

Country Assistance Program for Malaysia

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Country Assistance Plan for Malaysia

1. Recent Political, Economic, and Social Situation

1.1 Political Situation

Located in the southeastern part of Asia, Malaysia is comprised of eleven states on the Malay Peninsula and two states in the northern part of Borneo Island. Malaysia is a multi-ethnic country, with its population of 22.2 million (2000) made up of 62.4 percent Malay (including indigenous people), 26.6 percent Chinese, 7.5 percent Indian, and 3.5 percent others (European, Arab, etc.). Malaysia experienced severe racial violence in 1969 (notably, the May 13 incident, in which racial clashes occurred between ethnic Malays and Chinese immediately after the holding of general elections in the same year); and the improvement of the economic status of ethnic Malays (*Bumiputra* policy), who have been relatively impoverished in comparison with the non-Malay population, has been a crucial issue for successive administrations, which have at the same time been striving to bring about harmony among the different ethnic groups in the country. As an original member of ASEAN, Malaysia has also shouldered a central role in the functioning of that organization.

Since Malaysia gained its independence in 1957, the Barisan Nasional coalition (BN, National Front), which is dominated by the United Malays National Organization (UMNO), has been continuously in power. The BN has succeeded in realizing political stability and economic growth for Malaysia, while pursuing efforts for racial reconciliation. Through his strong leadership, Prime Minister Dr. Mahathir Mohamad, who assumed office in 1981, has advanced the nation's modernization and industrialization, as well as advocated a "Look East" policy for Malaysia soon after succeeding to the premiership. This policy has turned Malaysia, which had tended until then to favor the West, particularly the United Kingdom, its former suzerain, toward Japan and the Republic of Korea to take in the work ethic and technologies of those countries.

Although the political situation in Malaysia has been basically stable, the sudden dismissal in September 1998 of then Deputy Prime Minister and Finance Minister Anwar Ibrahim and his subsequent arrest sparked widespread demonstrations and temporarily destabilized the political situation in the country. However, these protest movements have gradually eased off. Similarly with the

economy, the 1997 Asian financial crisis caused a negative growth for Malaysia in 1998, but the economy has since gradually recovered. In the general elections held in November 1999, the Barisan Nasional (National Front) coalition garnered a comfortable majority, winning 148 out of 193 seats in the House of Representatives, and continued its control of the government. Attention is now being focused on towards a post-Mahathir era, but the political situation remains that Malaysia is fundamentally stable.

1.2 Economic Situation

Since the latter half of the 1980s, Malaysia's economy has grown rapidly, spurred by the great increases in foreign direct investment, including that from Japan. Particularly from 1988 to 1996, Malaysia achieved a very high economic growth rate of over eight percent per year. However, the Asian financial crisis, triggered by the collapse of the Thai baht in July 1997, spread to Malaysia, as a sudden outflow of short-term capital occurred and the exchange rate and the value of stocks plummeted. These declines caused a vicious spiraling chain of drastically shrinking assets, deteriorating business performance, great increases in bad debts, and a contraction of credit, sinking the Malaysian economy into a serious predicament.

Under these circumstances, the Malaysian government at first attempted to overcome the crisis by adopting IMF-type policies of fiscal and financial austerity, but these policies did not prove entirely effective; on the contrary, corporate bankruptcies and other deleterious effects began to appear in the real economy. Because of this, from the middle of 1998, the government greatly changed the policies it had taken and moved to stimulate the economy through active fiscal policy and monetary ease. Moreover, to guard against currency speculation and stabilize the ringgit, the government pegged the ringgit to the U.S. dollar and introduced measures to prohibit short-term capital movements beyond the country.

With these economic stimulation measures, controls on currency exchange and capital movements and treatment of bad debts, as well as the infusion of large-scale financial assistance from Japan totaling approximately \$6.8 billion (1998 and 1999), the Malaysian economy has been currently recovering. Although the real GDP growth rate for 1998 contracted to a negative 7.5 percent, the economy rebounded to positive growth from the second quarter of 1999 and, due to increased exports by the

manufacturing sector, grew by 5.8 percent overall in 1999, surpassing the government's growth forecast (4.3 percent). In 2000, the economy achieved a growth rate of 8.5 percent.

On the other hand, the export industry counts much on the Malaysia's economy and since 1999 Malaysia's economic recovery has been largely dependent on the expansion of exports fueled mainly by its manufacturing industries. Attention will be more focused on Malaysia's departure from its pegged exchange rate system while still maintaining its export competitiveness.

Domestically, it is expected that the continued economic recovery, restoring fiscal balance and macroeconomic stability will stimulate capital investment and lead Malaysia to more self-sufficient economic growth. In the long-term, human resources development, the promotion of greater economic and manufacturing efficiency and sophistication, and the consequent maintenance and steady enhancement of its international competitiveness are vital for Malaysia's economy. Moreover, although the restructuring of Malaysian cooperation and financial institutions are generally proceeding smoothly in comparison with similar efforts in neighboring countries, its future progress will continue to be a focus of attention.

1.3 Social Situation

Malaysia's unemployment rate in 1997 was only 2.4 percent, indicating nearly full employment in the country, but it rose after the Asian currency crisis and climbed to 4.5 percent in the first quarter of 1999. However, job openings began to increase and the number of workers laid-off to decrease with the recovery of the economy; the unemployment rate dropped to 3 percent in the fourth quarter of 1999 and continued to show some stability in 2000. On the other hand, noticeable income disparities, which had been gradually shrinking in the 1980s, continued to exist throughout the 1990s. Recognizing the necessity of responding to the needs of the socially vulnerable, the Malaysian government has taken measures to mitigate the effects of the economic crisis, for example, raising the share of spending for social services in the government's development budget by around 5 percent from 25 percent prior to the crisis to approximately 30 percent after the crisis.

It is increasingly important for the stable development of Malaysia in the future to narrow regional income gaps due to Malaysia's rapid economic growth, and to

deal appropriately with environmental problems caused by the country's fast development and urbanization.

2. Development Issues

2.1 Malaysia's Development Plans

Since 1991, the Malaysian government has been promoting its Vision 2020 plan, which sets as a final development goal for Malaysia the country's inclusion into the "developed countries"¹ by the year 2020. Under this Vision 2020 plan, ten- and five-year development plans and sector-specific development plans have been systematically formulated, and based on these plans, the government has allocated budgets for development and implemented the various measures.

The year 2000 was a benchmark year for Malaysia's development plans, as the New Development Policy (NDP)², a ten-year development plan in effect from 1991 to 2000, and the 7th Malaysia Plan³, a five-year development plan implemented from 1996 to 2000, both ended in 2000. At present, the government is carrying out its national economic development programs under the Third Outline Perspective Plan (OPP3), a new ten-year plan launched in 2001, and the 8th five-year Malaysia Plan.

The ten-year plan and the 8th Malaysia Plan from 2001 succeeds to the NDP and the 7th Malaysia Plan respectively. As is seen by the creation of the Multimedia Super Corridor (MSC), the government of Malaysia has for some time been directing efforts into the promotion of industrial and human resources development in the information technology (IT) sector. The 8th Malaysia Plan sets forth several measures for transforming the Malaysian economy into a knowledge-based economy, the "K-economy," through promoting information technology in all fields, including manufacturing and agriculture.

2.2 Key Issues for Development

2.2-1 Sophisticating Manufacturing Industries

Sophisticating the manufacturing industries such as electronics and machinery, which are the driving force in the country's economic growth, is vital for maintaining and enhancing Malaysia's international competitiveness. For this, upgrading the technical level, quality control capability, and productivity of each industry and fostering a wide range of support industries are essential. The active

application of information technology for raising manufacturing capability will also be required.

2.2-2 Developing Economic Sectors By Utilizing Malaysia's Existing Resources

In order for Malaysia's economy to develop self-sufficiently and stably, it is important for Malaysia to utilize its existing resources and develop the agriculture, tourism, oil and gas, and other economic sectors. Malaysia is a country with abundant natural resources such as oil, natural gas and timber, and it is a key for the future development of the country to develop its industries by utilizing these resources. The development of Malaysia's agro-industry, which can take advantage of agricultural products in Malaysia such as palm oil, is also vital. In addition, while it is favored with advantageous tourism resources, Malaysia has the relatively small number of foreign tourists in comparison to the number of other countries in Southeast Asia, it is also an important issue for Malaysia's development to foster a competitive tourism industry.

2.2-3 Development of High-capacity Human Resources

In order to transform Malaysia's economy into a knowledge-based one, developing great numbers of well-educated human resources is essential. The ratio of students who go on university or college is around 23 percent. Though the number of student has been increasing rapidly in recent years, a larger percentage of students should receive a university-level education. In addition, to raise up the level of manufacturing industries, the technical and vocational skill level of the general labor force needs to be upgraded.

2.2-4 Responding to Environmental Problems

Nature in Malaysia is much blessed, particularly in Borneo Island, but in the light of Malaysia's rapid development, the conservation of nature has become an important issue. In addition, as its beautiful nature is an important tourism resource, environmental conservation is also crucial from the viewpoint of Malaysia's future economic growth.

On top of that, with the advance of industrialization and urbanization, the improvement of urban environments, particularly the prevention of pollution, the management of waste, and the construction of sewerage facilities, is essential.

2.2-5 Improvement of the Quality of Life

As Malaysia succeeds to a marked degree in achieving economic growth and aims to join developed countries, improving the quality of life is increasingly important.

Specific issues include the improvement in public transportation and public sanitation, as well as the quality of primary and secondary education.

2.2-6 Narrowing of Income Gaps

Although efforts were made throughout the 1990s to narrow income gaps, significant income differences still exist in Malaysia. Reducing these gaps in income and in regional development and improving the welfare of the socially vulnerable are of great importance for the stable development of Malaysia.

2.3 Relations with Major International Organizations, Efforts of Other Donor Countries and NGOs

2.3-1 Relations with International Organizations

As Malaysia has made steady mid- and long-term social and economic development, the provision of assistance from international organizations is decreasing. Among the international organizations, the United Nations Development Programme (UNDP) has been comparatively active in supporting Malaysia, focusing on human resources development and the environment. In addition, other U.N. organizations such as the United Nations Regular Programme for Technical Assistance (UNTA) and the United Nations Children's Fund (UNICEF), the Asia Development Bank (ADB) and the European Commission (EC), also implement projects, albeit small in their scale. Besides, during the Asia currency crisis, the International Bank for Reconstruction and Development (IBRD) extended loans to Malaysia to support the government's programs for stabilizing its economy, resuming mid- and long-term economic growth, and protecting the country's poor from the adverse effects of the economic crisis.⁴

In the field of fisheries, technical cooperation is being extended through the Southeast Asian Fisheries Development Center (SEAFDEC).

2.3-2 Efforts of Other Donor Countries

On a net disbursement basis for 1996 and 1997, Denmark, Germany, and Australia in that order were the major donors to Malaysia, and each country is providing technical cooperation. Combining technical cooperation, loans and other schemes, Japan's assistance to Malaysia on a gross disbursement basis still makes up more than 60 percent of all bilateral assistance to Malaysia; because of increased repayments of yen loans in 1996 and 1997, however, Japan's assistance on a net disbursement basis showed a negative figure, but returned to a plus amount in 1998.⁵

2.3-3 NGO Activities

Approximately 80,000 NGOs are said to carry out their activities in Malaysia. Around 330 NGOs involved in social welfare work and about 180 development-related NGOs are registered with the Ministry of National Unity and Social Development(as of 2000). NGOs are involved in a very wide range of fields including welfare, social and economic development, health, environment, religion, assistance to women, and children.

3. Japan's Assistance Policy for Malaysia

3.1 Significance of Japan's Assistance to Malaysia

3.1-1 Japan officially recognized the Federation of Malaya when it became independent on 31 August 1957, and relations between both countries have since developed favorably on the whole.

Japan has been contributing to the development of Malaysia as its biggest donor country. Particularly since Prime Minister Dr Mahathir had proposed his "Look East" policy in 1981, Malaysia has assumed a willingness to learn from Japan and other East Asian countries, and the Malaysian people's interest in and affinity for Japan has become very strong.

In addition to being one of the most stable countries in Southeast Asia politically and economically, Malaysia, a original member of ASEAN, is also a focal point for cooperation within the ASEAN region and an active proponent of cooperation with ASEAN+3 (Japan, the People's Republic of China, and the Republic of Korea). The enhancement of relations with Malaysia, one of the leading countries of ASEAN, would contribute to the strengthening of Japan's cooperative ties with ASEAN and the entire East Asian region.

Furthermore, as Malaysia faces the Straits of Malacca, an extremely important sea lane for Japan, its position is geographically important.

3.1-2 Economically, Japan and Malaysia have a close mutually dependent relationship. Trade figures with Japan in 1999 show that Japan was the third leading country for Malaysian exports after the United States and Singapore, occupying a 11.6 percent share of total exports, while being the biggest source of Malaysian imports, with a 20.8 percent share. Regarding investments, throughout the 1990s Japan was

the largest or second largest direct investor in Malaysia, and in 1999 Japan was the second largest investor after the United States, directly investing approximately one billion ringgits (authorized basis) in Malaysia. Most of Japan's direct investment is focused in manufacturing sector, of which Malaysia's electronic components and electrical equipment sector receives the greatest share. In light of the fact that electrical and electronics products make up over half of Malaysia's exports, Japan's direct investment in this sector has contributed greatly to Malaysian exports and thereby to Malaysia's economic growth. At the same time, Malaysia occupies a primary position as a base for overseas production of electrical, electronics and various other products of Japanese corporation, and Malaysia's presence is indispensable for the growth of the Japanese economy.

In addition, as Japan's second biggest source of natural gas after Indonesia, providing around 20 percent of Japan's total import amount, Malaysia is essential to Japan as a stable supplier of energy resources.

3.1-3 Malaysia has played an active role in the United Nations since the 1960s, for example, participating in PKO activities in the Congo, Namibia, Cambodia, Somalia, Bosnia, and elsewhere. It also was a non-permanent member of the U.N. Security Council from 1998 to 2000. Moreover, Malaysia has become vocal and increased its influence in the international arena, participating actively in international frameworks promoting cooperation among countries of the so-called South, such as the G-15 (a summit-level group of developing countries), the Non-Aligned Movement, the D8 (an arrangement for promoting development cooperation among Islamic countries), and the OIC (Organization of Islamic Conferences). In addition to this, Malaysia, making use of its own experience in development, has been positively supporting less developing countries in Asia and Africa. Malaysia and Japan have formed a close cooperative relationship in the field of South-South cooperation, such as co-sponsoring with Japan the Africa-Asia Business Forum and the 3rd Asia-Africa Forum and cooperating with Japan in the establishment of the Asia-Africa Investment and Technology Promotion Centre (AAITPC), the formation of the Japan-France-Malaysia Trilateral Cooperation Programme for African development, and other endeavors. This kind of enhancement of ties with Malaysia would help to strengthen Japan's overall relations with developing countries.

3.2 Accordance with Japan's Basic Principles of the ODA Charter

Malaysia established a parliamentary democracy, including elections, legislative bodies and a cabinet, when it became independent. Since then, these systems have been functioning continuously and smoothly. There have been no particular causes of concern regarding military expenditures or the exporting of weapons.

The arrest in September 1998 and subsequent trial of former Deputy Prime Minister and Finance Minister Anwar Ibrahim raised some questions about human rights issues in the international community. Japan has paid close attention to the proper legal procedure and to the overall political situation in the country; the actual trial and other procedures have been open to the public and conducted under a democratically established legal system.

3.3 Desired Direction of Japan's Assistance

3.3-1 Japan's Assistance Until Now

Japan extended to Malaysia a cumulative total of 880 billion yen in loans, 12.1 billion yen in grant aid, and 90.8 billion yen in technical cooperation until FY 2000. In recent years, Japan extended a total of 4.6 billion yen in technical cooperation and grant aid in FY 1997; 112.4 billion yen in loans, technical cooperation, and grant aid in FY 1998; 129.4 billion yen in loans, technical cooperation, and grant aid in FY 1999; and 3.8 billion yen in technical cooperation and grant aid in FY 2000. Assistance becomes large in scale when yen loans are extended.

In the past, loan aid was provided mainly for economic infrastructure such as electric power facilities, railways, and airports. In recent years, as Malaysia was classified as upper-middle-income countries, an agreement was reached that Malaysia was then a so-called "graduate course" which has "graduated" from receiving yen loans.⁶ Since 1994, Japan's assistance to Malaysia has been extended for projects that contribute to environmental improvement, poverty eradication, and narrowing the income gap, as well as SMEs and human resources development that will contribute to the foregoing areas. Until 1997, Malaysia made no new requests for yen loans. However, following the Asian economic crisis, yen loans to Malaysia was resumed for the first time in five years, based on the New Miyazawa Initiative announced in October 1998.

In March and April 1999, Japan extended yen loans totaling approximately 114 billion yen and in March 2000 another loan package worth around 119 billion yen. These loans significantly contributed to the prompt recovery of the Malaysian economy.

Japan's grant aid had been centered around the provision of educational and vocational training facilities, but except for cultural, grassroots, and emergency grant aid, Malaysia has not received grant aid since FY 1991.

Regarding technical cooperation, Japan has been assisting the training of human resources in the fields of agriculture, forestry, fisheries, medical care, environmental conservation, manufacturing, and so on. As Malaysia's economic development advances, the relative importance of cooperation related to the environment and the sophistication of manufacturing industries is increasing.

3.3-2 Share of Japanese Assistance Among All Assistance to Malaysia

Bilateral assistance makes up approximately 90 percent of all assistance Malaysia receives, of which the assistance from Japan, as stated previously, accounts for over 60 percent on a disbursement basis.⁷

3.3-3 Direction of Japan's Assistance Plan for the Next Five Years

Malaysia has already reached a certain level of economic development. Although having been affected by the 1997 Asian economic crisis and still grappling with economic structural reform, the strengthening of its export competitiveness, and the issue of discontinuing the dollar-ringgit exchange rate peg, Malaysia's economy is on a recovery track. As mentioned above, the record of Japan's economic assistance to Malaysia on yearly net disbursement basis may show negative disbursements for some years because of the large repayments that Malaysia has been making on yen loans; however, on a gross disbursement basis, Japan's assistance in recent years accounts for over 60 percent of all bilateral assistance to Malaysia, and utilizing this assistance for Malaysia's economic growth is an important issue. Moreover, especially because of the growth of its economy, Malaysia is faced with issues such as narrowing income regional gaps, as well as environmental problems. For Malaysia on the move, it is essential that Japan provide appropriate assistance matching the needs and conditions in the country, taking into consideration that Malaysia will graduate from being a recipient country to become a donor.

Based on the priority areas agreed on the occasion of the comprehensive economic cooperation mission dispatched by Japan to Malaysia in 1993 and the

subsequent aid policy consultations, Japan's basic thinking on loan aid to Malaysia was to offer cooperation for efforts to tackle distortions caused by the country's rapid economic growth ("graduate school" course). Japan has focused upon the two areas of: (a) improvement of the environment, and; (b) alleviation of poverty and narrowing income gaps. In addition to these areas, Japan has also extended support for the fostering of SMEs and human resources development, for which the Malaysian side strongly requested cooperation, provided that such projects contribute to (a) and (b) mentioned above. Concerning technical cooperation, Japan has concentrated its assistance on: (a) science and technology development; (b) information and communication; (c) human resources development, and (d) the environment and sustainable development.

However, more than seven years have already passed since the dispatch of the comprehensive economic cooperation mission referred above, and, moreover, during that period Malaysia experienced both remarkable economic growth as well as the Asian economic crisis. From 1994 to 1997, Malaysia had achieved extraordinary economic growth without receiving any new yen loans, but the Malaysian economy seriously faltered after the 1997 Asian economic crisis, and it only at last began to recover through the economic measures taken by the Malaysian government and the large-scale financial assistance provided by Japan in FY1998 and FY1999. Furthermore, the Malaysian government's five-year development plan, the 7th Malaysia Plan, and its ten-year plan, the New Development Policy, both ended in 2000, and the new five-year and ten-year plans were launched from 2001. It is thus essential that Japan's assistance plan for Malaysia conforms to Malaysia's dynamic economic conditions and revamped development plans.

Malaysia's economy has for the most part overcome the impact of the Asian economic crisis and has recovered the level it had been at before the crisis. However, export dependency is high, the economy is prone to extend effects such as those of the state of the U.S. economy, and corporate restructuring and other structural reforms are still underway. Malaysia is also facing the possibility of deleterious effects from its fixed exchange rate and the prolongation of financial controls. It is important for Japan to extend its support to help strengthen the foundation for Malaysia's current economic recovery so that the Malaysian economy will continue to achieve sustained and stable growth, while recognizing that Malaysia will "graduate" from recipient countries in the

future.

At the same time, as a result of its economic growth, development and urbanization are progressing very rapidly in Malaysia. The preservation of the environment, prevention of industrial pollution, improvement of habitation, and narrowing regional and income gaps are accordingly becoming more important than ever before. It is essential that Japan provide suitable assistance to help Malaysia deal with these problems. Particularly in light of the importance of Japan-Malaysia relationship, Japan will continue, closely following Malaysia's economic trends and the existence of particular problems arising of its economic growth, to give special consideration to Malaysia's needs until Malaysia reaches a stage where it can tackle any distortions brought about by the country's rapid economic growth in the future.

On the other hand, for the mid- and long-term growth of the Malaysian economy, active engagement in the development of the IT industry, which continues to evolve at great speed around the world, and the sophistication of industries in Malaysia are vital. For such purposes, the training and education of those who can shoulder these efforts is indispensable. With this understanding, the Malaysian government has attached great importance to its 8th Malaysia Plan to the promotion of the IT industry and the development of human resources possessing a high level of knowledge, and it will be important for Japan to extend as much support as possible to these efforts of the Malaysian government.

The government of Malaysia is also actively pursuing a policy of contributing to the economic development of less developing countries by introducing to those countries the experiences and know-how Malaysia has obtained in its own development. Japan encourages these efforts of the Malaysian government, and it is important for Japan to support Malaysia's emergence as a donor. Moreover, assisting other developing countries through cooperation with Malaysia is also beneficial for raising the effectiveness and efficiency of Japan's own assistance.

3.4 Priority Areas; Issue-specific Assistance Measures

Based on the current economic conditions in Malaysia, the country's development needs, and the Malaysian government's development policies from 2001, Japan considers the following areas as priority areas for Japan's assistance to Malaysia in the future. In particular, for the actual implementation of loan aid, Japan will

continue for the time being its basic "graduate course" stances on Malaysia.

3.4-1 Assistance for the Enhancement of Malaysia's Economic Competitiveness

(a) Sophisticating and Improving the efficiency of the manufacturing industries.

In order to strengthen the competitiveness of the Malaysian economy, it is essential that the share of domestically produced capital goods and intermediate goods increase, as most of these goods currently depend on imports. For this, sophisticating and improving the efficiency of domestic support industries is indispensable, and Japan will provide assistance for improving these industries' technical levels, quality control capabilities, and productivity. Making use of its own experience, Japan will also extend intellectual assistance by providing its institutional expertise for the fostering of support industries, focusing on SME analysis, technical guidance, financial systems, etc.

At the same time, the improvement of the industrial infrastructure is also vital for advanced and efficient industries. In this regard, Japan will provide support for strengthening this foundation by focusing on the "software" aspects of economic infrastructure.

(b) Support for IT

The improvement of research and development capacities and the promotion of the utilization of IT technology serve as an important basis for sophisticated and efficient industries. Japan will extend support for the further training of IT engineers and the utilization and dissemination of IT.

(c) Fostering and strengthening of sectors by utilizing Malaysia's existing resources

Promoting and enhancing industries making use of Malaysia's domestic resources are vital for achieving the stable development of the Malaysian economy. From this viewpoint, Japan will provide support for strengthening Malaysia's tourism industry, which takes advantage of nature in Malaysia, its natural resources industries, utilizing rich reserves of oil and natural gas amongst others, and environment-friendly production of timber, palm oil, gum, etc. and subsequently agro-forestry industries.

3.4-2 Developing human resources with high levels of knowledge and skills for the future

The 8th Malaysia Plan calls for Malaysia to transform itself into a knowledge-based economy (k-economy), and for this, developing human resources with high levels of knowledge and skills is a pressing need. Japan will provide assistance for

improving, both qualitatively and quantitatively, institutions of higher education and facilities for advanced vocational training, particularly focusing on science and engineering education. Based on the favorable experiences accumulated through Malaysia's "Look East" policy, Japan will also support the increased dispatch of students to Japan. For this, Japan will assist efforts to strengthen links with Japanese institutions of higher education through the promotion of the "Twinning Program" (a system whereby a student receives a part of university education in the home country and then enrolls in a university in Japan to receive the rest of education to acquire a degree) and the utilization of distant learning, as well as support the increased dissemination and qualitative improvement of Japanese language education. Japan will also provide assistance for the expansion of high-level technical training related to IT and advanced production technology.

3.4-3 Assistance for Environmental Conservation and Sustainable Development

(a) Environmental conservation

Malaysia, particularly eastern Malaysia (northern part of Borneo Island), is said to have the richest array of bio-diversity in the world. Moreover, many tropical rain forests and mangrove forests remain throughout the country. The preservation of this precious natural environment while maintaining its development is a crucial issue not only for Malaysia alone, but of global magnitude. Japan will provide comprehensive and wide-ranging assistance, beginning with that for the training and upgrading of researchers and administrators involved in environmental conservation, and including the promotion of sustainable tourism development with special attention on the natural environment, the prevention of marine pollution, and the dissemination of education on the environment.

Furthermore, Japan's assistance for the sustainable utilization of marine resources will be well-coordinated with that provided by international frameworks such as the Southeast Asian Fisheries Development Center (SEAFDEC).

(b) Improvement of living environments

As Malaysia achieved rapid economic growth in the 1990s, there was a concurrent worsening of living environments in the country, as seen by increasing traffic congestion in cities, inadequate provision of water supply and sewerage facilities, waste disposal problems, and so on. To help tackle these distortions brought about by rapid growth, Japan will extend support for the improvement of living environments

through its assistance for the provision of social infrastructure and the training and upgrading of administrators and others involved in these areas. Making use of its own experience, Japan will also carry out assistance for the prevention of industrial pollution, the reduction of noxious substances in automobile emissions, and the control of emissions of greenhouse gases like carbon dioxide.

3.4-4 Assistance for the narrowing of Income and Other Gaps

(a) Reducing gaps

In addition to assistance for the improvement of living environments described in Section 3.4-3, (b) above, Japan will extend assistance for the reduction of poverty and the narrowing of income and regional gaps in its cooperation to help Malaysia mitigate distortions caused by its rapid economic growth. Japan will also contribute to the improvement of the welfare of the country's socially vulnerable.

Based on the fact that the fostering of SMEs and the development of human resources with high levels of knowledge and skills can significantly contribute to narrow income gaps among the social classes as well as regional gaps in the fields of IT, health care, and other areas. Japan will give particular priority to assistance that focuses specifically on the fostering of SMEs and human resources development in projects intended to narrow the above-mentioned gaps.

(b) Advancing the status of women in rural areas.

In Malaysia, the social advancement of women is relatively well underway, but there are still gaps between urban areas and local or rural areas. Japan will provide assistance for the social empowerment of women, particularly in local and rural areas, and the increase of their cash income.

3.5 Considerations for the Implementation of Assistance

3.5-1 Increased Dialogue with the Government of Malaysia

Increased dialogue with the Government of Malaysia is essential for ensuring that Japan's assistance conforms to Malaysia's needs based on a long-term perspective. In particular, it is important to have closer policy dialogues and consultations on project formulation with the Economic Planning Unit of the Prime Minister's Office, which is responsible for the formulation of national development plans and is the government's coordinating office for foreign assistance to Malaysia.

Moreover, since the number of Japan's assistance projects for Malaysia, now

mainly based on yen loans, has rapidly increased since the Asian economic crisis, it is important to increase the opportunities for exchanges of views with the various implementing agencies, as well as, of course, with the Economic Planning Unit, for the appropriate monitoring of the execution of existing projects and the identification and formulation of good new projects.

3.5-2 Strengthening Linkage Between Yen Loans and Technical Cooperation

As Malaysia became a upper-middle-income country, the provision of yen loans from Japan in the fields of environmental conservation, human resources development, and SME promotion increased. In these fields the so-called "soft ware" aspects—the formulation, operation, and management of projects—are of vital importance for the success of all assistance. Utilizing technical cooperation through JICA is both effective and desirable means to bolster the effectiveness of these "soft ware" aspects of yen loan projects.

3.5-3 More Flexible Lending Conditions for Yen Loans (repayment period, interest, etc.)

Japan will apply its lending conditions for upper-middle-income countries to loans to Malaysia. However, Malaysia has been requesting the setting of various different lending conditions (regarding repayment period, interest, etc.), and Japan will consider the possibility of these lending conditions through consideration of Malaysia's income level, debt-repayment capability, currency exchange risks, and so forth.

3.5-4 Promotion of Partnership

Japan's support to the South-South cooperation which the Malaysian government has been very actively undertaking is important for both raising the effectiveness and efficiency of Japan's own assistance to developing countries and supporting Malaysia's emergence as a donor country. Japan will enhance this partnership for development with the Malaysian government. Japan will, in particular, support Malaysia's cooperation to ASEAN and other countries in the region that are at a less developed stage and to African countries.

3.5-5 Ripple Effect to the Private Sector

Having achieved economic development to a certain extent, the role of the private sector in economic development is growing in Malaysia. In addition, as the government pursues privatization policy, a number of public corporations have actually been privatized. In light of these situations, it is important that efforts be made to

spread as much effect as possible to the private sector when implementing assistance in those fields where the private sector plays a particularly large role.

3.5-6 Consideration for the Environment

Japan will fully consider, at every stage from project formulation to implementation, the impact that yen loan and other Japanese assistance projects may cause on the environment.

Notes

2. Development Issues

2.1 Malaysia's Development Plans

1. Becoming a "developed country" refers to the government's goal of transforming Malaysia into a state that is fully developed not only in economic sense but in all political, social, spiritual, and cultural aspects by the year 2020. This goal was enunciated in Vision 2020, Malaysia's nation-building plan announced by Prime Minister Dr. Mahathir in 1991.

2. The NDP, while setting the two overall goals of national unity and the eradication of poverty and the restructuring of society, calls for the flexible application of the *Bumiputra* policy (the government's policy for raising the economic level of ethnic Malays, who are relatively worse off than the non-Malay population, while seeking harmony among all the races in Malaysia).

3. An outline of the 7th Malaysia Plan is given in Table 2-1. The following are the outstanding points of the plan.

- Strengthening ties and expanding markets in less developed countries in various regions
- Securing a strong position for Malaysia through the creation of leading information technology bases (IT)
- Developing of strategic industries

Main development issues for Malaysia as determined by the Mid-Term Review of the 7th Plan are shown in Table 2-2.

Table 2-1 Outline of the 7th Malaysia Plan

Objectives of the 7 th Plan	Main Measures	Current issues
(1) Macro-economic stabilization	· Financial/fiscal policies to restrain price rises	· Inflationary pressures · Current account deficits

	<ul style="list-style-type: none"> - Promotion of investment by domestic capital - Improvement of current accounts/strengthening of service sector 	<ul style="list-style-type: none"> - Intensification of international competition
(2) Alleviation of poverty and restructuring of society	<ul style="list-style-type: none"> - Mitigation of gaps in income, race, and region - Promotion of program to assist the poorest (PPRT) - Development of <i>bumiputra</i> human resources - Promotion of <i>bumiputra</i> participation in strategic industries - Promotion of policies to increase <i>bumiputra</i> capital holdings 	<ul style="list-style-type: none"> - Equitable development
(3) Productivity-led growth	<ul style="list-style-type: none"> - Promotion of policies to increase productivity - Development of technology, upgrading of skills, raising of institutional capacities - Improvement of infrastructure 	<ul style="list-style-type: none"> - Inflationary pressures - Current account deficits - Intensification of international competitiveness
(4) Improvement of competitiveness	<ul style="list-style-type: none"> - Economic, political stabilization, improvement of capital management - Promotion of industrialization policies, improvement of infrastructure - Raising of labor productivity, technical development - Rationalization of legal and regulatory systems 	<ul style="list-style-type: none"> - Neighboring and less developing countries catching up and need to secure comparative advantages
(5) Industrialization for the future	<ul style="list-style-type: none"> - Diversification industries centered on business clients - Strengthening of industry links, developing of SMEs - Creation of industrial clusters (vertical, horizontal relations among businesses, industries) - Promotion of tie-ups between foreign capital and domestic companies - Expansion of new industries like petrochemical and, aerospace industries 	<ul style="list-style-type: none"> - Securing of comparative advantages - Developing of domestic industries
(6) Human resources development	<ul style="list-style-type: none"> - Creation of information processing systems for labor markets 	<ul style="list-style-type: none"> - Labor shortages - Shortage of engineers - Supply and demand

	<ul style="list-style-type: none"> - Execution of Law on Private Higher Education (1996) - Revision of Employment Law (1955) - Promotion of employment of women and, older workers - Advancement of technical/vocational education 	<ul style="list-style-type: none"> mismatch for university graduates - Strengthening of domestic industries
(7) Development of technology	<ul style="list-style-type: none"> - Strategic planning and implementation of S&T programme - Strengthening of linkages among R&D institutes, universities, and industry - Strengthening of R&D, developing of human resources for technology development 	<ul style="list-style-type: none"> - Securing of comparative advantage
(8) Information technology	<ul style="list-style-type: none"> - Provision of IT-related infrastructure - Building of "Multimedia Corridor" - Formulation of IT information system plans - Promotion of IT-related education, training 	<ul style="list-style-type: none"> - Intensification of international competitiveness - Responding to an information-based industrial society - Strengthening of domestic industries
(9) Privatization	<ul style="list-style-type: none"> - Strengthening of monitoring, evaluation of privatization; improvement of legal/regulatory systems - Advancement of privatization in education/training, health and medical care, R&D, etc. - Involvement in privatization activities by local manufacturing, service-related companies - Promotion of participation by Malaysian corporations in overseas privatization projects 	<ul style="list-style-type: none"> - Reduction of public expenditures - Effective utilization of resources - Improvement of productivity
(10) Sustainable development	<ul style="list-style-type: none"> - Formulation of national environmental policies and strategies for environmental conservation - Making and strengthening of monitoring systems - Building of data, information systems - Promotion of environment-related education, environmental awareness in daily life 	<ul style="list-style-type: none"> - Environmental degradation due to rapid urbanization - Management of natural resources

(11) Improvement of quality of life	<ul style="list-style-type: none"> - Expansion and improvement of educational system, improvement of health and medical care - Provision of housing for low-income people, establishment of funds for low-cost housing 	- Vision 2020-related issues
(12) Resolution of social problems	<ul style="list-style-type: none"> - Establishment of high-level governmental consultations on social and family problems 	- Raising of children, prevention of crime
(13) Improvement of morality	<ul style="list-style-type: none"> - Building a caring society 	

Table 2-2 Main Development Thrusts Based on Mid-Term Review of 7th Malaysia Plan

- (1) Strengthening of macroeconomic fundamentals
- (2) Increasing the supply of human resources with expertise and experience
 - Transition from labor-intensive to knowledge-driven industries
 - Improvement of education and training
- (3) Reduction of poverty (enlargement of middle-income class)
 - Expansion of *bumiputra* middle-income class
- (4) Strengthening of financial sector
- (5) Revival of private sector
- (6) Activation of agricultural sector and rural communities
 - Support for infusion of private-sector capital in large-scale agriculture
- (7) Recovery of growth in manufacturing sector
 - Fostering of resource-based export-oriented industries
 - Raising of productivity
 - Fostering of SMEs
- (8) Development and expansion of service sector
 - airlines, marine transportation, insurance, financing, tourism, education, health, consultancy
- (9) Development of IT
- (10) Strengthening of S&T (Science and Technology)
- (11) Improvement of quality of life
 - education, housing, health, youths, women, family, community

Source: Mid-Term Review of the Seventh Malaysia Plan, 1996-2000

2.3 Relations with Major International Organizations; Efforts of Other Donor Countries and NGOs

4. ODA from International Organizations (net disbursement basis; unit: million dollars)

Year	1	2	3	4	5	Others	Total
96	UNDP 3.9	UNTA 1.2	UNHCR 1.0	UNICEF 0.8	EC 0.5	0.5	7.8
97	UNDP 5.2	UNTA 1.6	UNHCR 0.8	UNICEF 0.6	EC 0.5	0.2	8.9
98	EC 1.3	UNTA 0.9	UNHCR 0.6	UNICEF 0.6	UNDP 0.5	0.1	4.0

Source: DAC (Development Assistance Committee)

ADB: Asian Development Bank

EC: European Commission

UNDP: United Nations Development Programme

UNHCR: Office of the United Nations High Commissioner for Refugees

UNICEF: United Nations Children's Fund

UNTA: United Nations Regular Program for Technical Assistance

5. ODA from DAC countries (net disbursement basis; unit: million dollars)

Year	1	2	3	4	5	Japan	Total
96	Denmark 8.4	German y 7.5	Australia 5.9	France 3.5	Canada 3.4	-482.5	-455.2
97	Denmark 9.9	German y 6.4	Australia 2.9	Canada 2.2	Netherlands 2.0	-258.9	-243.7
98	Japan 179.1	Denmar k 7.7	Germany 5.9	Canada 3.8	Australia 1.7	179.1	198.1

Source: DAC

Note: Regarding Japan's ODA, Malaysia began the early repayment of its yen loan debts from 1996. Because the proportion of loan aid from Japan was high compared to aid provided by other countries, Japan, statistically, showed minus figures when the repayment amounts were factored in. Attention should be paid to the large differences between the annual disbursement base amounts and the net disbursement base amounts.

3. Japan's Assistance Policy for Malaysia

3.3 Desired Direction of Japan's Assistance

6. "Graduate course"

The standard by which countries are considered eligible for yen loans requires that those countries, in view of per capita GNP (according to World Bank statistics for 1999, in the case of loans for fiscal 2001), be eligible for World Bank loans with a 17-year repayment period (per capita GNP of from \$1,466 to \$2,995 for fiscal 2001). Those countries exceeding this standard are classified as "upper-middle-income" countries, for which yen loans, in principle, for environment-related projects may be considered as an exception, provided that environmental problems are particularly serious.

As Malaysia's per capita GNP (\$3,400 according to 1999 World Bank statistics) has, since fiscal 1994, moved beyond the benchmark (\$2,995) mentioned above, Malaysia has been classified as a "upper-middle-income" country that has "graduated" from receiving yen loans. However, because of the importance of Japan-Malaysia ties and the various development issues Malaysia is grappling with, agreement has been reached for Japan to extend loan aid to Malaysia on an exceptional basis to help tackle the distortions due to the rapid growth until Malaysia, now considered a "graduate student" (in the metaphorical sense that Malaysia has "graduated" from an undergraduate course but is still continuing its studies as a "graduate student"), reaches the stage where Malaysia will clearly be able to resolve its various problems by its own efforts.

7. Amount of ODA Extended to Malaysia (1996-98; unit: thousand U.S. dollars [%])

	1996	1997	1998
United Nations system	7,825 (16.1)	7,549 (13.7)	6,569 (11.9)
Bilateral	40,770 (83.9)	50,975 (92.5)	48,537 (88.1)
Total	48,595 (100.0)	58,524 (106.2)	55,106 (100.0)

Amount of Bilateral ODA to Malaysia (1996-98; unit: thousand U.S. dollars [%])

	1996	1997	1998
Canada	133 (0.3)	727 (1.4)	647 (1.3)
Denmark	5,416 (13.3)	8,447 (16.6)	10,498 (21.6)
Sweden	724 (1.8)	172 (0.3)	-
Germany	4,472 (11.0)	4,193 (8.2)	4,617 (9.5)
Japan	26,694 (65.5)	33,629 (66.0)	30,528 (62.9)
United Kingdom	3,286 (8.1)	3,545 (7.0)	2,154 (4.4)
Netherlands	51 (0.1)	262 (0.5)	93 (0.2)
Total	40,770 (100.0)	50,975 (100.0)	48,537 (100.0)

Source: UNDP, "Development Co-operation Malaysia 1996/1997/1998 Report"

Statistics on Malaysia

1. Basic Economic Indicators

	1990	1995	1998
Population (in ten thousands)	1775	2010	2218
Nominal Total GNP (\$100 million)	415	783	813
Per Capita GNP (\$1)	2340	3890	3670
Current Account (\$100 million)	Δ8.7	Δ74	-
Fiscal Account (1 million ringgit)	Δ3437	1861	-
Foreign Debt (\$100 million)	153	343	448
Exchange Rate (1US\$:ringgit)	2.70	2.50	3.92

Source: "Japan's Official Development Assistance"

2. Key Social Development Indicators

	1990	Latest Year Available
Average Life Expectancy (years)	70	72 (1998)
Infant Mortality Rate (per 1000 people)	22	8 (1998)
Adult Illiteracy Rate (%)	22	Male: 9 (1998); Female: 18 (1998)
Primary School Attendance Rate (%)	-	100 (1997)
Percentage of Population with Access to Potable Water	79 (1988-90)	89 (1990-96)
Percentage of Population with Income of \$1 or Less Per day	-	-

Source: "Japan's Official Development Assistance"

3. Japan's ODA Disbursements to Malaysia (\$million)

	1990	1995	1999
Grants (total)	60.31	86.13	69.76
Grant Aid	1.77	1.46	1.27
Technical Cooperation	58.54	84.68	68.49
Official Loan Aid (net disbursement amount: disbursement minus repayment)	312.31	Δ21.30	52.85
Total	372.62	64.83	122.61

Source: "Japan's Official Development Assistance"

* "Net disbursement" means the monetary amount (amount of loans extended

[including deferred debt] minus amount of loan repayments) transferred to a recipient country in a given period.

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