

Export Competitiveness: Objectives and Performance of the Industrial Master Plan

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INTRODUCTION

This paper examines the objectives and performances of the Industrial Master Plan (IMP), especially in the context of its export-led industrialization drive and evaluate the strategy adopted and implemented. The Government under the IMP has emphasized the importance of export-led industrialization and stressed the need to embark on a strategy of promoting manufactured exports. For this purpose, the IMP has come up with specific recommendations aimed at facilitating the growth of manufactured exports. An attempt will also be made to evaluate the implementation of this strategy, particularly, the measures that has been undertaken to increase Malaysia's export competitiveness as a means of boosting up the growth of the national economy. Subsequently, this discussion will focus on strategic options opened for Malaysia to further expand its manufacturing export potentials and to achieve further gains from specialization in international trade, in the decades of 1990s.

INDUSTRIAL MASTER PLAN

An outward looking export-led industrialization strategy, as an option to facilitate growth of the national economy, is not new. Even before the adoption of the IMP in 1986, the country's economic growth and development had been based on a strong focus on exports, particularly from the manufacturing sector to lessen the nation's heavy dependence on export of primary commodities such as rubber, oil palm, tin, petroleum and gas.

The IMP mainly reiterated and added further focus to an already established strategy, be setting up at the sectoral level, not only the priority sectors within manufacturing to be developed, but more

important the "setting up of export targets" to be accomplished within the IMP planned period.

Within the broad strategy of expanding and diversifying the manufacturing sectors, the IMP also emphasized the importance of the development of resource-based industries in which the country has comparative advantage such as rubber, wood, palm oil and petroleum based products.

In an attempt to extend the end-uses of these raw materials, the IMP strongly recommended the strengthening of Research and Development (R & D) activities to support quality improvement and product development for exports. To facilitate manufacturing exports, the IMP also provided a series of export incentives including changes in structure and composition of export allowance, and accelerated depreciation allowance, double deduction for promotion of sales overseas, an exemption from customs duties, drawback facility and export refinancing.

The IMP therefore has been explicit in expressing its broad objectives for export-orientation. It has stressed the importance of export-led industrialization as a strategy for economic growth and development. It also highlighted the strong possibility that the economy would expand even at higher rate in the 1990s, provided Malaysia adopts economic policies and strategies that are not conceived purely in domestic terms. The nation should capitalize on the immense contribution of international trade, particularly exports in manufactured goods and to exploit the potential growth of the national economy.

EXPORT COMPETITIVENESS AND EXPORT-LED INDUSTRIALIZATION STRATEGY: SOME GLOBAL PERSPECTIVES

Export-led industrialization as a strategy to assist economic growth and development has been successfully adopted by many nations, especially the resource poor countries of the world. The gains from being competitive in international trade and specializing in manufacturing exports, have catapulted many countries especially East Asian economies to achieve very high rate of economic growth in the decades of the seventies and eighties.

The remarkable performance of Japan, in maintaining its competitiveness in manufacturing exports, has enabled it to penetrate more readily overseas markets particularly the United States of America

and the European countries. Japan's exclusive position as a major export driven economy is now being threatened by the rising challenge of the Asian Newly Industrialized Countries (NICs) which has similarly stressed the importance of being competitive in exports and had also adopted the export-led industrialization strategy.

It is evident that the NICs along with Japan had made spectacular economic advancement primarily through the accelerated expansion of exports in manufactured goods (Figure 1). When commodity prices waned and the terms-of-trade of primary commodity exporters worsened between 1980-1985, the economic fortunes of Japan and the Asian NICs were perceptibly different. By 1987, it is observed that the Asian NICs had captured about 10 percent of world's exports, while Japan had to its credit 14 percent of world's manufactures which is slightly a quarter of world's exports in manufactured products. This contributed in a big way to their continued economic growth and expansion. There are ample evidences, that economies that have managed to nurture competitive manufacturing sectors have enjoyed a stronger pace of economic growth and more able to withstand the vagaries of international cyclical disturbances.

Generally, growth potential of exporters of manufacturers is greater than that of exporters of primary products, for example exporters of manufactures (export-led industrialization) registered high-growth rates of 7.1 percent between 1970-74; 5.9 percent 1975-79; 4.6 percent for 1980-84 and 6.2 percent for 1985-89. For the exporters of primary products, the rate of growth for the same period are 4.1 percent, 2.5 percent, 0.5 percent and 2.7 percent respectively. The spectacular economic performance of the Asian Pacific Rim nations, and the rising comparative advantage of the Asian NICs had created a new industrial belt within the global economy. The economic success of these countries had demonstrated that a successful adoption of a new paradigm of export oriented manufacturing or export-led industrialization strategy and maintaining competitiveness in exports, has led to the achievement of a phenomenal real economic growth, and possible integration into the global division of labor.

Among the factors that explained the ability of the NICs to sustain the competitiveness of their manufacturing exports include,

1. increasing technological capability through efficient R & D activities and programs, and increasing expenditure on R & D particularly industrial R & D,
2. successfully training both skilled and R & D personnel,

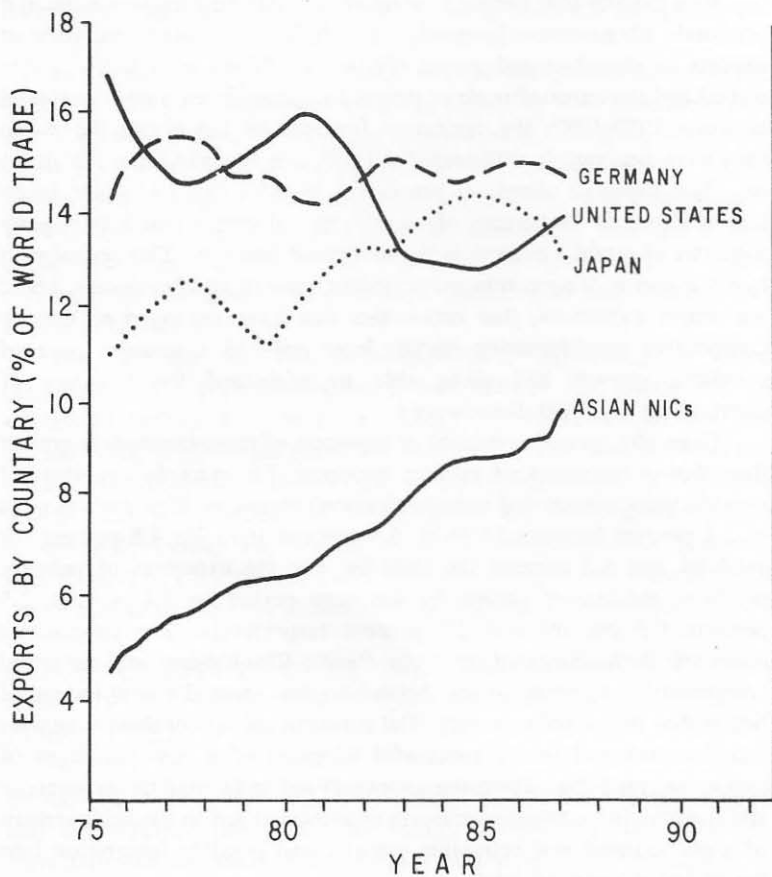


FIGURE 1. Share of world exports in manufactures : Japan, US, Germany and the Asian NICs 1975 - 1987.

Source: *OECD Economic Outlook*, December, 1987 Paris.

3. enlightened entrepreneurs willing and able to increase productivity, cut costs and effective management of business operations,
4. generous incentive regimes and other support facilities including export refinancing schemes, and
5. aggressive global marketing and successful establishment of an efficient international marketing network.

Based on the global experience, export-led industrialization as an economic growth strategy, particularly focussing on manufacturing exports is therefore both theoretically sound, as well as empirically proven to be successful at the global level. It remains to be seen, whether Malaysia which has also adopted a similar growth and development strategy under the IMP would be equally successful in its export performance, and maintained its international competitiveness and be able to push its exports to the level targeted by the Industrial Master Plan.

EXPORT COMPETITIVENESS - IMP OBJECTIVES AND PERFORMANCE

Within the broad framework of the outward looking, export-led industrialization strategy, the IMP has also recommended the following.

1. Identification of key sectors within manufacturing, both resource-based and non-resource based industries to be actively promoted and developed, for which export targets are set to be accomplished between 1986-1995.

2. Maintaining robust export performance, and in this context improving Malaysia's competitiveness must be top priority.

3. The manufacturing industries identified must consistently work to improve productivity, introduce new and better products, carry out sustained marketing efforts, as well as make investment decision based on a long term export goal. There are to be accomplished through appropriate programs of actions involving R & D and transfer of technology, skills and plant up-grading, institutional management improvements, as well as marketing.

4. Responsibility for industrial excellence be entrusted with the private sector, which should participate actively in the industrialization process, as well as policy formulation affecting the industries.

5. Governmental role should be confined to encouraging private initiatives, providing supporting policies, easing capital inflow and

accessibility, promoting innovation and investment and promote trade and export development efforts.

Over the years as part of the nation's overall thrust towards achieving a higher level of economic growth, the Government has evolved a multi prong program for a more accelerated promotion of exports to achieve the goals of the Industrial Master Plan (IMP). Basically the main thrusts of these initiatives is the identification of product sectors and markets that have the greatest potential for growth and the provision of a set of policy measures that would be conducive to their growth. Substantive changes have been made in areas of fiscal and industrial policies. Specifically, for the encouragement of exports Malaysia has passed Promotion of Investment Act, 1986. This Act contained major tax incentives for exports including the provision of abatement of adjusted income for export-oriented companies using indigenous local materials in manufactured products for export, as well as giving double deduction on certain expenses incurred for purposes of seeking opportunities for exports of products manufactured in Malaysia. The expenses that qualify are expenses such as overseas advertising, participation in industrial trade exhibition abroad, overseas travel on business, and maintenance of overseas sale offices. These incentives, besides encouraging exports would directly reduce operational costs.

In addition to the above incentives, manufacturers producing for exports are also eligible to apply for Export Credit Refinancing (ECR). ECR is extended by Bank Negara, through commercial banks to provide credit at a preferential interest rate to the manufacturers. ECR allows manufacturers to receive payment for manufactures even before they are shipped. It eases cash flow for both direct and indirect exporters by granting credit facilities at competitive rates to finance the manufacture or production of eligible goods for export.

To further assist in promoting exports, manufacturers whose entire production is essentially for export, or whose raw materials or component inputs have to be substantially imported, are encourage to locate their factories in the Free Trade Zones (FTZs) where companies can enjoy minimum custom control and formalities in the import of raw materials, parts, machinery and equipment.

The Government over the past years, also has instituted reduction in electricity, overseas telephone and telex to enable industries to reduce cost and be more competitive internationally. High value added, capital and technology intensive products have been gazetted as "super pioneer"

products, and made eligible to be given a tax relief period for up to 10 years. This is a further boost to the nation's export efforts.

Increased importance is also accorded towards the development of an effective R & D support for the manufacturing sector. Measures undertaken include the provision of research funds, strengthening of R & D institutions and upgrading of technological capabilities through in-house training. Simultaneously, fiscal incentives such as double deduction on expenditure incurred in approved R & D are made available to the private sector to boost their technical capabilities, and encourage new product development for exports.

In the efforts to boost Malaysia's competitive edge, the question of lack of linkages between and within subsectors of industries and large-scale industries was also given due recognition. Efforts to enhance linkages and to encourage integration of the small and medium scale industries (SMI) into the mainstream manufacturing activities were undertaken through measures such as subcontracting and supply of components to the bigger industries. A vendor program has also been introduced.

All the above measures, including structural adjustment improvements undertaken by the Government, such as the pruning down of public expenditure aimed at reducing governmental deficits, new tax reforms and better management of external debts, deregulation and refinement in the structure of tariff protection, exchange rate management and financial reforms, have brought about an extraordinary turnaround in Malaysia's economic performance, particularly exports.

As shown from Table 1, the turnaround after 1985 has been extremely remarkable. From a negative growth rate in 1985, Malaysia's real Gross Domestic Product (GDP) expanded at the rate of about 5.2 percent in 1987 and 8.1 percent in 1988. The remarkable performance of the economy especially its ability to rebound to high level of growth after two years of economic stagnation in 1985-86, was essentially driven by the excellent performance of the manufacturing sector, and in particular, the significant contribution of exports in manufacturer to total exports.

As indicated in Table 2, the share of manufacturing exports has been increasing since 1980. In 1980, manufacturing exports constituted about 21.7 percent of total export. By 1988, manufacturers and value added products have become the leading contributor to the country's exports, accounting for 49.6 percent of the total gross export.

TABLE 1. Comparative growth rates (percent) 1970-1988: Malaysia, the world, EEC and selected countries

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
World	-	4.1	4.8	6.2	2.0	0.8	4.7	4.0	4.3	3.3	2.1	1.3	0.4	2.4	4.1	3.1	2.9	3.1	3.6
EEC	4.8	3.5	4.4	6.1	1.8	-1.0	5.0	2.4	3.0	3.2	1.2	0.0	0.7	1.4	2.3	2.4	2.6	2.7	3.3
USA	-0.3	2.7	4.9	4.9	-0.7	-1.0	4.8	4.6	5.2	2.1	-0.2	2.0	-2.5	3.7	7.0	3.3	3.0	3.5	4.1
Japan	9.4	4.2	8.4	7.9	-1.2	2.6	4.8	5.3	5.1	5.2	4.4	3.9	2.8	3.2	5.0	4.7	2.4	4.0	5.3
South Korea	8.8	9.2	5.9	14.4	7.9	7.5	13.2	10.9	10.9	7.4	-3.0	7.4	5.7	10.9	8.6	5.4	11.7	11.1	10.8
Taiwan	11.3	12.8	13.2	12.9	1.1	4.8	13.7	10.0	13.5	8.2	7.3	6.1	2.8	7.7	9.6	4.3	10.6	12.4	7.2
Hong Kong	6.2	5.0	9.7	16.4	2.2	0.2	17.1	12.5	9.5	11.7	10.9	9.4	3.0	6.5	9.5	-0.1	11.0	13.6	6.9
Singapore	13.7	12.5	13.4	11.5	6.3	4.1	7.5	7.9	8.6	9.4	10.3	9.9	6.3	8.2	8.3	-1.6	1.8	8.8	10.9
Thailand	7.3	7.4	4.3	9.4	5.4	7.1	8.7	7.2	10.1	6.1	5.8	6.3	4.1	5.9	5.5	3.2	3.5	6.6	10.3
Malaysia	-	-	9.4	11.7	8.3	0.8	11.6	7.8	6.7	9.3	7.4	6.9	5.9	6.3	7.8	-1.0	1.2	5.2	8.1

Source : *Economic Report 1978-1988*, Ministry of Finance.

TABLE 2. Malaysia: The growth of manufacturing export as percent of total exports (\$ million)

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Total Export	28,013	26,900	27,946	31,762	38,452	37,576	35,373	44,612	54,596
Exports of Manufactures	6,101	6,302	7,417	9,554	12,164	12,111	15,329	20,216	27,085
Percent of Manufacturing Exports to Total Exports	21.7 %	23.4%	26.5%	30.0%	31.6%	32.2%	43.3%	45.3%	49.6%

Source : Ministry of Finance Malaysia, *Economic Reports 1980-1989*

THE IMP SECTORAL EXPORT PERFORMANCE

Table 3 shows the export performance of the thirteen sectors identified by the IMP as compared to their respective export targets. On the whole, the export targets set by the IMP have been generally achieved by almost all sectors particularly for the year 1998. Except for food processing, chemicals, non-metallic minerals and processed palm oil sectors, other sectors of the IMP recorded excellent export growth, particularly electrical and electronics, textiles and garments, and the iron and steel sectors which exceeded their respective 1988 export targets by more than 100 percent.

Actual export of electrical and electronic industries have consistently exceeded the IMP export targets, by 44.6 percent in 1986, 62.1 percent in 1987 and 101.6 percent in 1988 for the electronics sub-sector, and by 77.0 percent in 1986, 127.1 percent in 1987 and 215.1 percent in 1988 for the electrical sub-sector. The electronic and the electrical sub-sector continues to be the largest sub-sector within manufacturing and contributes 55 percent of the total export of manufactured products in 1988. This sub-sector is expected to expand rapidly. For the first seven months of 1989, the electrical and electronics sector contributes about 51.7 percent of total manufacturing exports.

Growth in exports of electrical and electronics products remain strong at 34.1 percent compared to 36.6 percent in 1988. The strong growth in export of this sector was due mainly to a sharp increase of 79 percent registered by the telecommunication products. Exports of electrical appliances and parts especially television sets, air conditioners and radio cassette players as well as office machinery and automatic data processing equipment grew by 51.5 percent. Exports of electronic components led mainly by semiconductor devices expanded modestly at an annual rate of 13.9 percent during the first seven months in 1989. The principal markets for Malaysian electrical machinery and electronic products were still the United States and Europe.

The next major contributor to total manufactured exports is the textile and garments sectors. Despite the growing protectionism and keen competition from other textile producers, exports of Malaysia's textile and apparel continued to perform creditably well in the international market. The period between 1986 to 1988, saw Malaysia's exports of textile and garments exceeding the IMP export targets by 77.2 percent in 1986, 116.5 percent in 1987 and 153.5 percent in 1988. This is a remarkable performance despite strong competition from other

TABLE 3. Industrial master plan export performance of all sectors against IMP, 1986, 1987 and 1988 (million ringgit)

Industries	1986			1987			1988		
	IMP Target	Actual	% Change	IMP Target	Actual	% Change	IMP Target	Actual	% Change
Resource Based Industries (RBI)									
Rubber	329.5	397.9	20.8	424.4	581.1	35.6	478.4	1,039.6	117.3
Wood	1,779.9	1,655.0	-25.9	2,018.8	2,633.6	30.5	2,137.7	3,200.7	49.7
Food Processing	915.1	895.7	-2.1	1,024.2	1,073.1	4.8	1,153.6	1,257.2	9.0
Chemicals	379.1	555.1	46.4	429.2	592.4	38.0	476.4	896.2	88.1
Non-Ferrous Metal									
Tin	15,086	18,300	21.3	16,677	34,200	105.3	18,200	46,500	155.5
Aluminium	15,464	14,700	169.7	17,149	70,100	308.7	17,800	86,100	383.7
Copper	2,974	13,600	357.3	3,407	45,800	1,244.3	3,600	111,600	3,000.0
Non-Metallic Mineral	1210.7	152.7	-27.5	239.6	224.1	-6.5	250	370	48.0
Non-Resource Based Industries									
Electrical and Electronics									
Electronic	4,828	6,979	44.6	5,830	9,450	62.1	6,507	13,118	101.6
Electrical	283	501	77.0	330	750	127.1	357	1,125.21	5.1
Transportation	-na-	-na-	-na-	-na-	-na-	-na-	-	67.3	-
Machinery and Engineering	443	826.6	87	481	1,218.3	153	538	1,668.4	210
Iron and Steel	38.2	250.0	553	43.6	391.0	796	42.3	498	1,077
Textile and Garments	934.1	1,655.2	77.2	1,053.0	2,279.0	116.5	1200.8	3,044.6	153.5
Shipbuilding and Ship repairing	-	-	-	-	-	-	-	4,400	-
Export performance of oil palm against IMP export target 1986,1987 and (thousand tons)									
Palm Oil									
Processed Palm Oil	3,975.0	4,188.1	5.36	4,327.0	4,218.3	-2.5	4,689.0	4,337.0	-7.5
Processed Palm Kernel	60.0	51.9	-13.5	17.2	12.4	-27.9	13.3	-na-	-
Petrochemicals	147.4	84.41	-42.73	182.2	106.0	-41.8	217.0	-na-	-

more established textile producing countries.

The strong growth in export of textiles and garments was attributed to the ability of Malaysian exporters to increase sales to traditional markets, as well as successful penetration into new areas. The United States and the European Economic Community (EEC) remained the major export markets of Malaysian textile and garment industries.

The rubber products sector remains the leading resource-based manufactured exports contributor. Over the three year period of the IMP (1986-1988), export performance has always exceeded export targets, and the change has been increasing over the years. The IMP has targeted exports of rubber products to be a \$329.5 million in 1986, \$424.4 million in 1987 and \$478.4 million in 1988. Actual exports however increased from \$397.9 million in 1986, to \$581.1 million in 1987 and \$1,039 million in 1988. The significant increase in the export of rubber products was attributable to the continuing expansion in the production of household and surgical rubber gloves, catheters and prophylactic. Malaysia is currently the leading world exporter of natural rubber gloves with major markets in the United States and EEC.

The biggest push in Malaysia's exports of manufactured products came from the iron and steel industry. Export of iron and steel products grew rapidly over the three year period of 1986 to 1988, exceeding the IMP's 1986 export target by more than 500 percent, by 796 percent for 1987 and an incredibly over 1000 percent in 1988, registering the third highest growth rate after exports of electrical and electronic products, and exports of textiles and garments. The rapid expansion of the iron and steel product sector was spearheaded largely by the high increase in exports of steel wires.

For the chemical and the petroleum sector exports for this sector by comparison with other major industries increased at a slower rate. Thus the export performance of the sector for 1988, though still exceeding the IMP target by 88.1 percent, is much lower than the other major industries, which outpaced their respective 1988 targets by more than 100 percent. Within the chemical products, exports of fertilizers and chemical compounds, perfumes and toiletries increased appreciably over the period. Most of the chemical products are exported to Japan, Singapore, Germany, United Kingdom and the USA.

The wood-based sector performed well in its export contribution especially for 1988. Export targets for 1986 for this sector was not achieved. The IMP set an export target of \$1,777.9 million for 1986 for the wood-based products. Actual exports for that year was only \$1,655

million. There was a shortfall by 25.9 percents. Exports subsequently picked up, and for the following two years actual export were well above the IMP target.

From the foregoing analysis, it is clear that measures undertaken by the government as recommended by the IMP has successfully created a favorable competitive position for Malaysian manufacturers overseas. This competitive edge coupled with a strong external demand has caused a sharp upsurge in exports of Malaysia's manufactures since the implementation of the IMP in 1986. The export-led industrialization strategy focusing on manufactured exports can thus be said to be equally successful in the Malaysian context, as much as it has catapulted Japan, and the other East Asian NICs to higher level of economic performance.

KEY ISSUES IN BOOSTING MALAYSIA'S EXPORT COMPETITIVENESS FOR 1990S

LOWERING TARIFF AND REMOVING IMPORT RESTRICTION

The super economic accomplishment especially by the NICs are generally achieved using different strategies regarding industrialization and entrepreneurship. It is observed that these countries have generally managed to push their industries into competitive world markets by lifting import protection. In essence, they have allowed the economy to operate under strict market forces. Governmental intervention through tariff and import restrictions is regarded as always leading to inefficiency and increasing costs. Interventionist policies have created productive capacities that failed to reach genuine competitiveness.

While the initial move toward liberalization of the economy has started, Malaysia has still to implement a few difficult, but practical undertaking especially with respect to industries, that have hitherto enjoy not only a high level of tariffs but also a prolonged protection. In order to increase Malaysia's competitive edge, industries previously protected, would have to be exposed to international competition, implying that tariff barriers, protection and import duties that obstruct the successful growth of manufacturing exports will have to be gradually eliminated.

Basic industries in Malaysia such as steel, cement, electric power and automobiles were promoted by fairly direct intervention. Gradual lowering of protection in these industries will encourage greater competition, boosting up exports and possibly expanding growth.

INCREASING PRODUCTIVITY, AND ACHIEVING PRODUCT AND QUALITY IMPROVEMENTS

In Malaysia the cost of manufacturing has increased substantially, with labor, raw materials and manufacturing overheads singled out as the main determinants of cost. This trend, if unaccompanied by a quantum leap in productivity, will surely erode the competitiveness of Malaysian manufacturing exports. An aspect of industrial performance which is aimed at achieving product and quality improvement, would be to formulate a comprehensive program focussing on quality control and technological upgrading. This way, problems to weak industrial and technological basis need to be solved through increased emphasis on assimilation of transferred technology and building of scientific and technological infrastructures. The Government's R & D expenditure will have to be expanded many fold in the 1990s. Since industries are still incapable of developing their own R & D, Government sponsored research institutes should continue to play a key role in the establishment of domestic industrial R & D.

Rapport between Government research institutes and industries needs to be intensified, if governmental research efforts in industries are to be effectively commercialized. In addition, special R & D funds specially for industries need to be created with joint participation by private industries in order to boost their own research efforts.

More industries-specific research institutes along the pattern of Malaysian Institute of Microelectronics System (MIMOS) in other areas such as machinery, biotechnology, shipbuilding genetic engineering, iron and steel, petrochemicals, ceramics will have to be established in the 1990s to boost Malaysia's competitive edge.

EFFECTIVE HUMAN RESOURCE DEVELOPMENT PROGRAMS TRAINING OF SKILLED WORKERS AND R & D PERSONNEL

To sustain Malaysia's export competitiveness, it is critical that the nation acquires trained skilled workers and R & D personnel. For this purpose, quantitative expansion and qualitative improvement of vocational educational system needs to be emphasized in the 1990s. In-plant training program by industries with support incentives by Government should be institutionalized. A feature of this program would be the encouragement of joint efforts between industry, public R & D institutions, universities and the Government. Overall, R & D policy in

the 1990s should emphasize localization of industries, developing high caliber technological manpower and promoting private sector R & D capability.

IDENTIFYING FOREIGN MARKETS OPPORTUNITIES AND CREATION OF FOREIGN MARKET NICHES

The export-led industrialization strategy adopted by Malaysia, must necessarily be sustained over the longer term by a constant search for market niches for our manufactured products. An effective marketing intelligence needs to be established in order to acquire and assemble information on possible foreign markets. Measures to be considered should include:

1. *Inculcate Greater Awareness of the Benefits the Generalized System of Preferences Among Local Exporters.*

A thorough knowledge of foreign trade regulations and special trading relationships, such as understanding the Generalized System of Preferences (GSP) by Malaysian manufacturing exporters will assist tremendously in pushing up Malaysian exports of manufacturers. The GSP is a system by which major developed countries accord preferential tariffs of duty exemptions to selected products from developing countries. Industrial export from the bulk of products eligible for preferential treatment. Greater awareness of the benefits of these schemes among Malaysian exporters would therefore be advantageous to sustain the export-led industrialization strategy of the nation. More training courses to include greater awareness of this scheme among Malaysian exporters need to be conducted in the decade of the nineties.

2. *Increasing INtra ASEAN Trade: New Opportunities for Malaysian Manufactured Exports.*

The United State, Japan and the EEC had traditionally been the most important trading partners of Association of Southeast Asian Nations (ASEAN). Japan is the single most important trading partners of ASEAN. In 1986, ASEAN exported 21.3 percent of its total exports to Japan while in the same year, the region bought 22.3 percent of total imports from Japan. The next most important trading partner of ASEAN is the United States which accounted for 21.2 percent of ASEAN export and 16.1 percent of ASEAN imports in 1986. The EEC is third with about 13 percent of both exports and imports. Intra-ASEAN trade itself averaged about 15-16 percent of total ASEAN Trade.

What is significant in the context of sustaining Malaysia's export-led industrialization strategy in the 1990s, is the potential of further expanding intra-ASEAN trade, particularly exports of manufacturing products under the ASEAN Preferential Trading Arrangement (PTA). According to records, Malaysia's exports to individuals ASEAN countries, except for Singapore (17.1 percent) is extremely low, being only 0.4 percent to Indonesia, 1.8 percent to the Philippines and 2.6 percent to Thailand. This has been a neglected area for a long time. There is therefore a tremendous opportunity to increasing exports of Malaysia's manufactured products to those three countries. A comprehensive export targeting program aimed at increasing Malaysia's exports to Indonesia, Philippines and Thailand should be undertaken aggressively during the 1990s especially utilizing the ASEAN-PTA.

3. Increasing South-South Trade: Additional New Opportunities for Malaysian Manufactured Exports.

Besides United States, Japan and the EEC, Malaysia also exports to the rest of the world, which accounted for about 13.9 percent in 1986. The World Bank in its study on South-South Trade Flows indicated that, among the nations of the South, Latin America and Southeast Asia are the two most industrialized areas in the South. Yet these two areas hardly trade with each other. Whatever little trade they do, are confined to exports of primary commodities, and very little manufactures. Malaysia therefore stands to gain, in seeking new manufactured export opportunities with nations of the South especially Latin America, Africa and the Middle-East.

REVITALIZING THE EXPORT TARGETING SYSTEM: SHIFTING TARGETS FROM "PRODUCTS" TO "MARKETS" OF FOREIGN COUNTRIES

One of the effective ways of increasing exports of selected manufactured products is through the continued usage of the Export Targeting System, which in the case of Malaysian has been recommended by the IMP and fully implemented through the activities of the Export Promotion Council. However, existing "targeting" refers to setting-up of target for exports of "products", rather than a strategy of concerted "targeting of foreign markets" for the products to reap maximum scale economics in the innovative industries. A refinement of this targeting strategy, which should also focus on the level of the "foreign market" that specific products should penetrate, needs to be undertaken to further encourage exports in the decade of the 1990s.

SUSTAINING THE TEMPO FOR INVESTMENT THROUGH PROVIDING
MORE CONDUCTIVE ENVIRONMENT FOR LOCAL INVESTORS

Over the years, private sector investment have flowed into the manufacturing sector providing a new source of stimulus of the growth of industries. In recent years the performance of the private sector has been encouraging. The response to the Government's policy of investment liberalization, including relaxation on foreign equity guidelines, streamlining of licensing processing procedures, and introduction of new and additional incentives, have undoubtedly resulted in a significant increase in the number of application received by Malaysian Industrial Development Authority (MIDA). According to the records, a total of 732 projects were approved by MIDA in 1988. This represent an increase of 119 percent over the 1987 figure. For the first six months of 1989 a total of 391 applications were approved compared to 239 during the corresponding period in 1988.

Out of a total of 952 applications received in 1988, MIDA approved 732 projects, with total proposed investment of \$9,093 million of which \$2,010 million were foreign equity and \$1,459 million were domestic equity. The data indicates that Malaysian's manufacturing sector, but more so are poised to play a more definitive role in Malaysian's industrialization program.

While the benefit of current incentives schemes and other measures are equally extended to both foreign and local investors, the fact that Malaysian private investors have a bigger stake in the overall development of the nation, and will not easily 'pack up and go', therefore it is important that the Government consider additional and special incentives for Malaysian domestic investors in the decade of 1990s. Such a scheme if implemented will encourage more domestic investors into the manufacturing sector. In the longer term it would be easier for the Government to persuade local manufactures to invest in R & D for the industrial sector, than to convince foreign investors to do so. Special incentives for local investors will assist in achieving this objective.

Increase investment for economic growth particularly for the small and medium scale industries will necessarily gain form all sources of capital including venture capital. While venture capital activity has reached unprecedented level in the industrialized countries, however it is not well developed in Malaysia. Venture capital can give greater momentum to the pace of industrialization through mobilizing private

risk capital for investment in technologically innovative projects. Along with special incentives for local investors, Malaysia will stand to gain by providing new incentives to promote the growth of venture capital business in the country.

TOWARDS A MORE LIBERAL EXPORT FINANCING SYSTEM

A successful export-led industrialization program invariably calls for a variety of support facilities to assist the manufacturing exporters. Previously the ability to sell manufactured goods abroad depended exclusively on product quality, delivery and price. Now there is an additional factor which tends to play an increasingly important role in the export mechanism, mainly, the ability and willingness to give credit.

While there exist an export financing program for Malaysian exporters covering both the pre-shipment as well as the post-shipment financing facilities, credit insurance, guarantees and refinancing facilities to banks financing credits, and the success of the ECR revision scheme, the operational aspects of the system have left much to be desired. The changing pattern of international trade and the varying needs of Malaysian exporters necessarily require constant reappraisal and adjustment of export credit and refinancing facilities particularly with respect to credit limits, period of credit and coverage of insurance.

For Malaysia's export competitiveness to be sustainable in the decade of the 1990's, the continued periodic reappraisal and adjustment of export credit, refinancing and insurance facilities are necessary, to enable Malaysian exporters to effectively compete. It should be the Government's policy that the package of facilities offered should be comparable with that available to exporters in competing countries.

MALAYSIAN EXPORTS AND TRADE PROTECTIONISM

Over the years, the global economy has benefited from progressive liberalization of trade mainly through trade negotiations under General Agreement on Trade and Tariffs (GATT). However the continued existence of this liberal trading regime has been threatened by the rise of trade protectionism. Protectionist elements in the form of non-tariff barriers, trade and exchange restrictions, trade-distorting subsidies and bilateral trade agreements posed a threat to both sustained global economic growth, and increase competitiveness in the exports of many nations.

While the tariff structures had been modified, and average tariff level in the industrialized countries for manufactured goods fell to between 5 to 6 percent, much through the good work of GATT, the liberalizing effects of tariff reductions have been offset by the increase in non-tariff measures (NTMs). NTMs include such barriers as quantitative restrictions, subsidies, Government procurement practices and technical barriers. A common form of NTMs is the use of export restraint arrangements such as voluntary export restraints (VERs) and orderly market arrangement (OMAs). In 1988 alone, there were more than 250 export restraint arrangements enforced with over 25 percent of the trade in non fuel imports being subjected to NTMs. In addition, there have been a proliferation in the use of countervailing duties (CVDs) and antidumping (ADs) provisions. The use of CVDs and ADs by the United States and EEC has increased from just over 100 in 1980 to over 1,000 by 1988 in these countries.

Malaysian exports have been the targets of CVDs and ADs investigations over the past years. There have been four CVDs cases initiated by the USA against Malaysia since 1988. The United States imposed a countervailing duty of 17.7 percent on Malaysian export of wire rods in 1988 citing the subsidy element from utilizing the pioneer status and export credit refinancing schemes. The other products subjected to investigation by the United States include steel pipes and tubes, thermostats and thermopumps. CVDs investigation on wire nails has yet to reach a final decision. The United States is also monitoring the exports of Malaysian made color television sets.

In ensuring the future of Malaysia's manufacturing exports, it must take cognizance of the rise in non-tariff barriers, and in particular the proliferation of use of CVDs. In this context, the options for Malaysia is to continue to produce manufactured goods, not only of superior quality but also price competitiveness so that Malaysian goods are acceptable in the international market. To maintain export competitiveness, is the best way to ensure market access for Malaysia's products. Similarly, Malaysia needs to be more active in the functions and activities of GATT, to ensure constant and persistent negotiations towards a more progressive liberalization of trade.

CONCLUSION

Export-led industrialization has served the nation well, as it has shown to be an effective strategy in bringing about a quick turnaround in the

economy. Empirical evidence suggests that the remarkable performance of the Malaysian economy especially its ability to rebound to high level of growth was essentially driven by the excellent performance of the manufacturing sector. Manufacturing exports has performed exceedingly well, to the extent that export of manufactures currently constitutes more than 50 percent of the nation's total export, giving further evidence that the manufacturing sector was the major stimulus and the engine of growth of the entire economy. The decade of the nineties will present even more challenges to the growth prospects of the nation's development efforts. The industrial sector, particularly manufacturing would be expected to play an even more important role. The continued success of the export-led industrialization strategy would therefore depend on the way the nation tackle some of the major issues outlined above. Of more important, is the changing pattern of Malaysian's export trade which makes the task of trade promotion and export development even more complex in the decade of the nineties. It must be recognised that export development and promotion will require a high degree of professionalism, which in turn, calls for well trained and experienced personnel and a specialized supporting institution. The Export Promotion Council, recognizing this new challenge has proposed the creation of an autonomous institution called the Malaysian Trade and Development Corporation (MTDC), supported by a fund called the Export Promotion Fund (EPF).

It is intended that MTDC will assist in developing future national export promotion strategy and action program covering markets and products, developing range of services based on exporters needs, cooperate with other institutions providing export promotion services, and help channel trade promotion aid from international and national donor agencies. In addition, MTDC is also expected to serve as reference source for Government to detect early warning signals on international changes and trends affecting Malaysia's trade. With these and other trade facilitation and export support programs, such as facilitating trade procedures and standardizing export-import forms and documents, future performance of Malaysian exports appears even brighter.