support a variety of application services. Their services include bandwidth, broadcasting distribution, cellular mobile, customer access, mobile satellite services, etc.

⁸² Applications service providers provide particular functions such as voice services, data services, content-based services, and electronic commerce and other transaction services. Applications services are essentially the functions or capabilities that are delivered to end-users.

⁸³ Content Applications Service Providers are a special subset of applications service providers including those providing traditional broadcast services, limited or closed content services, and the newer Internet content services.

⁸⁴ An individual licence is subject to a higher degree of regulatory control than a class licence. A person operating under a class licence is required only to register with the CMC.

⁸⁵ Under the old licensing regime, a telecommunication company was required to hold a separate licence for each service provided by the company. However, under the new arrangement the company will hold three licences: a network facilities provider licence, a network service provider licence, and an application service provider licence.

class licences.⁸⁶ An existing company that intends to operate with an old licence must register with the CMC and indicate whether it intends to seek a new licence under the CMA. Under the CMA, individual licences are granted to any entity other than a foreign company as defined under the Company Act, 1965, an individual or a sole proprietorship, and a partnership; the class licence is granted to any persons/entities other than a foreign individual or company.⁸⁷

72. For fixed line and mobile service providers, an individual licence is required; no licence has been issued since 1997 in these services because the authorities regard the current number of providers as adequate. ISP (internet service provider) services and content providers are liberalized and now require only a class licence. Fixed-line local and STD calls are still regulated.

73. Foreign equity participation of up to 30% is generally allowed in the network facilities provider business, as stated in Malaysia's GATS Schedule; higher participation may be allowed on a case-by-case basis.

74. Under the CMA, a price-cap mechanism maintained since 1996, both on fixed and cellular services, was abolished for the mobile telephony; the cap still applies to fixed line telephony.⁸⁸

75. On 1 January 1999, "Equal Access" to fixed-line services came into effect; Equal Access refers to subscribers' rights to choose any network to route their long-distance and international calls. An Access List to facilitate Interconnection has been determined by CMC. Call-back services are not allowed in Malaysia, while the use of international calling cards is permitted. Telekom Malaysia has been the sole provider of universal services in Malaysia.⁸⁹ Prior to 1999, Telekom Malaysia was subject to the universal service requirement without receiving any contribution from other licenced network operators. Since 1999, however, all network operators have been required to contribute to the cost of providing universal service.

(d) WTO commitments

76. Since Malaysia's previous Trade Policy Review, there have been no changes in its GATS Schedule of commitments in telecommunication services. In its Schedule, Malaysia guarantees market access and national treatment for specific basic telecommunications services involving up to 30% equity of existing public telecommunications operators. Malaysia has not fully adopted the reference paper, nor has it made any commitments for future liberalization of the market. Sector-specific commitments incorporated in Malaysia's GATS Schedule cover value-added services that are provided from channels or lines obtained from licenced network operators. Market access through commercial presence is assured for data and transmission services, mobile data services and telex and telegraph services. Commercial presence is to be realized through a locally incorporated joint venture or through partial acquisition of an existing licenced value-added services operator.

⁸⁶These services include incidental network facilities, Internet cross-connect equipment, private network facilities, incidental network services, electronic transaction service, interactive transaction service, web hosting or client server, and LAN service.

⁸⁷ Malaysian Communications and Multimedia Commission (2001b).

⁸⁸ In 1996, under a tariff re-balancing exercise, the Government introduced a price-cap mechanism on fixed and cellular services.

⁸⁹ Malaysian Communications and Multimedia Commission (2001c).

(v) **Transport**(a) **Air transport**

77. The economic slowdown in Malaysia in 1998 reduced the air traffic volume of passengers and cargo, although the volume increased in subsequent year in line with economic recovery (Table IV.10). There are currently four locally incorporated airlines providing domestic and international air services.⁹⁰ Since 1997, no new airlines have been established in Malaysia.

Table IV.10
Traffic handled at Malaysian airports, 1996-2000

	1996	1997	1998	1999	2000
Passengers (total '000)	28,873	30,465	27,008	28,835	30,227
Domestic ('000)	18,129	19,441	16,277	17,090	18,544
International ('000)	10,744	11,024	10,731	10,945	11,683
Cargo (total tonnes)	541,416	617,324	524,766	543,003	719,752
Discharged (tonne)	268,468	294,782	258,062	270,965	394,448
Loaded (tonnes)	272,948	322,542	266,704	272,038	325,304
Aircraft movements (total '000)	406	441	425	389	362
Domestic ('000)	337	314	284	298	263
International ('000)	104	111	105	108	99

Source: Economic Planning Unit, (2001), *The Malaysian Economy in Figures 2001* (updated edition), Prime Minister's department, pages 29 and 30 [Online]. Available at: http://www.epu.jpm.my/eif99/ENERGY_10.html 20 March 2001.

78. The national carrier, Malaysian Airlines System (MAS), which has recently recorded losses and a high debt has the largest market shares⁹¹; in 1999, it accounted for 56% and 50% of total air traffic volumes for passengers and cargo, respectively.⁹² In the national interest, MAS is required to fulfil certain "social obligations", which include, *inter alia*, providing services on some unprofitable domestic routes that entail operating losses for which MAS is not compensated. After selling 29.09% of its stake in MAS to a domestic investor in 1994, the Government bought back this stake on 20 December 2000, paying more than double the going market price for the shares.⁹³ As a result, the Government raised its holding in MAS from 20% to just over 50%, thereby regaining control of the airline. Much of this holding is through government-linked investment companies (notably Khazanah Holdings⁹⁴) and the Employees Provident Fund (EPF). This move constituted a departure from the broader trend towards privatization of state-owned enterprises. Earlier in 2000, the Government had relaxed the foreign ownership limitation in MAS from 30% to 45%, possibly clearing the way for foreign entities to take a stake in the national carrier; data on current foreign shareholding in MAS were not available to the Secretariat.

⁹⁰ These are Malaysian Airlines, Air Asia, Transmile Air, and Pelangi Air.

⁹¹ Having announced losses of RM 1.33 billion for the year ending March 2001, it is expected to take three years for MAS to return to profitability.

⁹² Volumes are estimated from the figures available in Economic Planning Unit (2001d and 2001e). Malaysian Airlines is ranked 15th in the world in terms of total tonne kilometre performed (international operation), (ICAO, 2001).

⁹³ On 19 December 2000, the closing price for MAS shares was RM 3.68; the price paid by the Government was RM 8.

⁹⁴ Khazanah, a wholly owned company of the Ministry of Finance (Incorporated), is the investment holding arm of the Government of Malaysia. Its primary objectives are to manage the investments entrusted to it by the Government and to undertake strategic investments particularly in high technology products (see Khazanah online information available at: www.khazanah.com.my/introduction.htm).

79. Air transport is regulated by the Ministry of Transport. All international and domestic fares have to be approved by the Ministry. Code sharing and other commercial arrangements are subject to government approval in order to ensure that they are in accordance with the general principles and entitlements contained in relevant bilateral air services agreements. Foreign ownership of airlines with the exception of MAS, is limited to 30% of the total equity. Aviation personnel, air service providers (except air services provided by the aircraft of any foreign country, with which Malaysia has a transit agreement), airport operators, and maintenance suppliers, require licences. Aircraft are subject to registration with the Department of Civil Aviation under the Ministry. The Department exercises regulatory functions in respect of civil aviation, airport, and related services, and the establishment of standards and their enforcement.

80. All airports in Malaysia are owned and managed on a commercial basis by Malaysia Airports Holding Berhad, subject to the regulations of the Ministry of Transport.⁹⁵ The policies of setting aviation charges and technical standards are based on ICAO standards and procedures. As in many other WTO Members, international civil air traffic between Malaysia and its trading partners is governed by bilateral air services agreements; as at end July 2001, Malaysia had established bilateral air service agreements with 78 countries.

(b) Maritime transport

81. Maritime transport in Malaysia experienced a downturn in 1998 owing to the negative effects of the Asian financial crisis. Nevertheless, the total volume of cargo has increased since 1999 (Table IV.11). Total cargo handled in 2000 was 220.8 million tonnes (up from around 152 million tonnes in 1995). The number of vessels of all sizes registered in Malaysia was about 3,200 in 2000 (about 2,130 in 1995), and total shipping capacity was 6.5 million GRT (gross registered tonnes) in 2000 (3.5 million GRT in 1995). More than 90% of Malaysia's international trade is seaborne. Malaysia has been promoting Port Klang as a hub port and cargo trans-shipment centre by expanding its capacity and designating it as a free commercial zone.⁹⁶ In 1999, Port Klang became the 14th busiest port in the world in terms of container throughput.⁹⁷

82. As of 21 March 2001, there was one national shipping line (in which the Government holds a majority stake) and more than 50 private shipping lines operating in Malaysia. The Malaysian International Shipping Corporation Berhad (MISC), a subsidiary of PETRONAS, is the largest Malaysian shipping company with 125 vessels of 1000 GRT and above, with total capacity of 4.6 million dead weight tonnes.⁹⁸ Malaysian shipping lines carry less than 20% of Malaysia's total seaborne trade. Malaysian flag vessels must have at least 51% Malaysian equity. Seven federal ports and eight state ports in Malaysia are supervised by ten port authorities. Terminal operations in six of the federal ports have been privatized.

⁹⁵ There are 37 airports for commercial use, including 5 international airports.

⁹⁶ Commercial-zone status is also conferred on the ports of Penang and Johor.

⁹⁷ UNCTAD (2000).

⁹⁸ Malaysian International Shipping Corporation Berhad (2001). PETRONAS currently owns a 62% stake in MISC; the second largest shareholder is the Employees Provident Fund, with a total stake of almost 10%.

Table IV.11
Number of ships calling at Malaysian ports and volume of cargo handled, 1996-2000

	1996	1997	1998	1999	2000
Total volume of cargo (million tonnes)	181.1	201.5	180.9	191.4	220.8
General	31.4	34.3	24.9	25.8	26.0
Liquid bulk	30.7	35.4	23.8	24.7	30.7
Dry bulk	73.3	78.3	80.6	84.3	82.8
Container	45.7	53.5	51.6	56.6	81.3

Source: Economic Planning Unit (2001d), *Economics in Figures 1999: Energy and Infrastructure* [Online]. Available at: http://www.epu.jpm.my/eif99/ENERGY_10.html 20 March 2001.

83. Maritime transport is regulated by the Ministry of Transport. Like in many countries, domestic routes are protected by a cabotage policy, although foreign vessels are allowed to ply between Port Klang and Penang Port and vice versa for trans-shipment of containers. Currently, the Ministry of Transport does not require international liner conferences to notify their contracts. It would appear that no preferences are accorded to Malaysian transport companies in regard to tax, financing, or government procurement. Malaysian shipping agencies are allowed to be majority foreign-owned; the maximum foreign equity condition is 70%. Since the previous Review of Malaysia, there have been no changes in the requirements and procedures for registration of ships; Malaysian ships are required to be registered with any one of the four ports of registry.

84. To date, Malaysia has signed bilateral shipping agreements with 12 countries.⁹⁹ Malaysia is a party to the International Convention on Oil Pollution Response and Cooperation (OPRC), and the United Nations Convention on the Law of the Sea (UNCLOS).¹⁰⁰

85. Since its previous Trade Policy Review, no changes have been made to Malaysia's GATS Schedule regarding maritime transport. Malaysia has made a commitment not to impose any restrictions on cross-border supply or consumption abroad in the international maritime transportation services sector, excluding cabotage. In additional commitments, it noted that the following services at the port are made available to international maritime transport suppliers on reasonable and non-discriminatory terms and conditions: pilotage, towing and tug assistance, provisioning, fuelling and watering, garbage collection and ballast waste disposal, port captain's services, navigation aids, shore-based operational services essential to ship operations, including communications, water and electrical supplies, emergency repair facilities, anchorage, berth and berthing services.

86. Bindings on commercial presence apply only to "a representative office, regional office or locally-incorporated joint venture corporation with Malaysian individuals or Malaysian-controlled corporations or both and aggregate foreign shareholding in the joint-venture corporation shall not exceed 30%". The requirement to register vessels in Malaysia is listed in the Schedule.

⁹⁹ Ministry of Transport (2001a).

¹⁰⁰ Ministry of Transport (2001b).

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