

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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WORKING PARTY ON STRUCTURAL ADJUSTMENT AND TRADE POLICY

Exchange of Information on the Experience of all Contracting Parties with Regard to Structural Adjustment

Addendum

1. At the meeting of the Working Party on Structural Adjustment and Trade Policy on 2 July 1981, it was agreed that the secretariat should invite all contracting parties to provide by the end of 1981 the information required in Paragraph II(b) of the Annex to L/5120, taking into account the objectives outlined in Paragraph I of the Annex and the work already done (L/5177, paragraph 10). Paragraph II(b) of the Annex to L/5120 states that one of the tasks to be undertaken is "consistent with the GATT and the results of the MTN, an exchange of information and discussion on the experience of all contracting parties with regard to structural adjustment, along with an overall analysis of the experience".
2. Contracting parties were invited in GATT/AIR/1742 of 13 July 1981 to provide the requested information. The submission of Malaysia is reproduced in the Annex to this document.
3. Some participants have underlined that, with a view to the usefulness of the exercise, they attach considerable importance to the fact that all members of the Working Party fulfil their obligation and make written contributions. These participants have also indicated that they would be prepared to participate in an examination of their contribution in the Working Party only when notifications of the other contracting parties participating in the Working Party have also been received.
4. Delegations which have not yet submitted information are requested to do so as soon as possible.

MALAYSIA

1. The decade of the seventies witnessed rapid growth and structural transformation of the Malaysian economy. The Malaysian economy moved towards a better balance in terms of composition of output and its distribution among sectors. Initially the structure of output and income was conspicuously unbalanced, characterized by excessive reliance on a few primary commodities in the agricultural sector. Whilst agriculture continues to play a very important rôle in the economy, its relative share of the Gross Domestic Product has somewhat declined, owing to the relatively faster rates of growth of non-agricultural sectors, viz: manufacturing and tertiary sectors. Another feature was the structural changes in the composition of output within the sectors. Other notable changes included improved regional distribution of development. This demonstrated the efforts to diversify the economic base and a more balanced distribution of economic activities.

2. The structural changes that have occurred during the decade are illustrated by Table I which shows GDP by sectors and changes in the share of the various sectors. The agricultural sector's contribution of 30 per cent to GDP in 1970 has declined to 22.2 per cent in 1980 while for the manufacturing sector these figures have increased from 13.4 per cent in 1970 to 20.5 per cent in 1980. It is expected that this trend will continue such that by 1985 the manufacturing sector will have overtaken the agricultural sector as the most important in terms of contribution to the GDP. The contribution to GDP of the other traditional sector, that is the mining sector, has also declined from 6.3 per cent in 1970 to 4.6 per cent in 1980 while that of the other modern sector, that is the construction sector, has increased from 3.9 per cent in 1970 to 4.5 per cent in 1980.

3. The main factor responsible for the above structural change was the deliberate vigorous pursuance of diversification policy by Malaysia. There was a need to improve the balance in the share of local markets for agricultural products. This arose because of the existence of the significant potential for raising the value added of commodities either in the form of finished or intermediate goods in support of import substitution and export promotion. There was also the need to broaden the base of agricultural production to minimise the adverse effects of fluctuation in the external demand on the economy and to improve income levels among the poor. It is also worth noting that in the changes within the agricultural sector, particularly the rapid expansion of palm oil output and the decline in the dominant position of rubber. While the share of rubber in total agricultural output declined from 34.3 per cent in 1970 to 24.9 per cent in 1980, the share of palm oil increased from 9.6 per cent in 1970 to 25 per cent in 1980.

4. Malaysia's manufacturing sector is a story of progress and continuing sophistication. In the early days after independence, industrialization efforts were mainly centred on the establishment of import substitution industries. The initial establishment of simple import substitution consumer industries was followed by the launching of sophisticated manufacturing facilities. The share of manufacturing in Gross Domestic Product (GDP) increased from 13.4 per cent in 1970 to 20.5 per cent in 1980. As shown in Table 2, value added in the sector grew by 12.5 per cent per annum during the decade, making it the leading growth sector in the economy. This achievement was principally attributed to increased exports as well as rising domestic demand. Among the major industries which contributed to the growth of the manufacturing sector were oils and fats, textiles and electrical machinery.

5. The latter part of the decade also saw a shift towards the development of export-oriented industries. Exports of plywood, veneer and blockboards increased at a rate of 12.8 per cent per annum while sawn timber exports expanded at about 9.4 per cent per annum. This development stimulated the expansion of the overall wood products industry by 10.3 per cent per annum, accounting for 12 per cent of the manufacturing sector value added by 1980. Rubber products industry became increasingly diversified with the development of new export-oriented rubber products such as household and surgical gloves, heavy duty tyres and medical equipment. While domestic oriented rubber tyres and footwear increased by 5.6 per cent per annum, the specialty rubber goods expanded at a much more rapid rate. Similarly, while production of textiles for domestic market increased by 9.9 per cent per annum, production for exports increased by 26 per cent, resulting in an overall growth of 15.7 per cent per annum and increasing its share in the manufacturing sector from 2.1 per cent in 1970 to 3 per cent in 1980. Its share of output for export market also increased from 23 per cent in 1970 to 54 per cent in 1980. The electrical machinery industry grew at an average rate of 13.3 per cent per annum during the decade, reflecting continued strong demand from overseas markets. Its share in the manufacturing sector increased from 2.9 per cent in 1970 to 3.4 per cent in 1980. Within the industry, electronics recorded remarkable rate of growth in exports of 69 per cent per annum. Export value of electrical machinery including electronics accounted for 1.8 per cent of total manufacturing sector exports in 1970 and this share rose sharply to 37.4 per cent in 1980.

6. During the decade, the manufacturing sector continued to be dominated by consumer and intermediate goods. Capital goods which grew at 9.7 per cent per annum accounted for a small portion of the sector and was confined mainly to a narrow range of light capital goods such as transport equipment and light machinery. Despite promotional efforts to encourage greater diversification in the product-mix of the capital goods industry, little change occurred.

7. The latest change in the manufacturing sector is the promotion of heavy industries aimed at strengthening and further accelerating the industrial development of Malaysia. The Heavy Industries Corporation of Malaysia (HICOM), set up in 1980, will initiate, implement and manage capital intensive industries.

8. It is important to underline that the manufacturing sector will continue to play a strategic rôle in the achievement of Malaysia's overall development target. In addition to the establishment of export-oriented industries, the emergence of resource-based industries is an important phenomenon in our effort to generate higher value added and foreign exchange earnings. The overall strategy therefore will be to expand and diversify the manufacturing base.

9. The above changes in the structure of the Malaysian economy have consequently changed the structure of Malaysian exports where there is a more balanced situation between exports of agricultural products and manufactures. While agricultural exports as a percentage of total merchandise exports has declined from 52.1 per cent in 1970 to 35.8 per cent in 1980, manufactured products have increased from 15.8 per cent in 1970 to 25.2 per cent in 1980.

TABLE IMALAYSIA: GROSS DOMESTIC PRODUCT BY SECTOR OF ORIGIN
1970 - 1980

	Average Annual Growth Rate (%)	Share of GDP (%)		
	1971-80	1970	1975	1980
Agriculture, forestry and fishing.. ...	4.3	30.8	27.7	22.2
Mining and quarrying ...	4.6	6.3	4.6	4.6
Manufacturing ...	12.5	13.4	16.4	20.5
Construction ...	9.6	3.9	3.8	4.5
Electricity, gas and water.	10.0	1.9	2.1	2.3
Transport, storage and communications... ..	11.3	4.7	6.2	6.5
Wholesale and retail trade, hotels and restaurants...	7.3	13.3	12.8	12.6
Finance, insurance, real estate and business ... services	7.6	8.4	8.5	8.2
Government services ...	9.5	11.1	12.7	13.0
Other services ...	7.9	2.5	2.8	2.5

TABLE 2

PENINSULAR MALAYSIA: VALUE-ADDED GROWTH IN
MANUFACTURING, 1970-80

		Share (%)			Average Annual Growth Rate (%)		
		1970	1975	1980	1971-75	1976-80	1971-80
Food products	...	15.3	10.9	9.3	2.1	7.1	4.0
Oils and fats	...	6.3	12.9	14.1	26.0	17.1	22.6
Beverages and tobacco.		12.1	10.9	9.9	6.9	9.8	8.0
Textiles	2.1	2.5	3.0	13.3	19.7	15.7
Wood and wood products		12.4	12.1	12.0	8.7	13.0	10.3
Paper and printing	...	1.0	0.9	1.0	7.6	17.3	11.1
Industrial chemicals..		3.3	2.3	2.0	2.0	7.0	3.8
Chemical products	...	6.0	5.4	5.1	6.5	11.2	8.3
Petroleum products	...	4.2	3.1	3.5	3.5	17.0	8.3
Rubber products	...	6.7	5.5	4.5	5.5	5.6	5.6
Cement	5.4	4.9	5.2	7.0	15.2	10.0
Non-metallic..	...	2.0	1.6	1.7	4.7	14.7	8.3
Basic metal..	...	3.1	3.2	3.6	10.3	11.8	10.8
Fabricated metal	...	4.6	4.2	4.5	7.2	16.2	10.5
Electrical machinery..		2.9	3.0	3.4	10.8	17.6	13.3
Transport equipment ..		5.3	5.2	4.9	8.6	11.6	9.7
Other manufactures	...	7.3	11.4	12.4	36.4	16.3	28.5
Total Manufacturing:		<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>11.6</u>	<u>13.5</u>	<u>12.5</u>