

**REQUEST BY MALAYSIA FOR AN EXTENSION OF THE TRANSITION PERIOD
UNDER THE PROVISIONS OF ARTICLE 5.3 OF THE AGREEMENT
ON TRADE-RELATED INVESTMENT MEASURES**

The following communication, dated 29 December 1999, has been received from the Permanent Mission of Malaysia.

The Government of Malaysia is requesting an extension of the transition period for one of its two TRIMs as provided for under Article 5.3 of the Agreement on Trade-Related Investment Measures.

In our communication to the WTO in documents G/TRIMS/N/1/MYS/1 dated 31 March 1995 and G/TRIMS/N/1/MYS/1/Rev.1 dated 18 March 1996, Malaysia notified two TRIMs under Article 5.1 of the TRIMs Agreement:

- (a) Local content requirement related to investment measures; and
- (b) Local content policy on motor vehicles.

Malaysia is requesting a two-year extension, i.e. up to 31 December 2001 for one TRIM, namely the local content policy on motor vehicles.

This request is made on the basis of development, financial and trade needs. The motor vehicle sector has made significant contributions to the Malaysian economy with:

- (i) Investments of RM 13,668 million;
- (ii) Employment of 41,211 workers; and
- (iii) Exports of RM 886 million in 1997, RM 1,373 million in 1998 and RM 1,007 million (January to October 1999). Imports amounted to RM 7,400 million in 1997, RM 2,704 million in 1998 and RM 3,646 million (January to October 1999).

The financial crisis, which also affected Malaysia, severely impacted the development of the motor vehicle industry in Malaysia. It had set back Malaysia's industrialization programme in the automotive sector, which was on track towards achieving economies of scale and global competitiveness.

The economic downturn resulted in significant decline in demand where sales of motor vehicles contracted by 59.5 per cent from 404,837 units in 1997 to 163,924 in 1998. Although sales have improved marginally to 180,849 units in the first ten months of 1999, it is still markedly below the sales achieved in 1997. The significant depreciation of the Ringgit led to higher cost of imported component parts and increasing costs of production. This posed tremendous pressure and financial constraints on the local vendors and the motor vehicle manufacturers.

The removal of the TRIMs on 1 January 2000 would adversely affect the motor vehicle and component manufacturing industry. It could lead to the closure of at least 200 companies. This would result in retrenchment of at least 6,200 workers, turnover loss of RM 995 million and puts RM 1.6 billion worth of investment in serious jeopardy.

It will also jeopardize the socio-economic objective of the programme to nurture and spawn local entrepreneurs, particularly the indigenous community, as part of Malaysia's industrial development.

The entire Malaysian motor vehicle industry is undergoing a period of consolidation and readjustment. An extension of the transition period for TRIMs is particularly crucial for the industry's survival in the immediate near term and recovery of reinvestment cost by the motor vehicle industry.
