



# EXTERNAL TRADE





## STRATEGIES AND POLICIES

### TARGETS

- 1.01 Malaysia's total trade is expected to reach RM1 trillion by 2006. Given the significant contributions of external trade to economic growth, Malaysia will continue to undertake measures to enhance its position as a major trading nation towards meeting the targeted GDP growth of 6.3 per cent during the IMP3 period.
- 1.02 The trade targets to achieve the GDP growth include:
- increase in the total merchandise trade by three-fold to RM2.8 trillion by the end of the Plan period;
  - increase in merchandise exports to RM1.4 trillion by 2020, with E&E exports contributing 51.2 per cent, palm oil products (5.5 per cent), wood products (3.7 per cent), manufactures of metals (3.5 per cent), machinery, appliances and parts (3.3 per cent), petrochemicals (2.5 per cent) and rubber-based products (1.6 per cent);
  - increase in the contribution of services to the total exports from 12.4 per cent in 2005 to 19.5 per cent by 2020;
  - increase in the contribution by Malaysian-owned companies to the total exports from an estimated 28 per cent in 2005 to 40 per cent by 2020;
  - placing greater emphasis on the high growth markets of North East Asia and emerging markets in South Asia, West Asia and Eastern Europe; and
  - continuing to strengthen and expand exports to ASEAN, the USA and the EU.

### STRATEGIC THRUSTS

- 1.03 Eleven strategic thrusts have been set to enable Malaysia to meet the targets and overcome the challenges in international trade:
- (1) intensifying exports of services;
  - (2) promoting exports of the targeted growth areas in the manufacturing and services sectors;
  - (3) establishing Malaysia as a leading supplier of *halal* products and services;

- (4) promoting exports of indigenous E&E products;
- (5) promoting trade in motor vehicles, parts and components;
- (6) supporting outsourcing activities;
- (7) enhancing exports through compliance to international standards;
- (8) providing effective financial assistance to enhance exports;
- (9) enhancing the policy framework to facilitate trade;
- (10) strengthening and expanding the institutional support for the exporting community; and
- (11) strengthening the role of private sector and trade and industry associations in enhancing exports.

#### **(1) INTENSIFYING EXPORTS OF SERVICES**

1.04 In line with the Government's aim to further develop the services sector, efforts to enhance the exports of services include:

- facilitating synergistic collaborations among Malaysian service providers and adopting a packaged approach to promote the export of services, whereby related services will be grouped together to be offered to foreign buyers. For example, architectural services can be combined with construction services, financing, contracting and supply of building materials;
- enhancing the overall global visibility in strategic markets, through the 'branding' of selected services sub-sectors for which Malaysia has the capacities and capabilities;
- utilising the two funds covering services, established under the Ninth Malaysia Plan (RMK-9), 2006-2010, to enhance capacity building and export capabilities of the services sector:
  - the first fund, Export Services Fund, is to assist Malaysia's service providers, in particular, those involved in professional services, in undertaking feasibility studies and bidding for overseas projects; and
  - the second fund, Small and Medium Enterprises (SMEs) Export Services Fund, is to enhance the access to financing by SMEs in the services sector, in particular, for upgrading technical and professional skills;
- entering into mutual recognition agreements (MRAs), under bilateral and regional arrangements, to enhance the international recognition of Malaysian qualifications, standards and testing capabilities;

- enhancing market access through multilateral, regional and bilateral agreements, while, at same time, undertaking progressive liberalisation to enhance the capacity of domestic service providers; and
- strengthening inter-agency coordination in the planning and promotion of the exports of services.

## (2) PROMOTING EXPORTS OF THE TARGETED GROWTH AREAS

1.05 In tandem with the Government's efforts to develop new growth areas in the manufacturing and services sectors, efforts will be undertaken to promote the exports of these targeted areas. The efforts include:

- facilitating market entry through strategic partnerships in key potential markets, such as the People's Republic of China, West Asia, ASEAN and Africa;
- gaining inroads into the global supply chains through joint ventures with major international producers to manufacture and distribute products;
- enhancing the acceptability of Malaysian products by encouraging greater compliance to international standards through improving the access to product testing and certification;
- sponsoring foreign buyers to Malaysia to encourage sourcing from Malaysia;
- organising and participating in international trade fairs and exhibitions in Malaysia and overseas to enhance the image of the country's products and services;
- undertaking intensive promotion campaigns in selected markets to promote the image of Malaysian products and services in the targeted areas; and
- encouraging Government-linked companies (GLCs) to participate in the development of companies with growth potential in the targeted areas.

## (3) ESTABLISHING MALAYSIA AS A LEADING SUPPLIER OF HALAL PRODUCTS AND SERVICES

1.06 Various initiatives will be undertaken to promote the acceptance of Malaysia's *halal* standard globally to facilitate the development of Malaysia as the international hub for *halal* products. The initiatives include:

- promoting Malaysia's *halal* standard as a comprehensive standard, which encompasses Hazard Analysis and Critical Control Points (HACCP), as well as Good Manufacturing Practices (GMP);
- promoting Malaysia as the internationally recognised venue for hosting trade fairs and exhibitions on *halal* products and services;

- establishing linkages between Malaysian exporters and international buyers of *halal* products through continuous promotion at international events and fora; and
- improving the capacity and efficiency of the certifying bodies for *halal* products and services.

#### **(4) PROMOTING EXPORTS OF INDIGENOUS ELECTRICAL AND ELECTRONICS PRODUCTS**

1.07 Exports of E&E products are mainly contributed by MNCs. Measures will be instituted to provide assistance to Malaysian-owned companies to become manufacturers and exporters of E&E products, such as integrated circuits and consumer E&E appliances. Assistance will be provided to such companies to undertake research and development (R&D) in innovating and developing new products, improving product quality, implementing cost effective production technologies and gaining access to new markets. There is an increasing trend among Malaysian-owned companies to also outsource their production. Products which are outsourced will be recognised as indigenous E&E products, if the Malaysian value-added of a particular product is substantial, taking into account brand ownership and activities, such as design and product development, quality control and marketing.

- 1.08 Measures to assist such companies, including those undertaking outsourcing, include:
- reviewing the existing assistance for the promotion of brands to include the acquisition of brands and integration into market networks through mergers and acquisitions (M&As);
  - securing mutual recognition of product standards and certifications with other countries; and
  - providing assistance to the companies to undertake testing to meet international standards.

#### **(5) PROMOTING TRADE IN MOTOR VEHICLES, PARTS AND COMPONENTS**

- 1.09 Measures which will be undertaken to promote trade in motor vehicles, parts and components include:
- enhancing exports of selected automotive components by rationalising the operations of manufacturers of parts and components;
  - intensifying efforts to gain access to export markets, such as ASEAN and West Asia;
  - increasing market access through bilateral and regional trade agreements;
  - assisting manufacturers to establish overseas operations; and
  - providing support to manufacturers and assemblers to meet quality certification and testing requirements.

## **(6) SUPPORTING OUTSOURCING ACTIVITIES**

1.10 Measures to support outsourcing activities include:

- simplifying customs regulations and procedures;
- reviewing Government assistance and regulations to support outsourcing; and
- addressing the issue of country of origin, as a result of outsourcing, at the WTO and World Customs Organisation levels.

## **(7) ENHANCING EXPORTS THROUGH COMPLIANCE TO INTERNATIONAL STANDARDS**

1.11 For Malaysia's companies to gain greater market share, they need to comply with international standards. Measures to assist companies in complying with such standards include:

- developing a coordinated approach towards the setting and enforcement of standards to ensure the competitiveness of Malaysian products. Trade aspects will be taken into consideration in the setting of the standards by respective agencies, in consultation with the industries;
- Malaysia assuming an active role in the setting of international standards to enable the interests and concerns of Malaysia's industries to be taken into consideration in setting the standards;
- pursuing MRAs, especially for key markets and products, to facilitate market entry. MRAs will be incorporated as part of the FTA framework;
- intensifying collaborations with certification bodies in relevant overseas markets for the purpose of recognition of certification in Malaysia;
- providing support in encouraging SMEs to comply with international standards; and
- strengthening the capacity of existing institutional machinery for standard development, administration and enforcement.

## **(8) PROVIDING EFFECTIVE FINANCIAL ASSISTANCE TO ENHANCE EXPORTS**

1.12 Effective financial assistance will be provided through:

- reviewing the capacity and capability of EXIM Bank in providing adequate financing for potential exporters of growth areas; and
- enhancing the facilities for trade financing for exporters, including trading companies, by banking institutions. Banks will continue to be the main providers of trade financing, given their stronger financial capacity, staff and system capabilities, and large branch networks to efficiently meet the financial needs of Malaysian exporters.

## **(9) ENHANCING THE POLICY FRAMEWORK TO FACILITATE TRADE**

1.13 The existing policy framework has contributed towards the creation of a conducive trading and business environment. The policy framework will be further enhanced by:

- improving transparency, with respect to the formulation of rules, regulations and international negotiations, which have an impact on trade activities and practices, and businesses;
- amending and updating rules and regulations, to keep pace with changes domestically and externally, taking into consideration inputs from relevant Government agencies and the private sector;
- progressively liberalising the manufacturing, agriculture and services sectors. Timeframes for liberalisation will be set to provide predictability and stability in trade and business;
- promoting healthy competition domestically by encouraging the supply of competitively-priced intermediate and capital inputs, as well as the diffusion of technology by domestic industries;
- improving market access for Malaysia's manufactured and agriculture products and services globally through bilateral FTAs with established trading partners, as well as countries with emerging potential for trade expansion. Regional FTAs through ASEAN will also be pursued;
- undertaking greater harmonisation of rules under different bilateral FTAs and regional arrangements, such as rules of origin and compliance to standards and trade documentation, to facilitate export activities;
- continuing Malaysia's participation in the WTO in strengthening the rules-based system, which will contribute towards the predictability of trade practices and provide protection from unilateral trade measures by other countries;
- striving to ensure that current and future trade negotiations in the WTO will enhance access to global markets, but, at the same time, be balanced by Malaysia's national interests; and
- continually updating trade facilitation measures, mechanisms, rules and practices to promote the efficient clearance of exports and imports.

## **(10) STRENGTHENING AND EXPANDING THE INSTITUTIONAL SUPPORT FOR THE EXPORTING COMMUNITY**

1.14 Measures to strengthen and expand the institutional support for the exporting community include:

- strengthening the existing institutional support for export promotion. The capacities and capabilities of MATRADE will be enhanced to meet the changing and expanding needs of the private sector through:

- strengthening the global networking and outreach of MATRADE. The agency will expand its offices overseas and employ specialised personnel (market and product specialists) in targeted high growth and emerging markets;
  - providing sufficient resources for MATRADE to intensify and enhance its export promotion activities;
  - intensifying the promotion of Malaysian agriculture produce and agro-based products, in line with the focus on developing the agriculture sector and the policy thrust of strengthening marketing and global networking under the RMK-9;
  - intensifying its role as the focal point for access to trade and market information to facilitate foreign companies in doing business with Malaysia, and also support Malaysian companies in expanding their businesses overseas;
  - intensifying efforts by MATRADE to enlarge the export base by identifying and nurturing new exporters through collaboration with industry and trade associations; and
  - expanding the role of MATRADE to include activities as the Marketing and Brand Promotion Focal Point in assisting other Government agencies in their efforts to promote products and services under their coverage;
- enhancing the efficiency of the delivery system by:
    - improving customs facilitation through streamlining customs procedures;
    - simplifying the issuance of certificates of origin, including the possibility of introducing the practice of self certification; and
    - promoting greater professionalism among the forwarding agents community;
  - enhancing the efficiency of the electronic trade facilitation system to act as a common platform to provide the necessary connectivity among the trading community, permit issuance agencies and supply chains to interact, collaborate and perform transactions electronically. It will also facilitate linkages with similar platforms of Malaysia's trading partners, for example, the ASEAN Single Window, which will provide the electronic link to all similar platforms of ASEAN countries; and
  - facilitating the integration of Malaysian companies into the global supply chains through:
    - the greater use of e-commerce platforms and e-business standards, similar to that of RosettaNet for the E&E industry, to enhance collaboration among industries;

- promoting the participation of Malaysia's SMEs in the global supply chains;
- providing broadband infrastructure at competitive costs; and
- enhancing strategic alliances with foreign hypermarkets operating in Malaysia to market Malaysian products in their international outlets overseas.

**(11) STRENGTHENING THE ROLE OF PRIVATE SECTOR AND TRADE AND INDUSTRY ASSOCIATIONS**

1.15 Measures to strengthen the role of private sector and trade and industry associations include:

- promoting the role of trade and industry associations as effective intermediaries to collaborate with policy makers in the formulation and implementation of export plans. Assistance will be provided to facilitate the building of an appropriate knowledge base within the associations;
- reviewing the existing incentives to trade and industry associations to promote the export capabilities of their members, which include training, compliance to standards, and knowledge and technology acquisition and advancement, as well as ICT applications and e-commerce;
- developing a critical mass of trading companies which will enhance the exports of the country. This will, in turn, encourage the development and expansion of related services. Measures include:
  - establishing a trade association to advance the interests of trading companies; and
  - reviewing the present incentives, regulations and policies, including customs formalities, to encourage investments in trading activities, including merchanting trade and outsourcing of production by brand owners;
- encouraging the private sector, with the cooperation of MATRADE, to set up trade and distribution centres in selected markets; and
- seeking and obtaining the cooperation and support of Malaysian associations overseas and the network of Malaysian professionals working and living abroad to promote Malaysia's trade and business interests.