2-2. Asian NIEs' and Japan's Industry Promotion Policies

In order to comprehend the characteristics of Malaysia's industrial promotion policy, it would be useful to review the industrial promotion policies that have existed up to now in two of the Asian NICs, Korea and Taiwan. A basic outline of the path followed by Korean and Taiwanese industrial policy is given below.

2-2-1. South Korea's Industry Promotion Policies

The main distinguishing feature of South Korea's industry promotion policies has been the strengthening of export-oriented industrialization under the supervision of the government. During the 1950s after the end of the Korean War, like other developing countries, South Korea started to implement import-substitution industrialization policies. However, faced with the constraints of a small domestic market, its policies changed direction in the early 1960s so that they were now export-oriented industrialization policies aimed at export markets. Exports were used as the "engine for growth", and in the sense that they have brought about today's economic growth. Korea's industrialization has had a considerable impact on the development policies of other developing countries.

An outline of the course taken by South Korea's industrialization policies and industry promotion policies will be examined below in the context of the six Economic Development Five-year Plans (hereafter referred to as Five-year Plans).[1]

(1) Industrialization Policies of the 1950s

As a consequence of the Korean War, which started in 1950 and continued for 3 years, South Korea's industrial base, which was fundamental for industrialization, was destroyed. Also, prior to the war, industry had been concentrated in the northern part of the peninsula so that with the partition between north and south, South Korea was left little industry and only an agricultural sector existed. The scale of the damage caused by the war was such that it was equivalent to two years' worth of GDP for South Korea at that time, and as such, dealt a crushing blow. Consequently, South Korea's

[1] The following sources were used as reference materials in regard to South Korea's industrialization policies: "South Korea's Plan for Industrial Development", Institute of Developing Economies; "Asian Nations' Policies, Chapter Seven", Institute of Developing Economies; "Venture Capitalism in South Korea", Toshio Watanabe.

industrialization began with what little remained in the way of agriculture and light industry.

Aid from the United States formed the basis of the country's move towards industrialization during the 1950s.[1] The U.S.-South Korea Mutual Security Agreement was formed as a bridgehead for the allies in the Far East and large supplies of aid (wheat, unrefined sugar, raw cotton) entered Korea from the United States through PL 480. On the basis of this aid, the flour milling, sugar, and textile industries, also known as the "three white industries", began to flourish during this period. However, the industrialization which occurred mainly in relation to these "three white industries" did not continue long. In less than no time the small domestic market was saturated, and in the late 1950s investment in surplus plant and equipment occurred.

Then, once into the 1960s the aid from the U.S. which had been gratis was changed so that it was now given in the form of loans, thus making it necessary for Korea to break away from its dependence on U.S. aid.

Through its consistent government leadership, the Park administration, which came to power as a result of a military coup on May 16, 1961, adopted industrialization policies until Park's assassination in 1979. A "policy of export-oriented industrialization" was the direction which the Park administration took for achieving economic development.

This policy involved promoting industrialization through the sale of labor-intensive goods on export markets by making use of South Korea's abundant resources of low-paid labor. The factors which were behind this policy were: (1) South Korea mainly existed of agricultural regions where there was a surplus in population and in order to industrialize capital goods had to be imported from advanced countries. Although in order to import, foreign exchange had to be earned through exports, the only goods which could be exported were labor-intensive light industrial goods; (2) The 1960s was a period of "simultaneous growth" for the world economy, and the climate for export was good. In advanced countries a rapid change was taking place in their industrial structure whereby labor-intensive industries were declining, thus making it possible for Korea to take over these areas.

Under such conditions, the Five-year Plans began under the Park administration.

[1] U.S. aid given to South Korea during this period was worth in excess of $3.0 billion up to 1961.

(2) First Five-Year Plan (1962-66)

The basic objectives of the First Five-year Plan were to correct the vicious social and economic circle and to achieve an independent economy. With this basic structure the main objectives were to secure energy resources, expand indirect social capital, construct key industries, and improve the country's international balance of payments through increasing exports.

However, domestic savings were little and although positive attempts were made for the induction of foreign investment these resulted in failure. On top of this came the confusion which accompanied the currency reform in 1962, with the result that during the second year the plan came to a halt and from the third year on the objectives were adjusted downwards. As a consequence of this downwards adjustment the trend towards exports became much stronger through such moves as the strengthening of the export-import linkage system, a decrease in export finance interest rates, and the establishment of KOTRA (Korean Overseas Trade Association).

For example, it was considered that an export industry mainly in the private sector ought to be established and so a number of measures were taken. These included export income tax reductions and exemptions, a preferential tax system with special rebates, exemption of import duties, and special government finance.

During this period exports increased 500% so that whereas they had been worth $55 million in 1962 they amounted to $254 million in 1966. Goods exported consisted mainly of light industrial goods such as textiles and sundry goods.

The following helped resolve the foreign exchange shortage during the period of the First Five-year Plan: 1) the induction of right of claim funds from Japan (supply of gratis and considered funds,[1] which became possible through the normalization of relations between Japan and South Korea in 1965; and 2) its success in obtaining loans worth $150 million as a result of sending Korean armed forces to the Vietnam War and special procurements for Vietnam.

The export-oriented development strategy which was made clear in the First Five-year plan was an extremely high political risk. One reason for this was the necessity for foreign capital because of the reliance on foreign capital for investment funds. In 1962 83% of total investments was derived from foreign capital. Also, there were no plans whatsoever to pay back from export income the overseas loans which had accumulated from the 1950s up to 1965. It was quite natural that President Park himself, since December 1962, had taken the position of chairman of the Committee for Growth for

[1] For the 10-year period from 1966 this amounted to $200 million in considered and $200 million in gratis funds.

Table III.2-21 Economic Development Five-year Plans and their Results (yearly averages for the periods of the First-Fifth Five-year Plans)

	Unit	First Five-year Plan (1962-66) Target	First Five-year Plan (1962-66) Result	Second Five-year Plan (1967-71) Target	Second Five-year Plan (1967-71) Result	Third Five-year Plan (1972-76) Target	Third Five-year Plan (1972-76) Result	Fourth Five-year Plan (1977-81) Target	Fourth Five-year Plan (1977-81) Result	Fifth Five-year Plan (1982-86) Target	Fifth Five-year Plan (1982-86) Result
Rate of economic growth	%	7.1	8.5	7.0	9.7	8.6	10.1	9.2	5.5	7.6	8.7
Rate of population increase	%	2.81	2.75	2.20	2.24	1.5	1.7	1.59	1.55	1.6	1.4
GNP per capita	Won	11,126	13,153	36,069	45,197	123,951	132,748	732,000	1,095,000	1,335,000	2,024,000
		(at 1960 price)		(at 1965 price)		(at 1970 price)		(at current price)		(at current price)	
	$	—	307	—	437	—	650	1,512	1,607	2,229	2,296
		(at 1960 price)		(at 1965 price)		(at 1970 price)		(at current price)		(at current price)	
Rate of investment	%	22.6	15.1	19.0	26.4	24.9	27.8	26.2	35.5	28.4	30.3
People's saving ratio	%	9.2	6.1	11.6	13.1	19.5	18.2	24.2	23.9	26.1	27.1
Overseas saving ratio	%	13.4	8.8	7.5	12.9	5.4	9.8	2.0	11.2	2.1	3.2
Industries											
Agriculture Forestry & Fishing	%	34.0	31.7	34.0	28.8	22.4	24.0	18.5	19.6	14.9	—
Mining & manufacturing	%	27.2	25.7	26.8	20.9	27.9	29.5	40.9	31.3	32.7	—
Indirect investment, other	%	38.8	42.6	39.2	50.3	49.7	46.5	40.6	49.1	52.4	—
Current account balance	($million)	−246.6	−250.6	−95.8	−847.5	−359	−311	1,172	−4,436	400	4,617
Exports	"	137.5	253.7	550	1,132	3,510	7,815	20,242	20,881	35,700	34,715
Imports	"	492.3	673.2	894	2,178	3,993	8,405	18,872	24,299	35,100	31,584
Export reliance ratio	%	—	10.3	—	15.3	—	30.9	—	38.1	—	43.3
GDP deflator increase ratio	%	—	15.4	—	13.4	—	21.0	—	19.9	—	4.1

Note: 1 Values for the final year of the period for each plan
2 Average value

Primary source: "Outline of South Korea's Economic Development", National Federation of Economists: "Major Economic Indicators", Economic Planning Institute
Source: "South Korea's Industrializtion", Institute of developing Economies

Export Promotion which comprised of high government officials and leaders from the financial world, and took the lead in the promotion of exports.

(3) Second Five-year Plan (1967-71)

The Second Five-Year Plan aimed to increase employment and improve the balance of international payments through the promotion of the industrialization of the heavy and chemical industries, increased exports and import substitution, which were directed at modernizing the industrial structure.

During this period the government selected priority industries which were to be fostered and it also enacted specific measures for their promotion and development. These comprised of the following 6 pieces of legislation: 1) Petrochemical Development Act (1966); 2) Shipbuilding Industry Promotion Act (1967); Machine Industry Promotion Act (1967); 4) Electronics Industry Promotion Act (1969); 5) Steel Industry Promotion Act (1970); and Non-ferrous Metal Refinery Act (1971). These industries were selected because: 1) they could be developed into industries which had a high acquisition rate of foreign currency: 2) the effect they would have on related industries and on creating employment; and 3) their key importance as industries.

As for the specific measures which were taken, the government put participating companies under a licensing system, and took special preferential measures in the areas of taxation and finance (a promotion fund was established).

Then as part of putting the infrastructure in place, the government began to create industrial complexes and enacted the Export Industry Industrial Complex Development Act (1964), the Export/Free Zone Establishment Act (1970), and the Industry Base Development Promotion Act (1973). Although this policy was an effective means for an industrializing country, because it centered on large-scale industrial complexes in approximately 10 areas, the result was that industrial sites were concentrated in the coastal zone in the southeast of the country, which meant considerable costs incurred in the provision of housing for relocated workers.

In 1969 the Masan Free Zone was established using Taiwan's Kaoshun Export Processing Zone as a model for development.

During the period of the Second Five-Year Plan, work on a network of expressways (Kyungboo Expressway, Kyungin Expressway) was started and plans were devised for an iron manufacturing plant. The plans for the plant included the formation of KISA, which was formed in December 1966 and was comprised of iron manufacturing companies from the U.S, West Germany, Great Britain and Italy. However, claiming that the project was not economically viable, the U.S. and West

Germany pulled out, thus causing temporary halt. But with the cooperation of Japan, work on the project finally started in April 1970, and the project brought about the heavy and chemical industrialization of the 1970s.

(4) Third Five-year Plan (1972-76)

The Third Five-year Plan aimed at a highly advanced industrial structure which would lead to full-scale heavy and chemical industrialization. A number of important pieces of legislation were enacted to make this possible. For example, in 1973 the Foreign Investment Induction Act, which had been enacted in August 1966, was revised, and the induction of foreign capital became one of the cornerstones of industrialization.

Also, various financial organizations were established in order to effect heavy industrialization. The People's Investment Fund was established in 1976, the South Korea Land Bank in 1975, and the Export-Import Bank of South Korea was established in 1976. Preferential interest rates for loans were implemented, and greater provision was made for incentives for the heavy and chemical industries.

Instead of labor-intensive industries such as the textile and footwear industries, capital goods import-substitution industries such as the petrochemical, shipbuilding and steel industries, were designated as priority industries.

Although in 1973, the second year of the plan's implementation, the first oil shock occurred and brought about a shortage of foreign currency, South Korea was able to overcome this through its construction projects in the Middle East and the skilful selection of export markets. However, the oil crisis did bring about a change to the development strategies, which were the result of an excess of government aid for export promotion at that time. A change was made over to encouraging heavy and chemical industrialization through import substitution for capital goods and intermediate goods, and to direct export incentives involving the tax system and preferential interest rates. Also, particular emphasis was placed on indirect incentives such as export promotion rates, export processing zones and attraction of foreign exporting companies.

During the period of the plan, progress was achieved in heavy and chemical industrialization, as symbolized by the completion of the Pohan Iron Manufacturing Plant, the start of production of the "Pony" by the Hyundai Motor Company, and the construction of a 260,000 ton tanker by Hyundai Shipbuilding.

(5) Fourth Five-year Plan (1977-81)

The priority objectives of the Fourth Five-year Plan were to make a high-level industrial structure and to carry out technical reform. With these objectives, higher domestic production ratios were set for the machine industry and a change was sought over to increasing the quality of consumer goods rather than the volume. Also, the industrialization rate for heavy and chemical industries was raised.

While in November 1972 President Park had stated that it was the government's objective to reach exports of $10 billion by the year 1980, this goal had been attained in 1977. When he addressed a gathering at a celebratory party held in Seoul on 22 December 1977 President Park said, "West Germany needed 11 years before its exports increased from $1 billion to $10 billion, Japan needed 16 years, but South Korea achieved this in the space of 7 years".

However, the Fourth Five-year Plan saw the first time ever since the long-term plans were first implemented that the targets were not met by considerable margins. A number of factors were behind this, including the second oil crisis, the low growth of advanced countries, the rise in protectionism and the assassination of President Park who had until then provided strong leadership. In addition to this, the strains which had been caused by Korea's past rapid industrialization began to appear at this time. Because the industrialization of the heavy and chemical industries which the government had been strongly promoting had occurred mainly among the *zaibatsu*, the development of medium- and small-scale manufacturers lagged behind. As a consequence, trade deficits became a matter of course because of the increase in imports of consumer goods and intermediate goods. Also, labor-intensive goods lost their relative advantage because of inflation, which drove up wages. Furthermore, other developing countries also started to catch up.

The start of the reorganization of the heavy and chemical sector, which began in 1980 and included the reorganization of the *zaibatsu* companies and the abolition and amalgamation of heavy and chemical industry companies, brought some confusion to the economic world and caused a decline in economic activities.

(6) Fifth Five-year Plan (1982-86)

With the target of 1) correcting the strains in the Korean economy which had become exposed during the Fourth Five-year Plan and 2) the qualitative expansion, rather than quantitative, expansion of the economy, the basic objectives of the plan were 1) stability, 2) efficiency, and 3) equilibrium. It is true that in the short-term, the strategy of quantitative expansion was effective in bringing about high growth. However, it also brought about an increase in the supply of foreign currency and a decrease in the savings ratio and also lowered international competitiveness and put the balance of international payments into the red. Furthermore, it widened the gap between the various income groups and created an imbalance between the regions.

The Fifth Five-year Plan started with the intention of overcoming these problems, but starting in 1982, inflation started to decline and the rate of the won against the US dollar steadily began to decline as a result of the floating exchange system (1980) under the basket system for foreign currencies.

Development strategies since 1981 have featured 1) price stability; 2) market opening; and 3) a balanced economic growth. Price stability was sought through a tight monetary policy, retrenchment in finance, and controls on wages. Market opening policies have been put in practice since the establishment of the Fair Trade Commission within the Economic Planning Agency and the enactment of legislation concerned with monopoly regulations and fair trading. The percentages for the 80 liberalized import items were rapidly increased with 1979's 68.2% rising to 74.7% by 1982 and 91.5% by 1986. The number of industries for which foreign investment was possible also increased annually. As for balanced economic growth, steps were taken for the dispersal of industries among the regions and the fair distribution of income. However, these did not necessarily bring about satisfactory results.

In the latter half of the plan's duration, since autumn 1985, the appearance of the "three low merits" (Note [1]) has proven very beneficial for South Korea's economic growth and for its exports. The most significant developments during the period of the plan were the stability in prices brought about by the decrease in the cost of petroleum and primary products and the improvement of the current account balance, especially the 1986 current account surplus of $4.6 billion and the decrease in the overseas debt balance (from $46.8 billion at the end of 1985 to $44.5 billion by the end of 1986).

(7) The Sixth Five-year Plan (1987-91)

During the first four Five-year Plans the entire emphasis was placed on expanding the Korean economy, but afterwards, various difficulties that resulted from such an emphasis began to appear. While the main objective of the Fifth Five-year Plan was to correct these difficulties, the Sixth Five-year Plan was centered on "the construction of an independent growth base" for "a firm trend of surplus for the balance of international payments".

The following are the 6 major policies contained within the Sixth Five-year Plan:

[1] Low price of oil, low interest rate, low won rate

1) The continuation of appropriate growth for the expansion of employment opportunities

2) A settled trend of surpluses for the balance of international payments and an easing in the foreign currency burden

3) The promotion of a harmonious industrial structure and turning the country into a technological country

4) Developing equilibrium between the regions and revitalizing the regional economies

5) Increasing welfare for the people and promoting equity

6) Revitalizing the market economy system and re-establishing the function of the government

In addition to putting the Sixth Five-year Plan into effect, South Korea faces some difficulties due to the international situation today. These include the move towards protectionism in the U.S. and the pressure which has been applied to South Korea to open up its markets, pressure to revalue its currency, and the rapid rate at which other developing nations are catching up. It would seem that some time is needed until the reliance on exports which has continued up until now is corrected.

Furthermore, the improvement in the balance of international payments depends on the outside factors of the "three lows", and there is no guarantee how long this situation will continue. It is necessary for South Korea to work on strengthening the economic base through fostering the medium- and small-scale enterprises, which supply intermediate goods and parts.

In order to succeed in research and development, raising the level of export goods, and competition with the later developing countries, it is necessary that the transfer of the latest in technology take place, and the capacity for research and development be strengthened. In order to achieve this, the Sixth Five-year Plan makes provision for the investment ratio for science and technology as represented by GNP to increase from the 1985 level of 1.7% to 2.5% by the year 1991.

The business management of the *zaibatsu*, which have up until now sustained South Korea's economic development, has also reached a turning point. First, the *zaibatsu* are now faced with the changeover to the next generation in their top positions. Secondly, there is mounting criticism about the monopolistic situation and the way in which the *zaibatsu* carry too much weight in the South Korean economy. Third, there is

Table III-2-22 Economic and Social Indicators of the Sixth Five-year Plan

	Unit	1985	1986 (Estimates)	1991 (Estimates)
Total population	1,000 population	41,056	41,569	44,094
GNP	current, $100 million	831	920	1,660
GNP growth rate	real, $	5.1	9.0	7.0
GNP per capita	$	2,032	2,200	3,800
Industrial structure	current, %	100.0	100.0	100.0
Agriculture, forestry and fishing		14.3	13.1	10.9
Mining and manufacturing		30.6	30.1	32.9
(Manufacturing industries)		29.1	28.7	31.8
SOC & other		55.0	56.8	56.2
Total investment ratio		31.2	29.8	31.0
(fixed investment ratio)		30.6	30.9	30.5
Domestic savings ratio	%	28.4	30.6	33.0
External savings ratio		3.1	−0.8	−2.0
Current account balance	$100 million	−9	20	40
Trade balance		0	25	48
Exports		264	317	544
Imports		264	292	496
Gross external debts		468	475	461
Net external debts		355	357	237
Average life expectancy (male)	years	64.9	65.3	67.3
(female)		71.3	71.8	73.9
Water supply ratio		67.0	70.0	80.0
Sealed road ratio	%	49.8	54.0	70.0
(regional roads)		(29.1)	(38.0)	(60.0)
Telephone diffusion ratio	number/100 population	15.8	18.0	26.0
Housing diffusion ratio		69.9	70.1	71.5
Medical security ratio		53.0	56.7	100.0
Pension ratio	%	9.2	9.3	58.5
University entrance ratio		49.3	48.9	45.2
Scientific and technological investment as part of GNP		1.7	2.0	2.5

Source: "South Korea's Industrialization", Institute of Developing Economies the call for a shift over to the "large variety small lot production" system from the "few goods mass production" system as the industrial structure is being improved, and there is the question of how effective their management systems will be in respect to their vertical management structure, etc.

Although the realization of the Sixth Five-year Plan will be influenced considerably by outside factors such as the situation surrounding international economies and politics, South Korea's independent economic base is firm and it now remains to be seen whether Korea will be able to join ranks with the economies of the advanced nations.

(8) Features of South Korea's Industrial Policies

As we have seen above, the first characteristic of South Korea's industrial policies and industrialization policies is that they have been carried out under government guidance. Secondly, economic development is sought with exports forming the base accompanied by a number of welcome preferential measures being given to exporting companies. The third point of significance is that the capital needed for industrialization has depended on loans from abroad and direct foreign investment. Fourth, Japan has been kept in mind as a model for economic development, with copies having been made of various Japanese systems and policies. One example of this is the establishment of KOTRA, which resembles JETRO as an organization for the promotion of trade.

It could be said that the finance system has proved to be very effective as a measure of promoting industry in South Korea. Since the First Five-year Plan each of the plans has been advanced by way of the government's induction of funds for limited allocation. The various financial organizations associated with the South Korean government have been in charge of the allocation of funds for the important policies and their implementation.

In regard to export financing, a number of preferential measures have been taken, among which are interest rates which are considerably lower than normal rates.[1] Since the Second Five-year Plan in particular, preferential development measures were taken for each separate priority industry in regard to the importation of capital goods and raw materials and the tax system. In the case of the priority industries, promotion measures have been taken for each individual industry in regard to funding. The establishment of the "Machine Industry Development Fund" on the basis of the 1967 Machine Industry Promotion Act is just one such example. In addition, the financing system was

[1] The role which low interest finance has played has been considerable. For instance, in 1965 when interest rates for commercial loans were 26% exporting companies were able to borrow up to 78% of necessary capital at the low rate of 6.5%.

expanded to include funds, such as the Industrial Complex Creation Fund and the Petrochemical Industry Construction Fund, for the industrialization of the heavy and chemical industries.

During the period of the Third Five-year Plan the "People's Investment Fund" was created for increasing the supply of long-term capital for exports and the heavy and chemical industries.

A particular feature of Korea's finance is the existence of "private bonds" as a form of unsystematic finance. The private bonds are not the surplus funds of individuals or companies which are directed at banks or other systematic financial organizations. Rather, they are used for direct loans made to companies or for the purchase of bills and are a type of finance which aims to support high real interest rates. The interest rates for the private bonds range between 4-6% per month, and it is common for only small and medium-sized companies and companies affiliated to the *zaibatsu* which do not receive the advantages of guidance policy finance to depend on the bonds.

Also, in South Korea there is a custom of mutual aid finance called *kei* . Funds which are gathered from this system earn high interest rates on the private bond market through finance brokers. A survey undertaken in 1981 revealed that 64% of savings derived from the nation's household budgets are put into private finance markets such as the private bonds or *kei*.

Because the people's underground finance market is large, in 1984 the domestic savings ratio for South Korea was 26.5%, lower than Taiwan's ratio of 30.5% and Japan's 31.6%.

Behind the overseas loans which sustained South Korea's economic development lie unsystematic factors within the country. A decisive factor in establishing an independent finance system which would not depend on loans from abroad will be whether it is possible to concentrate the nation's savings in financial organizations to a greater extent than at present.

In addition to the policies concerning heavy and chemical industrialization which were promoted in the Third Five-year plan, the provision of incentives in the tax system also brought results. For example, companies which invested in priority industries such as the petrochemical and shipbuilding industries were exempt from paying corporation tax and income tax for a period of 3 years, and for the following 2 years were exempted from paying 50%. Also, companies which invested were given either 8% investment credit (10% for domestic machinery and equipment), or permitted 100% special depreciation (1974).

These kinds of financial and tax incentives stimulated the private activities of South Korea's *zaibatsu* and it could be said that they brought about the favorable circulation of private investment and economic development. Furthermore, the Korean people are very concerned about the education of their children, and so being able to make use of an abundant high quality work force was an important fundamental condition for carrying out industry promotion policies within Korea.

It is perceived that South Korea's future industry policies will entail the fostering and strengthening of technology related to advanced technology and engineering, and that it will move towards securing international competitiveness. As pressure from the U.S. to open up markets is increased and the later developing countries catch up, South Korea's industry policies will promote liberalization and will include the task of joining the ranks of the world's advanced nations.

2-2-2. Taiwanese Industrial Policy

Industrial Policy Transitions

(1) Points of Departure

Taiwan's industrialization began at the end of World War II, when the Japanese monopoly capital and industrial facilities and infrastructure built up by small enterprise during the pre-war occupation were nationalized to create a national capital monopoly. Since it began with the reconstruction of industry and enterprise, the transition from the refurbishing of old facilities to an expansion of production was accomplished rather easily. By 1952, in fact, production of primary industrial goods had exceeded the highest levels of the pre-war period.

The vital foundations of Taiwan's industrial policy and industrialization strategy can be traced to three events: first, the currency reform of 1949; second, the agricultural reforms carried out during the years 1949-1953; and third, the influx of capital from the mainland during these same years.

At the time of Taiwan's establishment, the new nation faced many difficulties, including the employment problems brought about by a dramatic population increase (with 2 million refugees from the mainland joining the 6 million native Taiwanese), economic stagnation and severe inflation resulted when Japan cut off economic relations. The government responded with two major policies: currency reforms, which aimed at a policy of monetary equilibrium independent of both fiscal and financial policy; and agricultural reforms, which were carried out by the Kuomintang administration in order to dissolve the native land-owning population and consolidate their political power base on the island.

The currency reforms brought a neutral budgetary and financial policy foundation to the Taiwanese economy and eventually led to relatively stable prices and the development of a healthy savings-investment mechanism. Furthermore, small- and medium-sized businesses in the agriculture, forestry, and mining fields that were difficult for the bureaucracy to manage were sold off to private investors, as were large cement and paper manufacturers (the latter in the form of making up for insufficient compensation). In this way, landowner capital was transformed into commercial and industrial capital. The influx of enterprise and capital from the mainland (primarily in the spinning industry) also made a significant contribution to later development of private capital. The influx of people and money, in addition to breaking up a huge national capital monopoly and promoting the growth of private capital, ultimately played a major role in the growth of the Taiwanese economy as a whole.

(2) The Development Process and Transitions in Policy Emphasis

With the mitigation of inflation brought about by the currency reforms, the success of the epochal land reforms, and the effective utilization of U.S. aid, postwar reconstruction progressed steadily; by 1953, in fact, both agricultural and industrial production had returned to pre-war levels. In 1953 the first of the nation's economic development plans was unveiled. Altogether, there have been 7: the First Economic Construction Four-Year Plan (1953-56); the second plan (1957-60), which emphasized import-substitution industrialization; the third (1961-64), fourth (1965-68), and fifth (1969-72) plans, which stressed export-oriented industrialization; and the sixth plan (1976-81), which stressed heavy industrialization, with the 1980s being touted as the decade for advanced industrialization.

1. Industrial Policy During the 1950s (1953-60)
-- First steps toward import-substitution industrialization --

In accordance with the slogan of the day, "Cultivate agriculture through industry and develop industry through agriculture," the government's industrial policy centered around agriculture. Since Taiwan's economy had yet to recover fully, the primary objectives of the first four-year plan were to develop industries (mainly in the durable consumer goods sector) capable of producing substitutes for imported goods, eliminate shortages in daily necessities for the people, stabilize prices, and improve the nation's international balance of payments. In order to realize these goals, the following concrete steps were taken:

a. Emphasis was placed on the distribution of capital to the electric power industry, as a foundation for industry, and the fertilizer industry, as a foundation for agriculture (the latter specifically in order to increase production and exports of rice and sugar and reduce the nation's dependence on fertilizer imports).

b. Funding for these efforts was provided through national savings and export income, with the remaining portion being made up for with economic aid from the United States.

c. In order to efficiently utilize the limited foreign currency reserves, a comprehensive import plan for necessary goods was established that provided clear distinctions between products to be procured with foreign currency (i.e., U.S. aid) and those to be purchased with on-hand Taiwanese reserves.

d. High tariff barriers were erected to protect local industries, which were then in the process of recovery. Low tariff rates would be levied on an exceptional basis for those imports deemed necessary.

e. In order to achieve the above goals, strict import regulations such as the Import Permit Items List and an import licensing system were enacted. Included in this administrative system were import prohibitions and restrictions covering product, origin, and intended use.

f. Adoption of currency management using compound exchange rates.

The use of compound exchange rates made it possible for the government to keep down the prices of necessities while at the same time making unnecessary, non-urgent items prohibitively expensive. This resulted in a de facto "sorting" of all imports.

During 1953-61, the economy was host to several phenomena unique to the import-substitution period such as overvaluation of the currency, a relatively high rate of inflation, and an increase in the national budget were present, but annual economic growth of more than 7% was recorded under the first two economic plans.

From the 1950s through the early 1960s, the financial sector and government-managed enterprises in all fields of industry played a major role in place of private enterprise, which had not yet grown sufficiently. During this time, however, accumulated private capital, consisting of capital from the mainland as well as new local funds, grew steadily, and by the time that the export drive of the 1960s was about to begin a foundation for the development of labor-saving processed goods had already been established.

2. Industrial Policy in the 1960s

-- The transition to export-oriented industrialization --

By the end of the 1950s, the development of import-substitution industry had been accompanied by drastic increases in the production of textiles, agricultural goods, and other industrial products. By 1958 the domestic market had reached its saturation point, and so private enterprise began looking to overseas markets. It became increasingly recognized in government circles that, in order to allow continued industrial development and economic growth, foreign markets would have to be utilized.

The Taiwanese economic environment during the period from the late 1950s to the early 1960s was characterized by the following conditions:

(1) The economy was plagued by a continuous international balance of payments deficit exceeding $100 million.

(2) The urgent need for a change in policies to a self-powered type of government became apparent as U.S. economic aid was switched from grants to loans and signs could be seen of reductions and even cutoff.

(3) Facility investment and raw materials had become responsible for over 90% of all imports. Since these imports were imperative to further economic growth, it was

difficult to impose import restrictions, and in order to improve the international balance of payments it became necessary to promote exports.

(4) The government-managed key industries had been consolidated, and private enterprise had grown. Furthermore, increased agricultural productivity had resulted in the emergence of surplus agricultural labor, thus preparing the way for industrial-sector development. In addition, work on the development of a transportation network encompassing domestic and international ports was proceeding, and the conditions required for exports had all been met.

The third, fourth, and fifth four-year economic construction plans of the 1960s were thus situated at a time when the foundations had been laid for export-oriented industrial development. Domestically, budgetary policies were enacted to stop the increase in defense expenditures, and trade reforms were enacted to liberalize imports, eliminate the compound exchange rate system that had hindered exports in the past, and correct the overvaluation of the currency. Interest rates were also brought in line with effective market rates. Externally, aggressive programs to attract foreign capital were introduced.

Superior compatibility and mobility were required of the concrete policies directed toward export-oriented industrialization, including import tariffs, import administration, and exchange rates. These were to contribute to the promotion of the various domestic policies.

First of all, the high across-the-board tariffs were reconsidered, and the government began a gradual roll-back of all import duties, allowing rapid progress in the liberalization of imports. Among laws established for the promotion of exports were the Investment Promotion Act, the Foreigner Investment Act, and the Technology Cooperation Act, and preferential tax treatment for production and investment was utilized. In 1965, with the creation of the Kaoshun export processing district, foreign capital was aggressively sought out. Bonded factory and warehouse systems were also established.

Foreign-owned multinational corporations were the leading exporters, but local small- and medium-sized export enterprises began exports through the use of foreign and overseas Chinese trading company networks and began to increase their share of total exports. Mergers between smaller trading firms and joint ventures with foreign-owned firms were also tried, but the organization of such comprehensive trading firms proved to be difficult.

3. Industrial Policy in the 1970s
-- The road to flexible heavy chemical industrialization --

Under the third, fourth, and fifth economic construction plans, export and processing type industries developed with the introduction of foreign capital, exports grew rapidly, and the Taiwanese economy achieved extraordinary growth. Export-oriented industrialization, however, also had several weak points, including an overabundance of light industrial products and a continuing reliance on imports for intermediate raw materials and mechanical facilities. In order to improve this situation, heavy chemical industrialization policies, which might better be described as a policy of "second import-substitution industrialization", were enacted. In the sixth plan beginning in 1973, most of the emphasis was therefore placed on the promotion of heavy chemical industry.

As a complementary policy to the sixth economic construction plan, the "10 Major Construction Projects" plan (1974-79) was begun as a counter-inflationary measure. The economic plan itself was brought to a standstill only 3 years into its implementation because of the world-wide recession that followed the first oil crisis, but the "10 Major Construction Projects" plan continued, clearing the way for expanded production at nationally-managed enterprises and a consolidation of industry infrastructure. This plan attempted to nurture the steel, shipbuilding, and petrochemical sectors by mandating the creation of 3 large state-managed enterprises -- China Steel, China Shipbuilding, and China Petroleum. The remaining 7 projects, however, were aimed at the social infrastructure -- highways, railroads, airports, maritime ports, etc. -- and investment in the petrochemical industry fields represented only 20% of the total for the plan.

In order to overcome the structural weak points that had become evident during the oil crisis and achieve modernization of the economy, the medium-term economic construction 6-year plan (1976-81) was selected to replace the unsuccessful sixth plan. Emphasized in this plan were the preparation of social capital (mainly the above-mentioned ten construction projects) and the promotion of agriculture.

After the "10 Major Construction Projects" plan was concluded in 1979, the "12 Major Construction Projects" plan (1979-83) was initiated, but again, 6 of the 12 items were directed towards roads and railways. The only industry-related item, in fact, was an increase in annual crude steel production at China Steel, with most of the plan's provisions directed toward the rebuilding of a foundation for agriculture, new city development planning, and other agricultural promotion and social welfare measures.

In any case, heavy petrochemical industry projects were few and far between, and the majority of capital was supplied domestically -- this in response to the lessons taught by two oil crises. In effect, government officials chose a course emphasizing stable growth over the rapid but risky route of heavy chemical industrialization. At the same time, current energy policies were reinforced with a further commitment to nuclear energy, and the need for a transition from highly labor-intensive and energy-consuming sectors to technology-intensive and labor-saving fields became fully recognized.

As private capital developed, the role of state-managed enterprise became one of supporting private enterprise from the sidelines. During the heavy chemical industrialization in the second half of the 1970s, in particular, a structure developed in which the huge state-managed enterprises oversaw key industry sectors requiring large capital investment, while private enterprise was entrusted with the downstream sectors.

Industrial Policy in the 1980s
-- The road to industrial advancement --

Labor-intensive processing industries have been the centerpieces to Taiwan's industrialization. As the result of wage hikes and changes in the labor supply and demand structure, however, the prominence of labor-intensive industry as a means to national development has rapidly dwindled since the late 1970s across the globe. Since heavy industrialization has not produced significant results outside the petrochemical sector, emphasis has now been shifted to the new high-tech industries.

A ten-year construction plan has been laid out for 1980-89. Its most important objectives are "advanced technological industry, the securing of manpower for the chemical and technological fields, and the promotion of research and development in industrial technology." The plan puts forth a transition to energy-saving and technology-intensive industries in the country's attempt to make the great leap from the ranks of semi-developed countries to the circle of advanced nations.

Industries singled out in the current plan include electronics, automobiles, and machinery. These have been designated as strategic industries and as such are accorded certain incentives such as increased retention of corporate earnings, exemption from investment taxes, and long-term, low-interest financing. Components and materials with high-variety, low-volume and special production are emphasized: semiconductor materials, sensors, and computer peripheral devices (e.g., printers) in the electronics industry; automobile components in the automotive industry; and vending machines, sewing machines, and assembly machines in the machinery industry.

Taiwan's industrial advancement is proceeding at a relatively relaxed pace. Among the factors responsible is the current industrial organization, in which huge state-owned enterprises supervise the upstream sectors while private enterprise is limited mainly to downstream areas and small-scale light industrial goods production in particular. Given this situation, it is difficult to expect the small- and medium-sized private enterprises to put out the money required for research and development expenses or even to have the desire to move into new fields. Although private enterprise is supposed to bear part of the responsibility for industrial advancement, there are efficiency problems, and for the time being at least the tempo of advancement can be expected to be leisurely.

In order to break through the current economic quagmire, the Taiwanese government is proceeding in its liberalization of exchange rate and trade administration and is relaxing protectionist barriers. In addition, it appears to be moving toward an opening of the country as a processing and production base and toward the formation of an international trade and financial center.

Other Characteristics of the Taiwanese Economy

1. A double (public-private) capital structure

In the Taiwanese economy, the state has control over key industries and financial institutions, administering industry and finance and promoting industrialization under government leadership.

Despite this, however, it is private enterprise that has borne the burden of increasing exports and pushing ahead with growth. Small enterprise has played a particularly important role in this. In the latter half of the 1960s, when foreign capital and export-led industrialization grew rapidly, private production surpassed production at state-owned enterprises, and by the mid-1970s private enterprise was responsible for more than 80% of all production in Taiwan.

2. Export-bearing small enterprise

During the period of high growth from the second half of the 1960s through the first half of the 1970s, the number of privately-owned small- and medium-sized corporations with fewer than 500 employees grew significantly, with production at these firms accounting for 50% of total Taiwanese production. Moreover, the ratio of exports to total sales at these firms was roughly 2:3.

3. An emphasis on public welfare

Taiwan's economic development has come to recognize the importance of public welfare. In past economic plans, preparation of the social infrastructure (including farming villages) was emphasized, with considerable attention being paid to education, medical insurance, welfare, and the environment. Even during the peak of heavy chemical industrialization efforts, a complete balance was sought between industrialization and public welfare.

Workmen's insurance (comprising workmen's compensation, health insurance, and a pension plan) was introduced in 1950, and by 1955 it was made mandatory at businesses over a certain size.

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2-2-3.Japan's Industrial Policy

1.History of Japan's Industrial Policy

The issue facing the Japanese economy from the late 1940s to the 1950s was reconstruction. To rebuild the devasted economy, emphasis was laid on reconstruction of such basic industries as electric power, coal, and steelmaking. The government adopted the policy of distributing the limited raw materials, funds, and foreign currency to these sectors on a priority basis. Materials were allocated, financing provided, and prices controlled.

To clarify the emphasis on promotion of small and medium sized enterprises, the government established the Small and Medium Enterprise Agency at around this time and created the prototype of its current small business policy, which includes promotion of modernization of small businesses, promotion of greater sophistication through financing and organization, and diagnosis of management operations.

Industrial Rationalization and Promotion Period (1950s)

Japan completed the reconstruction of its economy around the middle of the 1950s and then shifted emphasis to greater self-sufficiency of the economy in its industrial policy through promotion of exports and rationalization of industry.

The Ministry of International Trade and Industry, which was reorganized and launched anew from the old Ministry of Commerce and Industry in 1949, took a stance of priority to trade, giving predominance to its trade-related departments and giving even its departments in charge of commodity production a clear role as sections in charge of production of export goods, thus combining production and trade. Further, in view of the need in export promotion too of not only strengthened production but also industrial rationalization for reduced costs and higher quality, the Ministry established a section for comprehensively drafting and executing industrial rationalization policies for trade promotion and set forth a clear policy of promoting expots through improvement of facilities, enhancing of the level of technology, and other forms of rationalization of industry. In 1950, a single exchange rate of US$1=360 yen was set.

At the same time, the government decided on a basic policy for rationalization of industry by which it set for itself the goal of bringing the prices of domestic goods close to international prices. The government established policies for guidance of individual industries based on projections of the future industrial strucutre and guided and promoted business rationalization based on the same. Further, it established the Industrial

Modernization Council, comprised of 31 subcommittees, as an advisory organization for examining necessary matters pertaining to industrial rationalization.

In response to a proposal by the Council stressing the need for capital accumulation, the government strove to increase corporate capital in the early 1950s by reappraisal of assets, creation of reserves for uncollected credits etc., special tax privileges such as special exemptions on export income, special tax measures such as a special depreciation system, and the like.

While the government prompted companies to increase their capital accumulation internally through the preferential tax system, it expanded fiscal investments and loans through the Japan Development Bank etc. so as to provide support for capital accumulation externally.

After the enactment of the foreign investment law in 1950, there was an influx of foreign funds and technology, which played a large role in the rationalization and technical development of Japanese business. The system of exemptions of import duties on important machinery also contributed much to the promotion of technical transfers.

High Growth Period

The 1960s saw Japan move to an open economy, through liberalization of trade and capital, as a member of the international community. In this process of this, Japan was experiencing high economic growth. The aims of the industrial policy during this period were to overcome the restrictions on economic growth arising due to the international balance of payments and to strengthen international competitiveness for the heavy machinery and chemical industries.

The government refrained from direct intervention in industry as a whole, prefering to set down general directions and guide business according to the same in a cooperative public-private manner. On the other hand, for key sectors such as machinery and electronics, it created special legislation and devised protective and promotive policies for modernization of the industrial structure.

In the "Law on Temporary Measures for the Promotion of the Machinery Industry", the government designated specific items for promotion, including molds and dies, under rationalization schems and through financing.

Moderate Growth Period (1970s on)

By the 1970s, Japan was enjoying sustained high economic growth and had reached the income level of mid-rank European nations. At the same time, however, strains began to appear due to the rapid growth and industrialization. These changes in social conditions, the severing of the U.S. dollar from the gold standard under new U.S.

policies, the introduction of a tax on imports, the subsequent rise of the yen value, and the oil crises all led to a great shift in the management of the Japanese economy in the 1970s.

Instead of the previous stress on export competitiveness, the government began to emphasize achievement of a balance in its foreign trade and moved to liberalize imports and capital. The oil crises triggered a decline in the growth rate which in turn led the government to seek rationalization of the industrial structure, enhanced added value, and other changes.

Under these conditions, the industrial policy served to summarize the government's conception of the direction of change of industrial structure and international relation and greater importance was taken on by means for guiding corporate activity in that direction. The basic idea followed in the 1970s was the achievement of "knowledge intensity" to cope with the changing needs of the people, i.e., a conversion to knowledge intensive industries such as research and development, advanced assembly, fashion, and information.

In the 1980s, Japan began to play a greater role in the global economy. Its industrial structure also shifted more and more away from an export dependent one to one characterized by a horizontal international division of labor. Domestic technology reached western levels and it became impossible to ensure future growth through just importation of foreign technology. In view of this judgment, the government took its industry policy a step beyond the stress on knowledge intensification of the 1970s to a stress on guidance for technology intensity and intellectual labor based on independent technical development. At the same time, Japan moved to supply the production technology and knowhow it had accumulated over the years to other countries along with capital so as to put them to use in the stimulation and development of the world economy.

2.Features of Japan's Industrial Policy

(1) Organization

Playing an important role in the decision-making process of Japan's industrial policy are, on the administrative side, [1] the bureaus in charge of the individual industries, started around 1930, and [2] the bureaus in charge of coordination within the ministries and agencies and, on the private side, the various industrial organizations. For important policy matters, further, opinions are sought from councils comprised of members from industry and government, with policies decided upon based upon their recommendations.

The industrial bureaus are in charge of drafting policies related to the industries under their jurisdictions. The government avoids direct intervention in industry as a whole and rather takes the policy of setting certain targets and guiding industry in accordance with the same, but for sectors important policywise adopts strong protective policies under specific individual laws Laws relating to the promotion and control of specific industries are primarily drafted and executed by the industrial bureaus. Based on these laws, production plans are established, controls are enforced, industrial standards are prepared for products, and the production processes of businesses are rationalized.

The policy tools include abatement of taxes (special tax measures), payment of subsidies, and extension of capital funds through government affiliated financial institutions. The proposals for the same are also put together primarily by the industrial bureaus. The original drafts for the policy of liberalization of imports, changes in tariff schedules, and policy of liberalization of capital related to various industries are also prepared by the industrial bureaus.

The coordinating bureaus both coordinate matters between various industrial bureaus and tackle a broad range of industrial readjustment policies relating to trade friction, energy, and development of high technology. The importance of industrial readjustment policies has been rising along with the reduction in the number of industries being specially promoted.

The industrial organizations and the councils may be said to function as a cooperative public-private system. In particular, in the execution of government policy, *the industrial organizations cooperate with the government, rather than being subjected to* mandatory measures under the law. They play important roles in promoting voluntary compliance by industry with the general policy directions indicated by the administrative side

(2) Policy Tools

In the industrial rationalization and high growth period from the 1950s to the 1960s, the following main policy tools were used:

[1] Priority fiscal expenditures for industrial infrastructure

[2] Preferential tax treatment in steelmaking, automobiles, shipbuilding, and other key industrial sectors through a special depreciation system

[3] Low interest financing by government affiliated financial institutions for for fiscal investment and financing using as main resources postal savings, the annuity account, etc.

Starting in the middle of 1965, the government began providing financial assistance to large scale technical development projects relating to industrial technology, computers, etc. Since 1970, the government's industrial policy, based on Japan's "vision" of the future, has become of increasing importance as a blueprint for industrial activity.

(3) Small and Medium Enterprise Policy

The small and medium enterprise policy was started as far back as around 1930 and was reinforced with the establishment of the Small and Medium Enterprise Agency (1948) and the establishment of the Small and Medium Enterprise Basic Law (1963). Diverse policy tools have been used for this, including financing, taxes, subsidies, supply of information, preferential purchases of products by government offices, etc.

Industrial Promotion in Asian 5 Countries & Regions

JAPAN	KOREA	TAIWAN	THAILAND	MALAYSIA
Postwar Reconstruction Period (1946-48) "Priority Production System" Material Quota/Reconversion Finance Bank Loans/Price Control				
Industrial Rationalization Period (the first half of 1950's) Preferential Treatment for equipment investment (special depreciations)/Loans from the Japan Development Bank/Tax Exemptions	**After The Disturbance in Korea** (1950's) Import Substitutional Industrial Development Promotion Aids Quota System/Double Exchange Rate/Tax Exemption for Raw Materials & Machinery	**Import Substitutional Industrialization Period** (the first half of 1950's) Adjustment of Public Key Industries—Sugar, Cement, Fertilizer, ... etc./Textile Industry Promotion with Bave Import Quota	**Import Substitutional Industrialization Initial Stage** (1950's) Act on Promotion of Industries (1954) Import Substitutional Industrialization Focusing on National Enterprises & Light Industry	**Import Substitutional Industrialization Initial Stage** Pionir Status Ordinance (1958) Tax Exemptions & Deductions for Pionir Enterprises/Import Substitutional Industrialization (Food Processing & Textile)
Industrial Development Promotion Period (the latter half of 50's) Synthetic Fiber, Petrochemical, Electronics, Machinery Tariff Protection/Selective Fiscal • Financial Policy (Loans from the Japan Development Bank, Depreciations, Tax Exemptions & Reductions)/Approval of Technology Introduction		**Transitional Period to Export Oriented Industry** (the latter half of 50's) Adjustment of Public Key Industry/Textile • Agricultural Product Processing Industry Development.		

JAPAN	KOREA	TAIWAN	THAILAND	MALAYSIA
High-Growth Period (1960's) Building an Open Economy. Industry-Government Cooperation System (Investment Adjustment/Co-ordination of Production Field/Industry-by-Industry Development Programs (Law on Extraordinary Measures for Machinery Industries/Law on Extraordinary Measures for Electronic Industries.)	**Transition to Export Oriented Industrialization (1960's)** Stressing Economic Growth. Introduction of Foreign Capital (Mainly Loans)/Export Light Industry Promotion/Tax Exemptions/Key Industry Promotion With The Government Initiative & Intervention	**Export Oriented Industrialization in Full-Swing (1960's)** Introduction of Foreign Capital (Loans & Direct Investment)/Focusing on Private Sector/Export Processing Zone/Tax Exemptions & Deductions/Trading Company Promotion	**Import Substitutional Industrialization Progressive Stage (1960's)** Promotion of Industrial Investment Act/Stressing Public Enterprises & Introduction of Foreign Capital/Remittance Foreign Capital Liberalization/Tax Exemptions of Raw Materials & Machinery Imports/Foundation of IFCT, SIFO	**Import Substitutional Industrialization Progressive Stage (the latter half of 1960's)** The First Malaysia Plan (66-) Import Substitutional Industrialization by Introduction of Foreign Capital.
Stable Growth Period (1970-) Drawing up "Vision". Utilizing Market Mechanism. Knowledge-Intensive Industry. High Technology Development.	**Export Oriented • Heavy & Chemical Industrialization (1970's)** "Heavy & Chemical Industries-Strategic Industrial Development Plan" Government Controlled Financing Organization. Export Industry • Heavy & Chemical Industries Promotion With Low-Interest Loan. Expansion of Equipments in Private Enterprises.	**Heavy & Chemical Industrialization (1970's)** 10 Major Development Plan Foundation of Public Enterprises of Iron & Steel, Oil and Shipping/Social Capital Adjustment	**Parallel Commitment With Export Oriented Industrialization (1970's)** Expanding Introduction of Foreign Capital/Strengthening BOI/Expanding privilege on Tax	**Parallel Period of Import Substitutional Industrialization & Export Industry Promotion (1970's)** New Economic Policy (NEP) Export Industry Promotion (Parallel with Import Substitutional Industrialization) Industrial Coordination Act. Guide Line of Foreign Capital Introduction Export Processing Zone. Heavy & Chemical Industrial Promotion.

JAPAN	KOREA	TAIWAN	THAILAND	MALAYSIA
	Liberalization • Heavy Chemical Industries Co-ordination (1980's) Economic Liberalization. Leaving Public Cooperation to Private. Foreign Capital Liberalization. Finance Liberalization. Heavy & Chemical Industries Co-ordination Small- and Medium-size Enterprises Promotion	**High Technology Promotion** (1980's) Specifying Strategic Industry. Tax Exemptions for Electronics & Machinery/Low-Interest Loans/Preferential Internal Revenue Fund/Automobile Industry Promotion.	**Export Oriented Industrialization in Full Swing** (1980's) Massive-neutralizing Foreign Capital Constraints/Strengthening Foreign Capital Introduction/Approval of Majority Foreign Capital/ Tax Exemptions & Deductions for Export Oriented Investment	**Export Oriented Industrialization** (the latter half of 1980's) The Fourth Malaysia Plan. Review of Foreign Capital Constraint. Specifying 12 Prior Type of Industry According to Industrial Master Plan.

3. Export Promotion Policy

3-1. History of Export Promotion Policy

Malaysia came out with a clear policy for promotion of exports in its industrialization process with the 1968 Investment Incentive Act.

After independence in 1957, the Malaysian government began a program of import-substitution industrialization based on advice from the World Bank. Almost no exchange-rate controls and import-volume restrictions such as those seen in other developing countries selecting import-substitution industrialization were implemented, however, and the country also avoided extremely high import duties. Because of the restrictions inherent in the country's tiny domestic market, the government was to shift the focus of its policies to the promotion of exports in the end of the 1960s, but the transition was not a drastic one and allowed these two elements to coexist as industrialization proceeded.

Table III.3-1 shows the time of introduction of the main export promotion policies of Malaysia. Here, we will look at the trends in Malaysia's export promotion policies based on policies believed to have had great effects on increasing exports.

Table III.3-1 State of Introduction of Export Promotion Policies by Malaysia

1967	1967 Customs Duties Act
1968	1968 Investment Incentive Act
1971	Free Trade Zone (FTZ) Act
1972	1972 Sales Tax Act
1976	1976 Commodity Tax Act
1977	Export Finance System (Post-Shipment Refinancing)
1977	Establishment of Malaysian Export Credit Insurance Berhad (MECIB)
1979	Export Finance System (Pre-Shipment Refinancing)
1980	Establishment of Malaysian Export Trade Center (MEXPO)
1983	1983 Investment Incentive Act (Amended)
1983	Establishment of General Trading Companies
1985	Establishment of Export Promotion Council (EPC)
1986	1986 Promotion of Investment Act
1987	Export Achievement Award System (started by FMM in 1985 and sponsored by MTI from 1987)

Fig. III.3-1 Main Incentive Systems for Manufacturing Industries

General incentives	(1) Pioneer status, 5-year exemption from corporate tax with a possible 5 year extension on a case-by-case basis	
	(2) Investment Tax Allowance (ITA) in respect of qualifying capital expenditure incurred within five years from the date of approval of the project.	Export ratio, maximum 30% deduction Added value ratio, maximum 20% deduction Local content rate, maximum 20% deduction No. of employees, maximum 15% deduction Site location, maximum 15% deduction
	Special income deduction system (3) 5 percent deduction of adjusted income for companies located in regions designated for promotion	
	(4) 5 percent deduction of adjusted income for SMIs	
	(5) 5 percent deduction of adjusted income for companies complying with new economic policies	
	(6) Accelerated deceleration system, initial 20% and annual 40%	
	(7) Reinvestment deduction system, 25%	
Export incentives	(1) Export Credit Refinancing	
	(2) Abatement of adjusted income from exports	For value of export sales, 50% For usage of domestic materials, 5%
	(3) Deduction of 5 percent of exports for trading companies	
	(4) Double deduction of export credit insurance premiums	
	(5) Double deduction for export promotion	
	(6) Industrial Building Allowance system	
Incentives for R&D	(1) Deductions for research expenses	
	(2) Deductions for research buildings, initial 10% and annual 2%	
	(3) Deductions for research plants and machinery	
Incentives for training	(1) Deductions for training buildings, initial 10% and annual 2%	
	(2) Deductions for expenses for training	

(1) 1968 Investment Incentive Act

The pioneer status given to import-substitution type industries under the 1958 Pioneer Industries Ordinance was extended to cover export oriented industries, industries able to absorb large quantities of labor, and industries offering promise in regional development. Preferential tax treatment was given without distinction as to whether the industries were founded by foreign or domestic capital.

Up until the start of the First Malaysia Plan (1966 to 1970), industrialization was handled in parallel with diversification of primary products. Malaysia enjoys vast natural resources and did not feel that pressed, but with the establishment of this ordinance, there was a spurt of foreign investment, and industrialization was also accelerated. However, the foreign-affiliated firms set up by the investment were not necessarily oriented toward exports. Most of them were aimed at sales on the domestic market. The introduction of the FTZ system provided a greater inducement for exports by foreign-affiliated companies.

(2) 1970 Free Trade Zone (FTZ) Act

Based on this law, Malaysia set up FTZs in different parts of the country starting in 1972. Companies which export 80% of their production are allowed to locate in the FTZs. In these zones, no duties are assessed on the raw materials, intermediate goods, and machinery used for production. Further, the introduction of the licensed manufacturing warehouse (LMW) system enabled companies approved as LMWs to receive the same benefits as companies in the FTZs even in non-FTZ areas.

After the introduction of this system, there was a succession of investments by American semiconductor manufacturers etc. desiring overseas production bases due to soaring wages and shortages of labor in the U.S. The FTZs and the LMWs enabled the rapid growth in exports of electronics and textile products, the bulwarks of today's exports of Malaysian products.

However, since the FTZs and LMWs depend on imports from parent companies for the major part of their materials and intermediates, there is a decisive lack of linkage with the indigenous economy. This was due in part to the fact that there were then almost no indigenous supporting industries able to supply intermediate goods etc., while intermediate goods could be obtained free of duties. This has in effect eliminated the need for promotion of related industries.

In the Fourth Malaysia Plan (1981 to 1985), it was expected that exports of manufactured products during the period would decelerate. The main reasons given for this were the already high level of exports of textiles and electronics, the main export items, at 1980 and the projections that exports of textiles would suffer from quotas and exports of electronics would suffer from intensified competition due to the rising labor costs and entry of new countries supplying the same products.

However, the slowdown of the global economy starting in the 1980s and the rise of protectionism resulted in a slump in exports beyond the expectations of the Fourth Malaysia Plan. In particular, the price of primary products continued to soften and this had a large impact on Malaysia, in which crude oil and other primary products account for over 50% of exports. As a result, the government became increasingly wary of the country's dependence on primary products.

In 1983, the government came out with several export promotion measures such as doubling of the deductions for exports of industrial manufactures, introduction of countertrade, and establishment of general trading companies. In the mid-term review of the Fourth Malaysia Plan announced in 1984, however, stress was again placed on promotion of increased exports of manufactured goods.

At the same time, mention was made, in regard to future industrialization, of (1) infusion of maximum private sector activity, (2) stronger linkage between the FTZ industries and the indigenous economy, and (3) stimulation of resource-based industries. The directions laid down there were further clarified through the Fifth Malaysia Plan (1986 to 1990) and the IMP (1986 to 1995).

In the IMP, stress was placed on more "outward-oriented" industrialization and on stronger export competition. To strengthen export competitiveness, (1) elimination of attitudes inhibiting exports and guidance of manufacturing industries toward competitiveness, (2) ensurement of access to input goods on a free-trade basis for export oriented production, and (3) automatic application of incentives to entities engaged in exports without regard to any additional evaluation by the government were proposed. Reform of the export incentives based on this was proposed. The reforms are to cover customs duties, the export-deduction system, and export financing.

(3) 1986 Promotion of Investments Act

This act was established to replace the 1968 Investment Incentive Act and was based on a proposal for reform of the tax system in an October 25, 1985 speech on the fiscal 1986 budget. It provides benefits for export promotion above and beyond the Investment Incentive Act and includes some very specific measures, such as reforms of the (1) reduction of adjusted income for exports, (2) export deductions, and (3) deductions for export-promotion expenses. In particular, it extends the coverage of (1) to manufacturers selling parts to the FTZs or LMWs and thus has a large effect of building linkages with indigenous enterprises.

Two policies are being considered to boost exports in the future. One is already underway, i.e., the promotion of suppliers aimed at the multinationals situated in Malaysia or the ASEAN region. At the present time, there are a considerable number of Japanese-affiliated enterprises of this type in the region, but and the availability of good local suppliers, not only foreign-capital enterprises, would be a large inducement to selection of Malaysia as an investment site. The electronics industry has become firmly established in Malaysia and Singapore, so it is considered that there are large opportunities for metal and plastic working for electronics-related components and molds and dies.

Such "subcontractors" are generally small in size and often are unable to improve their own operations due to problems with funds, technical expertise, and management, so some sort of SMI promotion measures is considered necessary for promotion of supporting industries. (See III-1. Promotion of Small and Medium Scale Industries.)

The other policy is aimed at indigenous companies engaged in processing of resources and covers light industrial goods such as processed foods, rubber products, wood products, and furniture. Of the current four industries under study, glassware and chinaware fall under this category. These industries are being promoted, but cannot be said to be exporting at the present time.

Table III.3-2 shows the changes in the structure of exports of manufactured goods of Malaysia. The share of electrical and electronic machinery has risen remarkably, while those of food, wood products, and rubber products have declined.

Table III.3-3 compares the growth rate in shares of five light industrial products of the Asian NIES and ASEAN in the Japanese and U.S. markets, using figures for 1976 and 1985. With the exception of furniture, the shares of products from Malaysia have grown steadily. These industries are in a sense labor intensive, but there is strong competition from Indonesia and Thailand in these fields and Malaysia, which has relatively high wage costs, must raise the level of added value. Toward this end, it will be important to increase awareness of the need for good designs and quality. Future export promotion programs will have to encourage improvements in such "soft" areas as well.

Table III.3-2 Changes in Structure of Exports of Manufactured Goods

(Unit: M$million, %)

	Total exports (1)	Manufactured exports (2)	(2)/(1)	Manufacturing total	Food	Textiles	Wood products	Rubber products	Chemicals	Nonmetallic minerals	Ferrous metals	Electrical and electronic machinery	Other machinery	Others
1970	5,163	540	10.5	100.0	18.3	6.5	14.4	2.8	32.2	3.3	4.2	2.8	11.1	4.4
1975	9,231	1,970	21.3	100.0	13.7	11.0	10.4	2.2	9.4	1.2	2.5	15.4	13.6	20.8
1976	13,442	2,472	18.4	100.0	11.7	12.7	13.1	1.9	9.0	1.2	2.1	21.1	8.8	18.3
1977	14,959	2,764	18.5	100.0	10.8	13.0	11.7	2.0	7.1	1.1	2.5	31.3	6.9	13.6
1978	17,094	3,640	21.3	100.0	8.0	12.8	9.8	1.8	5.6	1.2	3.0	46.9	3.6	7.3
1979	24,222	4,844	20.0	100.0	7.3	11.9	9.7	1.5	5.4	1.0	2.7	46.4	5.9	8.1
1980	28,172	6,101	21.7	100.0	7.8	13.2	7.7	1.4	5.9	1.0	2.6	46.4	6.7	7.3
1981	27,109	6,302	23.2	100.0	9.5	12.5	7.5	1.3	6.6	0.8	2.7	47.9	4.9	6.3
1982	28,108	7,417	26.4	100.0	7.1	11.0	5.7	1.2	7.0	1.0	2.4	52.2	6.3	6.2
1983	32,771	9,554	29.2	100.0	5.9	9.9	5.1	1.0	9.4	1.1	2.0	52.2	7.2	6.1
1984	38,647	12,164	31.5	100.0	5.4	9.4	3.5	0.9	11.1	1.1	2.0	51.9	8.3	6.4
1985	38,017	12,111	32.0	100.0	5.1	10.6	3.0	0.9	11.7	1.2	2.5	49.8	8.5	6.7
1986	35,721	14,911	41.7	100.0	5.1	11.0	3.6	1.0	8.3	1.3	3.0	53.5	6.9	6.3

Source: Ministry of Finance, Economic Report, each year.

Table III.3-3 Changes in Shares of Japanese and U.S. Markets 1976 to 1985

(Unit: %)

	South Korea		Taiwan		Hong Kong		Singapore		Thailand		Malaysia		Indonesia		Philippines	
	1976	1985	1976	1985	1976	1985	1976	1985	1976	1985	1976	1985	1976	1985	1976	1985
Wood products																
Japan	5.0	2.8	7.8	26.1	–	0.2	0.3	1.1	0.5	1.9	4.9	8.9	0.2	27.9	0.1	5.0
U.S.	23.3	0.7	16.2	24.3	0.5	0.7	0.5	0.5	0.6	1.4	5.9	1.4	0.3	14.2	5.8	3.1
Rubber products																
Japan	10.1	5.5	6.5	2.9	–	–	9.8	0.7	–	0.2	2.9	3.0	–	–	–	–
U.S.	2.8	9.2	2.4	7.5	–	0.1	–	0.1	–	0.3	–	0.1	–	–	–	–
Textiles																
Japan	35.9	16.3	4.5	6.4	2.3	0.9	0.8	0.2	2.1	6.4	0.3	1.0	0.2	1.0	0.1	0.2
U.S.	2.9	6.6	3.7	7.9	7.7	3.5	0.5	0.1	1.1	1.4	0.3	0.5	0.1	0.9	1.0	0.6
Apparel																
Japan	44.8	31.0	15.0	13.2	11.1	11.8	0.1	0.1	0.2	0.3	–	0.3	–	0.1	1.2	0.4
U.S.	18.3	15.3	17.1	15.4	25.5	21.8	2.4	2.2	0.9	1.7	0.2	1.4	–	1.4	2.7	3.0
Furniture																
Japan	7.3	8.4	30.8	40.4	12.4	1.0	1.8	0.6	1.5	2.9	3.4	0.1	1.0	0.5	0.9	2.0
U.S.	1.9	1.1	9.6	22.1	3.5	1.0	1.1	1.6	0.1	0.4	0.4	0.1	–	0.1	1.2	2.4

Below 0.1 percent is –
Source: Prepared from OECD, Foreign Trade by Commodities, Import.

3-2 State of Export Promotion Policies and Main Implementing Organizations

3-2-1.Export Promotion Policies

With the establishment of the 1986 Promotion of Investments Act, Malaysia moved to improve its export promotion policies. Among the preferential measures implemented from 1986 are many based on recommendations of the IMP. The government intends to raise the effectiveness of these measures in the future through sustained review.

The current measures will be explained below classified into 1. financial (tax) measures, 2. export financing, and 3. measures for acquisition of raw materials.

Financial (Tax) Measures

(1) Abatement of Adjusted Income for Exports

Companies exporting manufactured goods produced in Malaysia, either directly or through agents, are allowed to reduce their adjusted income by 50% of the export sales (FOB price).

This measure applies to manufacturers selling products to the FTZs and the LMWs as well and should be very effective for promoting supporting industries.

Further, to encourage use of domestic materials, companies are allowed to reduce their adjusted income by 5% for use of domestically produced materials used for production of export items. A list of domestically produced items which qualify for this is being prepared.

(2) Export Deductions for Traders

Traders exporting manufactured goods produced by Malaysian manufacturers or exporting agricultural products are allowed to deduct 5% of the income (FOB price) created by such exports.

(3) Double Deductions of Export Credit Insurance Premiums

To encourage the development of new markets, companies recognized by the Minister of Finance are allowed to make a double deduction for payments of premiums for export credit insurance (handled by the MECIB).

(4) Double Deductions for Export Promotion

Double deductions are allowed for some specific expenses incurred by a resident company for developing export markets for products made in Malaysia. The qualifying expenses are as follows:

1) Overseas advertisements
2) Supply of free samples overseas
3) Surveys of export markets
4) Preparations for bidding overseas
5) Supply of technical information overseas
6) Displays and participation in trade or industrial fairs recognized by the Ministry of Trade and Industry
7) PR activities relating to exports
8) Overseas business trips of employees
9) Food and lodging expenses for Malaysian businessmen on overseas trips (M$200 per day)
10) Expenses for maintaining overseas sales office

(5) Industrial Building Allowance (IBA)

Under this system, warehouses and buildings used as bulk storage installations for storing goods for export may be deducted. The deduction rate is an initial 10% and 2% for succeeding years.

<u>Export Financing</u>

Export Credit Refinancing

The Bank Negara has established an export credit refinancing system for supplying funds, at preferential interest rates, to Malaysian export companies so as to help increase exports of manufactured goods. The funds are lent out through the commercial banks at interest rates of a current 4% a year, considerably lower than the approximate 10% of commercial interest rates (as of the end of 1987).

There are also the post-shipment refinancing system introduced from 1977 and the pre-shipment refinancing system introduced from 1979, but the Bank Negara made major revisions in them in January 1986 (phase I) and October 1986 (phase II). The major points of revision were as follows:

Phase I

1) The products covered were changed from the old positive list to a negative list.

2) The absolute per-company limit (M$10 million) was abolished.

Phase II

The phase II reforms shifted the stress in use of the ECR from the old post-shipment financing to the pre-shipment financing and extends the scope of coverage of the loans from just the final exporters to domestic suppliers selling to the final exporters, traders, and other indirect exporters. Specifically, the following measures were introduced:

1) Application of pre-shipment financing by use of domestic letters of credit to indirect exporters

2) Expansion of access to pre-shipment financing by use of certificates of performance

3) Increase of ceiling on pre-shipment financing from 50% of the export contract value to 80%, etc.

The phase II reforms were implemented experimentally from October 1986 and are expected to be implemented on a full-scale basis in the near future together with the reforms of the export insurance system now under consideration.

The current terms for use of the ECR are as follows:

1) Pre-Shipment Financing

a) Standards of Application

[1] Added value of 20% or more

[2] Rate of use of domestic products of 30% or more

* Between [1] and [2], priority is given to standard [2]. Eligibility or ineligibility is determined by the following table:

	Standard of use of domestic products		
Added value standard	28%	31 to 61%	60% or more
Less than 18%	Ineligible	Ineligible	Bank Negara approval
21 to 30%	Ineligible	Eligible	Eligible
30% or more	Bank Negara approval	Eligible	Eligible

[3] Items not included on negative list

b) Ceiling on Use

[1] In the case of contract basis, up to 80 % of export contract value

[2] In the case of CP, within value given on CP.

2) Post-Shipment Financing

a) Standards of Application

Same as with pre-shipment financing.

b) Ceiling on Use

[1] Up to 100% of export bill

[2] Minimum loan of M$10,000

Trends in the State of Use of the ECR.

	Pre	Post $ million	Total	Pre	Post % of total
1977	-	139	139	-	100.0
1978	-	395	395	-	100.0
1979	84	1,094	1,178	7.1	92.9
1980	166	1,122	1,288	12.9	87.1
1981	183	1,129	1,312	13.9	86.1
1982	195	871	1,066	18.3	81.7
1983	467	980	1,447	32.3	67.7
1984	695	1,020	1,715	40.5	59.5
1985	740	989	1,729	42.8	57.2
1986	1,081	1,377	2,458	44.0	56.0

Even at the end of 1986, post-shipment financing accounted for a high 56.0% share of the loans used, but pre-shipment financing has been increasing in share rapidly from the 7.1% of the year of its introduction (1979), Further, the amendments of phase II, which started October 1986, are expected to result in even faster growth in use of the pre-shipment financing system.

A look at cumulative statistics shows that up to the end of 1986, total financing came to M$12,700 million, of which post-shipment financing accounted for M$9,100 million and pre-shipment financing M$3,600 million.

A look at the state of use in 1986 shows 719 companies making use of financing. This corresponded to 4% of the total value of all exports and about 14% of the value of exports of manufactured goods. A breakdown of the companies making use of the financing by industry shows those in the food processing, textile and textile product, wood product, rubber and plastic, and machinery industries most prevalent, in that order.

The Bank Negara continued its review of the systems even after introduction of the phase II reforms and made the following improvements in 1987 as well:

1) Extension of pre-shipment financing from the old maximum 3 months to 4 months and post-shipment financing to 6 months

2) Reduction of the interest rate on loans under the ECR from 5 % to 4 % starting February 1987.

In the current interviews, it was pointed out that the ECR system was better known and regarded among companies that other incentives, but that access to it was still difficult for SMIs.

The export-financing system is even now under review. Consideration is being given to use of export insurance to ease the strict loan conditions (overly large collateral) imposed by commercial banks - one of the reasons why the system is not used that much.

Preferential Treatment on Acquisition of Raw Materials

(1) Drawback of Customs Duties

Clause 99 of the Customs Duties Act of 1967 stipulates that the tariffs which are applied to raw materials and intermediate goods used for production of export goods shall be subject to rebate. However, this does not apply to materials for packing use.

Complaints have been leveled against the system that

[1] It takes too much time from application to drawback

[2] The application procedures are too difficult.

However, efforts are being made to improve the system. Under previous procedures, it took 2 months or more just for processing in the division, but with current procedures, payment is made within 21 days of the application.

According to an article in the March 4 New Straits Times, the Customs and Excise Department has been reviewing the results of the reforms and expressed regret that only a low 179 companies used the system in the fourth quarter of 1987. Further, in the same period, M$3.6 million in import duties were drawn back, but that corresponded to only 55% of the amount applied for during the period. The department has been calling upon users of the system to submit more complete application documents so as to speed administrative processing.

In the IMP, it was proposed to switch to a system wherein imports of materials used directly or indirectly for export products are allowed to be free of duties or excise taxes, the tariff drawback system is abolished, and certification be given of actual use by exporters of the raw materials imported.

Measures similar to those of the tariff drawback system were instituted by the 1972 Sales Tax Act and the 1976 Commodity Tax Act and so rebates are made for these two types of indirect taxes as well.

(2) Free Trade Zones (FTZ)

These are areas especially designed for manufacturing establishments producing or assembling products essentially for export. The objective of proving FTZ facilities to export-oriented industries is to enable them to enjoy minimum customs control and formalities in their import of raw materials, parts, machinery and equipment.

1) Eligibility

Companies which can be considered for location in Free Trade Zones are those:

[1] whose entire products are directed for export. In exceptional circumstances companies exporting not less than 80% of their products can also be considered for location in Free Trade Zone

[2] whose raw materials/components have to be imported. The government encourages FT companies to use domestic raw materials/components wherever possible. The companies are, however, given the flexibility to choose their best sources of supply of raw materials components.

2) Payment of Duty

Goods exported abroad from the Free Trade Zones are not liable to customs duties.

If they are allowed to be imported into the Principal Customs Area (PCA) for home consumption they are subject to the prevailing customs duty as is applicable to foreign imports. However, companies in the Free Trade Zones may apply to the Ministry of Finance for exemption on import duty for products which they wish to sell in the domestic market.

If the goods imported are to be used as direct raw materials or components by manufacturers in the PCA, the importing company may apply for duty exemption in respect of imports from the FTZ in the same manner as if the goods are imported from abroad.

Since the Free Trade Zones lie outside the principal Customs Area, goods exported thereto are eligible for tariff drawback.

As of January 1986, there were FTZs in the following 8 areas accommodating 101 companies:

State	Name	No. of companies
Selangor	Sunsei Way	15
	Ulu Kelang	5
	Telok Panglima Gurang	4
Penang	Bayan Lepas (Phase I, II &III)	51
	Seberang Perai	12
Melaka	Batu Berendam	4
	Janjung Keling	4
Johor	Pasir Gudang	1
TOTAL	8 locations	101

(3) Licensed Manufacturing Warehouses (LMW)

In order to encourage the dispersal of industries and to enable companies to establish factories for the manufacture of products mainly for the export market, where the establishment of a Free Trade Zone is neither practical nor desirable, the government allowed the establishment of Licensed Manufacturing Warehouses. These are accorded similar facilities to those of factories operating in the Free Trade Zone.

(a) Eligibility

The companies normally eligible for Licensed Manufacturing Warehouses are those:

[1] whose entire products are directed for export. Companies exporting not less than 80% of their products are also considered and

[2] whose raw materials/components are mainly imported due to the non-availability of such goods locally.

Application for a Licensed Manufacturing Warehouse lis to be made in prescribed form available from the Royal Customs and Excise Department.

Investors have a high regard for the FTZs from the standpoint of procedures and costs and some have expressed the desire for establishment of further FTZs in the future.

Table III. 3-4. FTZ Companies by Region and Industry (January 1986)

Industry	1. Selangor	2. Penang	3. Melaka	4. Johor	TOTAL
Electrical and electronic equipment	16	27	6	0	49
Apparel and textiles	0	10	1	0	11
Plastic products	2	8	1	0	11
Metal and wood products	1	5	2	0	8
Medical equipment	0	4	2	0	6
Printing	0	2	0	0	2
Precision equipment	2	1	1	0	4
Jewelry	1	3	0	0	4
Toys	1	0	0	1	2
Precision components	1	3	0	0	4
TOTAL	24	63	13	1	101

Table III. 3-5 LMW Companies by Region and Industry (January 1988)

	Johor	Kedah/ Perlis	Negeri Sembilan	Perak	Pulau Pinang	Federal Territories	Melaka	Terengganu	Kelantan	Pahang	Selangor	TOTAL
Textile	31	6	5	7	27	1	1	–	4	–	–	82
Electrical Equipment	9	2	1	1	1	–	–	1	–	–	2	17
Electronic Component	22	5	3	2	6	2	–	–	1	2	2	45
Basic Rubber Equipment	–	2	–	2	1	1	1	–	–	–	1	8
Sports Equipment	1	1	–	1	1	1	1	–	–	–	1	7
Jewelry Products	–	1	–	–	–	–	–	–	1	–	–	2
Basic Plastic Products	5	1	–	–	–	4	–	–	–	–	1	11
Other Things Based on 1) Metal 2) Wood	11	6	–	2	9	1	–	–	2	–	2	33
TOTAL	79	24	9	15	45	10	3	1	8	2	9	205

Table III.3-4 and 5 show the state of establishment of FTZs and LMWs by industry and region.

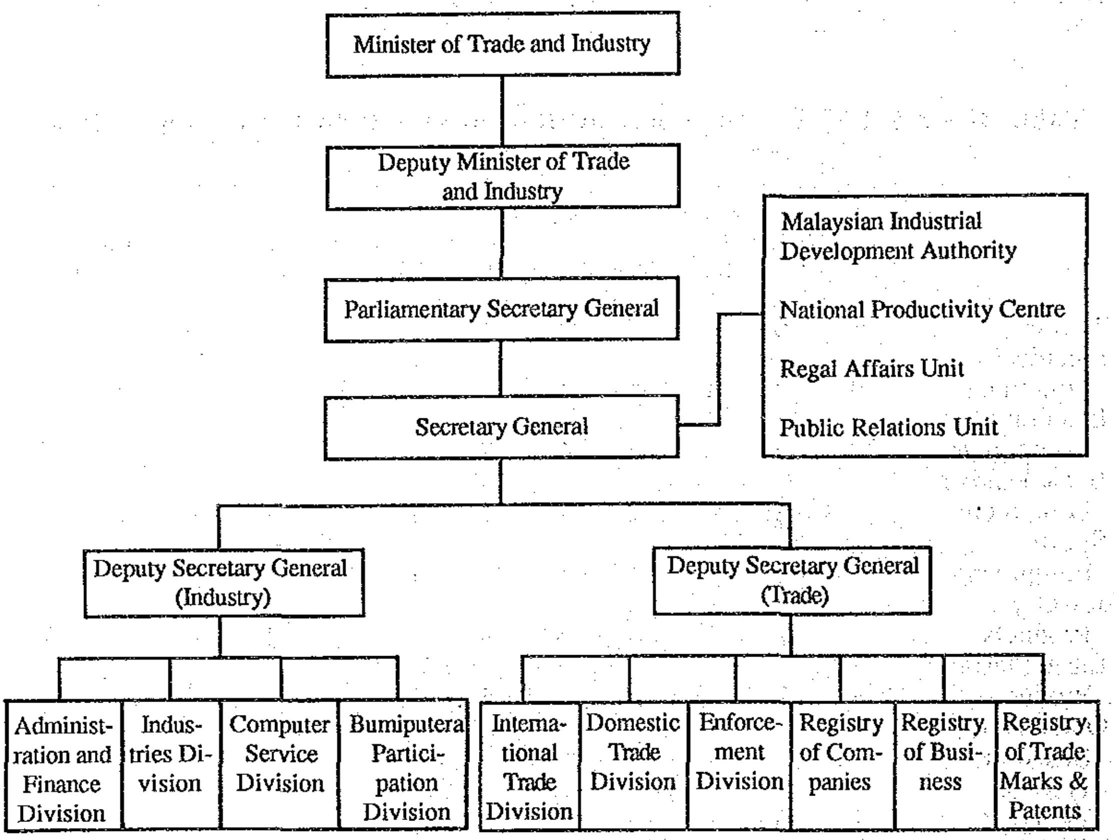
3-2-2. Main Implementing Organizations

(1) Ministry of Trade and Industry (MTI)

1) Organization

MTI is comprised of the following 12 divisions and four statutory bodies

Organization Chart of Ministry of Trade and Industry



Export promotion is being handled primarily by the International Trade Division, which is comprised of the following 8 sections:

1. Export Development Section
2. International Trade Relations Section
3. ASEAN-EEC Regional Economic Groupings Section
4. Shipping and Freight Study Section

5. Trade Fairs and Missions Section
6. Textiles Section
7. Malaysian Export Trade Center
8. Special Counter Trade Unit

2) Functions

MTI has jurisdiction over the following trade related matters:

Export incentives
Trade promotion
Air freight charges
Export and import controls
International trade agreements
Shipping insurance
Activities of Trade Commissioners
Trade exhibitions
General Agreement on Tariffs and Trade (GATT)

The Export Development Section of the International Trade Division is in charge of the "strategy" for promotion of exports of Malaysian semi-finished goods and finished goods, but specific promotional activities are being performed by the following 3 organizations (means):

(1)-1 Malaysian Export Trade Center (MEXPO)

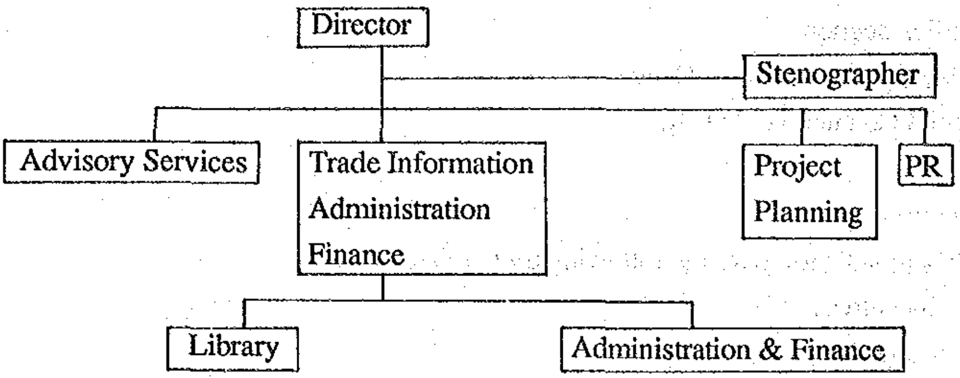
1) Organization

MEXPO was established in 1980 as a unit of the International Trade Division of MTI.

Staff: 39 (as of 1988)

Budget: M$1 million (fiscal 1987 and 1988). In addition, MTI has a separate budget of M$1 million for dispatch of missions and participation in exhibitions.

Organizational chart:



2) State of Activities

[1] Trade Inquiries

Information about Malaysian exporters and overseas importers (products handled, addresses, etc.) are entered in a computer data base.

At present, there are 2,400 domestic exporters and 4,000 overseas importers registered.

The number of inquiries has been rising, as shown below, but manpower shortages may make it impossible to process more than the current level of inquiries.

Number of Inquiries

Year	Foreign	Domestic
1985	581	712
1986	907	1,531
1987	1,591	1,753

[2] Assistance to Malaysian Exporters

-Seminars

MEXPO holds about 15 seminars or workshops a year.

-Participation in exhibitions

MEXPO assists participation in about 20 exhibitions a year. (14 exhibitions in 1987/88) Normally, it subsidizes only the space rental fees and leaves other assistance to the host countries.

-Dispatch of missions

About 20 a year.

-Consulting services

Two types of services are available: one by the MEXPO staff and one by specialists and professional consultants. The latter is provided via the Technical Assistant Project. Under this, the specialists visit the factory and provide advice on improvement of the facilities and products. Much is expected from the consultant service and some 20% of MEXPO users make use of it.

-Introduction of Malaysian products

MEXPO has 1,000 square meters of permanent exhibition space where it displays Malaysian products. There are presently some 300 companies displaying products. The displays are changed every six months. Items for display are selected by a board of examiners.

[3] Provision of Information

Periodic publications include "Trade Opportunity," "Trade Digest", and "Malaysian Trade News"; all of which are distributed free of charge.

In 1987, MEXPO published the "Export Finance & Credit Insurance Facilities in Malaysia" jointly with MTI and FMM and "Export Incentives in Malaysia" jointly with the NPC so as to promote use of export incentives by private companies.

Further, MEXPO has a library which allows free viewing of information on overseas markets arranged by country and product. As of 1988, the library housed about 4,000 items and was used by about 50 persons a day.

(1)-2 Export Promotion Council

The Council was established in 1985 under MTI and provides assistance in drafting policies on export promotion. It has 21 members drawn from the following government agencies and organizations and serves as a forum for positive dialogues between the public and private sector.

-Ministry of Trade and Industry
-Ministry of Finance
-Ministry of Foreign Affairs
-Ministry of Primary Products
-Economic Planning Unit (EPU)
-Federation of Malaysian Manufacturers (FMM)
-National Chamber of Commerce and Industry (NCCI)
-Association of Banks in Malaysia
-Malaysian Exporters Association

-Malaysian Shipowners' Association
-Malaysian Textile Manufacturers Association
-Electrical Association for Selangor and the Federal Territory
-Malaysian Rubber Products Manufacturers Association

The Council convenes once a month to exchange opinions concerning export promotion strategies and plans. Opinions here are fed back in some form or another and have gained a favorable reputation inside MTI as well.

In its 1986 Annual Report, the Council made the following recommendations on three basic strategic fields:

1) Development of Export Markets
  [1] Establishment of export targets
  [2] Sponsoring of exhibitions and other export promotion events and establishment of subsequent monitoring system
  [3] Promotion of small- and medium-scale exporters
  [4] Promotion of counter trade
  [5] Promotion of exports of priority goods
  [6] Market research

2) Improvement of Export Environment
  [1] Streamlining of trade procedures and standardization of procedural documents
  [2] Preparation of export guidebook
  [3] Review and improvement of export incentives
  [4] Training of exporters

3) Improvement of Export Organizations
  [1] Promotion of general trading companies
  [2] Provision of overseas information by export associations
  [3] Support by overseas offices of government agencies
  [4] Strengthening of role of MEXPO

(1)-3.Export Achievement Award System

These MTI sponsored awards are presented once a year to companies that have demonstrated outstanding export successes. The awards were previously sponsored by the FMM, but the government took charge starting 1987.

The awards are issued to companies and factories which have maintained sustained exports for the past three years.

At the same time as these awards, the "Product Excellence Awards" and "Certificates of Merit Award" are given to products with a superior quality so as to encourage the improvement of quality and development of new products by Malaysia. The private sector regards these awards highly as helping to raise corporate images and the morale of the workers.

In 1988, the following 9 companies received export achievement awards:

Winners of the Export Achievement Awards

Rubber Products:

Goodyear (M) Sdn Bhd. Products: Tires and tubes.

Palm Oil Products:

Pan Century Edible Oils Sdn Bhd.

Products: RBD palm oil, RBD palm olein, RBD stearin, neutralised palm stearin, palm fatty acid distillate, palm acid oil, vanaspati.

Food Processing:

Tropical Canning Corporation Sdn Bhd.

Products: Canned tuna, canned crab meat, canned shrimp, canned baby clam, canned seafood cocktail.

Chemical, Petro-Chemical and Plastic:

Euromedical Industries Sdn Bhd.

Products: Latex urological catheters 18 types, Pvc endotracheal tubes, (anaesthetic tubes) 16 types.

None-Ferrous Metal:

Metrod (Malaysia) Sdn Bhd.

Products: Electrical conductivity-grade copper wire for cable industry and copper wire for welding of tin cans.

Non-Metallic Mineral Products:

Associated Pan Malaysia Cement Sdn Bhd.

Products: Ordinary Portland cement and clinker.

Electronics and Electrical:

Sharp-Roxy Electronics Corporation (M) Sdn Bhd.

Products: Color television, black and white television, monitor display, chassis for television.

Ferrous Metal/Iron and Steel:

Amalgamated Steel Bhd.

Products: Wire rods and steel bars.

Textiles and Apparels:

Pen Apparel Sdn Bhd.

Products: Shirts, blouses, skirts, jackets, blazers, overcoats, knitwear.

(2) Malaysian Export Credit Insurance Berhad (MECIB)

MECIB is an export credit insurance company established with the cooperation of the British Export Credit Guarantee Department in 1977. The main shareholders are the government, owning 54% of the stock, banks, with 38%, and insurance companies, with 8%. It has a staff of 20 in Kuala Lumpur and three in Penang and covers up to 85% of export losses.

The insurance offered in the past 5 years has been as follows:

Year	No. of cases	Value (M$ million)
1983	109	431
1984	107	514
1985	106	443
1986	110	481
1987	149	670

Source: MECIB Annual Report

The coverage of insurance was said to have been about 1% in 1986, indicating a low state of use. Of the companies using it, 70% were SMIs (with capitals of less than M$1 million).

During the interviews, it was stated that MECIB will be strengthened with full Government backing through restructuring of its equity into a wholly-owned subsidiary of the Industrial Development Bank, which was originally established to provide financing for shipbuilding and other heavy machinery and chemical fields and which is now diversifying.

At the present time, the task force of the Bank Negara is studying an export credit insurance scheme and is scheduled to produce a proposal in the latter half of this year. In any case, export insurance is going to be strengthened. In particular, together with revisions in the ECR system, the MECIB is expected to play a more effective role in providing insurance to banks so as to promote export financing by commercial banks to exporters.

(3) Industrial/Export Associations and Organizations

Despite the general emphasis on the role of industrial associations as suppliers of information and pipelines between the public and private sectors, in the IMP the prevalent attitude was negative on the formation of industrial associations, during the interviews claiming that it was too early. One reason was probably that private companies did not have enough leeway in personnel and funds to maintain such associations.

The attached reference is a list of export associations provided by MEXPO. Reportedly, the food-related associations are relatively large in size and active.

There following associations were found for the four industries covered by this study:

Federation of Malaysian Foundry and Engineering Industry Association (not including any mold and die related companies)

Malaysian Ceramic Industry Group (including 24 companies, primarily tile manufacturers)

Malaysian Automotive Component Parts Manufacturers Association (including 50 companies, the majority of which are large firms, with 90% of the members supplying parts to Proton Saga)

Visits were made the following 2 of the industrial/export associations and organizations. The FMM, in particular, is large in size and activities and may be expected to play a large role in export promotion.

(3)-1.Federation of Malaysian Manufacturers (FMM)

Established in 1968, the FMM is a leading organization with 700 member firms. One third of the member firms are engaged in export. The FMM has an export promotion committee which sponsors seminars and workshops jointing with the MTI, sends missions overseas, and engages in other activities to promote exports.

Further, 50% of the member firms are SMIs (with capitals of under M$2.5 million). The FMM also engages in SMI promotion and has an SMI committee.

Problems it mentioned in export promotion were a lack of information about overseas markets and poor opportunities for contact with importers.

In terms of programs for 1988, the FMM is thinking of working with the NPC to improve productivity. Further, it will be stressing the importance of the SIRIM mark system and pushing forward with the introduction of bar code (the International Article Numbering Association code), which is used frequently in overseas markets. Presently, the only ASEAN country which has introduced bar codes is Singapore.

The FMM proposals are made directly or through the EPC and have in cases been reflected in government policies, such as with the reforms of the ECR system. Further, the FMM plays an important role as a channel for supply of information to companies.

(3)-2.National Chamber of Commerce and Industry of Malaysia (NCCIM)

This was established in 1962. It was joined by the FMM and assumed its present name in 1974 and currently has the following members:

-The Malay Chamber of Commerce and Industry of Malaysia (MCCIM)
-The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM)
-The Associated Indian Chambers of Commerce and Industry of Malaysia (AICCIM)
-Malaysia International Chamber of Commerce and Industry(MICCI)
-Federation of Malaysian Manufacturers (FMM)

In the future, groups from the rubber, palm oil, and other primary product industries are expected to join.

As to the activities of the organization, the NCCIM makes recommendations to the government from the standpoint of private enterprise. For export promotion, it holds occasional seminars for exporters through the FMM. Further, the January 19, 1988 issue of the Business Times reported a plan of UNIDO for providing assistance in access to overseas markets to Malaysian companies in cooperation with the NCCIM.

(3) Industrial/Export Associations and Organizations

Despite the general emphasis on the role of industrial associations as suppliers of information and pipelines between the public and private sectors, in the IMP the prevalent attitude was negative on the formation of industrial associations, during the interviews claiming that it was too early. One reason was probably that private companies did not have enough leeway in personnel and funds to maintain such associations.

The attached reference is a list of export associations provided by MEXPO. Reportedly, the food-related associations are relatively large in size and active.

There following associations were found for the four industries covered by this study:

Federation of Malaysian Foundry and Engineering Industry Association (not including any mold and die related companies)

Malaysian Ceramic Industry Group (including 24 companies, primarily tile manufacturers)

Malaysian Automotive Component Parts Manufacturers Association (including 50 companies, the majority of which are large firms, with 90% of the members supplying parts to Proton Saga)

Visits were made the following 2 of the industrial/export associations and organizations. The FMM, in particular, is large in size and activities and may be expected to play a large role in export promotion.

(3)-1.Federation of Malaysian Manufacturers (FMM)

Established in 1968, the FMM is a leading organization with 700 member firms. One third of the member firms are engaged in export. The FMM has an export promotion committee which sponsors seminars and workshops jointing with the MTI, sends missions overseas, and engages in other activities to promote exports.

Further, 50% of the member firms are SMIs (with capitals of under M$2.5 million). The FMM also engages in SMI promotion and has an SMI committee.

Problems it mentioned in export promotion were a lack of information about overseas markets and poor opportunities for contact with importers.

In terms of programs for 1988, the FMM is thinking of working with the NPC to improve productivity. Further, it will be stressing the importance of the SIRIM mark system and pushing forward with the introduction of bar code (the International Article Numbering Association code), which is used frequently in overseas markets. Presently, the only ASEAN country which has introduced bar codes is Singapore.

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3-3. Export Promotion Policies of Asian NIES and Japan

In section III.3-2, an explanation was made of the current state of Malaysia's export promotion policies and the organizations for implementation of the same. Here, we will introduce the export promotion policies of South Korea and Taiwan, two Asian NIES which have advanced beyond the ASEAN nations and displayed striking growth as exporters of manufactured goods.

In the future, Malaysia will have to go beyond institutional promotion measures and introduce measures for improving the export environment and improving designs, quality, marking systems, and other software aspects of merchandise. Malaysia is believed to be tackling these areas now. Below, an explanation will be made of such policies taken by Japan in the past and try to compare with the current state of those in Malaysia.

3-3-1. South Korea's Export Promotion Policies

South Korea's export-oriented economic policies started with the First Five-year Plan which was implemented in 1962. After the Korean War, the one domestic economic resource which the country could make use of was a "cheap, but considerably high-level" labor force. Since the First Five-year Plan the government has almost consistently implemented economic policies guided by foreign investment and which involve the addition of foreign investment to this labor resource. These policies have been implemented under close government guidance with the government mobilizing all possible means to foster the targeted industries and to promote exports.

The economic-development strategy which was first implemented in 1962 involved import substitution of labor-intensive consumer goods, for which Korea was in a relatively good position, and also the promotion of exports. But since then the former has changed to import substitution of intermediate goods and the fostering and development of capital goods industries as a result of the development of the heavy and chemical industries. The objective of export promotion policies is to build an economic base for higher level industrialization and for independent growth, and as such the policies make up the foundation of the country's economic policies.

Export Promotion Policies

Although it is only natural that South Korea's export promotion policies have changed with the stages which have been reached in the country's economic development, they can be broadly divided into the export promotion policies of the 1960s which centered mainly on consumer goods, and the policies of the 1970s.

(1) Promotion Policies of the 1960s

During this period the change was made over to exports from the import substitution of consumer goods, and the latter part of the 1960s was a period when the import substitution of intermediate goods was advanced. The policies for the establishment of the economic and related organizations for the various policies and systems aimed at export promotion at that time formed the basis of later export promotion policies.

1) Export Subsidies

In 1961 temporary legislation was enacted for the payment of export subsidies. Export goods were divided into 4 classifications and the amount paid in subsidies varied according to the classification. The export subsidies were abolished in 1965.

2) Export Assistance Finance

This was based on export letters of credit and loans were made for a 90-135 day period. The interest rate in 1960 was 13.87% which was a considerably better rate than the general 17.5% rate for loans at one time. The proportion of this export related finance was high and during the 1960s and 1970s export-related preferential loans continually accounted for between 40-60% of total loans made by the Bank of South Korea. Also, the proportion of private sector internal credit increased to 21% by 1975.

This export finance was the most preferred guidance policy finance. As it was possible to receive loans at low preferential interest rates from the Bank of South Korea which were funds supplied by private financial organizations (rates decreased further by the Bank of South Korea), the margins for the financial organizations were high and the loans became most profitable.

3) Tax Reductions and Exemptions

From 1959 import duties on raw materials imported for use in exports were exempted. Then in 1961 commodity taxes and government enterprise taxes for export goods were also exempted. In addition, the income tax rates for income derived from exports (income obtained from foreign currency) were cut by 50%. This was later abolished in 1973.

4) Approval for Depletion of Imported Raw Materials for Export Use

This was an indirect subsidy for export industries where a fixed amount of depletion for imported raw materials for use in export .

5) Discounts in transportation fees and electricity charges for export industries

(2) Export Policies of the 1970s

- change from direct assistance to indirect assistance
- change from light industries to heavy machinery and chemical industries were seen

1) Preferential Taxation Measures

Although the system for reductions and exemptions in taxes on income derived from foreign currency was abolished in 1973, new measures were put in its place. They were:

(a) System for inclusion of money losses on goods for developing overseas markets
(b) System for inclusion of losses from export loss reserves
(c) System for inclusion of losses from overseas investment loss reserves
(d) Introduction of special accelerated depreciation system for export companies

2)Tariff Rebate System

The system was established in 1975. The system for reductions and exemptions in the payment of import duties for imported raw materials for use in exports was changed to a system of tariff rebates.

3) General Trading Company System

A system for general trading companies of the Japanese type was introduced to provide an effective overseas marketing system. While in 1975 the amount of exports handled by general trading companies accounted for only 14.5% of exports, this amount had risen to 55.5% in 1984.

4) Export Industry Base Expansion Funds

This involved a change from the promotion of the heavy and chemical industries and from the short-term financial assistance given to mainly trading companies to increasing the amount of funds provided to production companies for expanding plant and equipment and production and medium- and long-term finance.

5) Establishment of Export Associations

As of 1984 there were 14 associations.

6) Export manufacturing complexes

(a) Masan Export Free Zone
(b) Gumi Export Industries Corporation
(c) Iri Export Free Zone
(d) Export Industries Corporation (Seoul)

(3) Export Promotion Policies of the 1980s and Future Tasks

Although the export promotion policies of the 1960s and the 1970s contributed to the increase in exports, mainly involving light industries, once into the 1980s this type of economic policy guided by exports has caused more than a few problems. As regards export promotion, first, although the assistance given under government direction contributed to the formation of company groups, this caused stagnation amongst the small- and medium-sized companies which form the base of technologically advanced industries. Second, the inflationary financial assistance had the end result of causing the accumulation of foreign debts.

3-3-2. Taiwanese Export Promotion Policies

The Taiwanese economy was dealt a decisive blow during the second World War. The land reforms of 1949 to 1953, however, helped improve agricultural production and this later become the foundation for the growth of the Taiwanese economy. Up to 1960, over 70% of Taiwan's exports consisted of sugar and rice.

After the land reforms, the government tried to achieve balanced growth in the agricultural and industrial sectors. Taiwan, like South Korea, has a small domestic market, so from its early stages had to aim at export substitution in its industrialization. The first export substitution phase began early in the 1960s. The cut off of assistance from the U.S. in 1968 spurred this on. The share of industrial manufactures in Taiwan's exports quickly passed the halfway mark (50.5%) in 1962. In the 1960s, the main export products were textiles, apparel, plywood, footwear, etc. In the 1970s, this changed to electronic and electrical equipment and in the 1980s to metals and machinery. In Taiwan, the second phase of import-substitution industrialization and the second phase of export substitution occurred almost simultaneously. The main export market up to the 1960s was Japan, but later the U.S. became the major market. By 1986, it accounted for 47.7% of exports. The Taiwanese exporters were mainly small- and medium--sized enterprises, as compared with South Korea, where the exporters were mostly the large financial groups. These small and medium enterprises helped promote free competition.

The main Taiwanese export promotion policies are described below:

(1) Export Refund Tax Policy (1955)

A system by which tariffs paid on raw materials for products to be exported are refunded. In June 1983, it was decided to eliminate this system 5 years hence. The tariffs themselves, however, are gradually being rolled back across the board.

(2) Exchange Rate Policy (1958)

Until 1958 a compound rate system ($1 = 10 NT or 15 NT) had been utilized. These rates were overvalued, however, and in 1958 the rate was established at 40 NT to the dollar to conform with realistic world conditions (this rate remained effective until 1973).

(3) Relaxation of Import Restrictions (Since 1958)

Along with the progress in Taiwan's industrialization, Taiwan's products become more competitive and the manufacturing industry began increasing its imports of raw materials and machinery and equipment. This promoted relaxation of the various import restrictions.

Foreign currency allocations and import controls were eliminated and other non-tariff restrictions were relaxed. Between 1957 and 1969, most of the controlled items became freer. Further, the advance deposit required for normal imports was reduced from the initial 100% to 50% in May 1967, 15% in August 1969, and 10% in February 1981.

(4) Establishment of Export Processing Zones (1965)

In the area of foreign capital induction policies, 1954 saw enactment of the "Statue for Investment by Foreign Nations," while the "Statue for Investment by Overseas Chinese" was passed into law the following year. At the time, however, the Taiwanese political situation was far from stable, and foreign investment was minimal.

With the advent of the 1960s, Taiwan began to take aggressive measures to attract foreign capital. The "Statute for Encouragement of Investment" was enacted in 1960 to allow identical legal treatment for domestic and foreign capital, provide tax reductions and exemptions for investment in specified fields, and relax restrictions on profit remittances. Concerning the introduction of technology, the "Statue for Technological Cooperation" was established in 1962, providing a tentative system for the protection of know-how and patent rights. Furthermore, the "Processing Exit Zone Facility Management Act" was passed in 1965 as a foreign capital introduction policy with the objective of promoting exports, providing the foundations for the first export-free zone to be constructed at Kaoshun.

Although it is estimated that exports of products produced at the export processing zones totaled only 7-8% of Taiwan's total exports and the hiring effect was roughly the same, these zones can be said to have fulfilled their "pump-priming" role as show windows for the nation's foreign capital induction policies. The bonded factory system was also set up in 1965, and processing groups outside the export processing zones were allowed for export industries.

(5) Other main export promotion policies were as follows:

i) Deduction of 2% of export earnings of year from assessed earnings
ii) Deduction of 10% of tax for manufacturing, mining, and handicraft

companies exporting over 50% of their production (abolished in December 1970)

iii) Permission to retain foreign currency for imports of raw materials and machinery. This special privilege of imports earned by exports was abolished at the end of July 1970.

iv) Export inspection, trade consultations, market surveys, and information services provided through government and semi-governmental organizations such as the China External Trade Development Council (established in July 1970).

3-3-3. Japanese Export Promotion Policies

In postwar Japan, there was a lack of available domestic demand and severe regulations on foreign currency reserves, and other than having an epoch-making export-promotion policy, it would have been difficult to overcome such tough circumstances. Japan's international balance of payments, supported by aid and special-procurement demand, continued to run in the black from 1946 until 1953, when the balance showed a deficit. Then, an export-promotion policy came to be considered necessary for overcoming the lack of foreign currency and planning economic independence. An introduction to the export-promotion policies implemented after the war is given below.

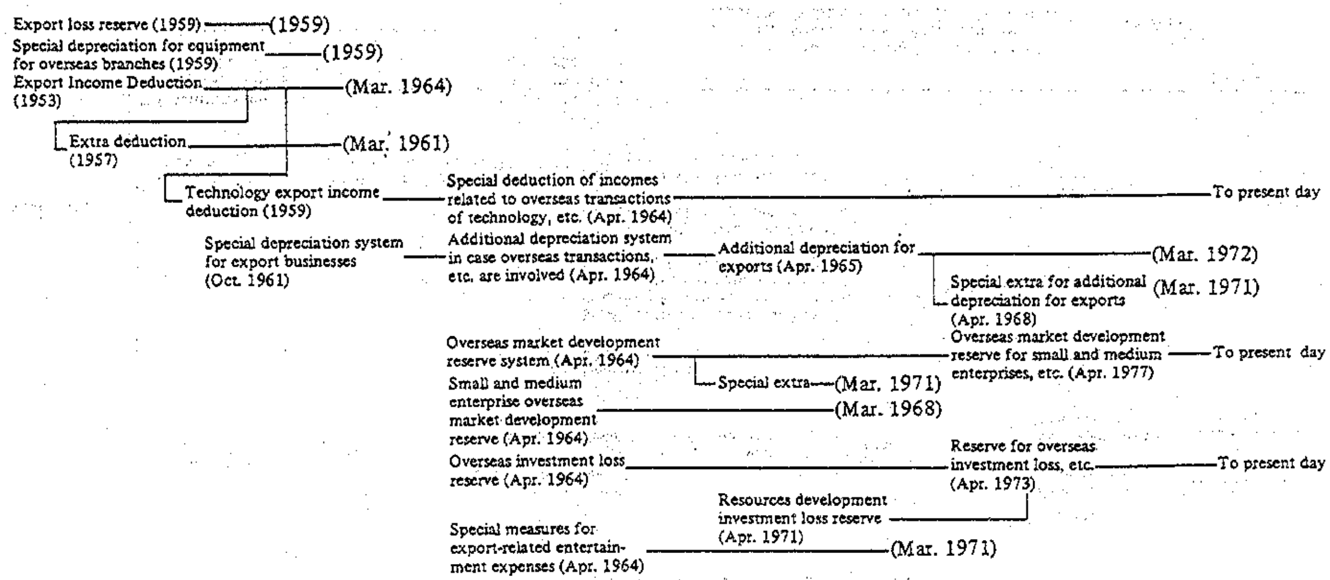
(1) Export-related Taxation Systems

Japan had a number of export promotion tax systems. The "Export Income Deduction System", which has hitherto served as the nucleus of Japan's export-related taxation systems, was instituted in 1935. The system allowed a certain percentage deduction from income from export transactions such as direct or indirect exports of goods, thereby promoting exports through the tax-exemption effects of the deduction. The system was abolished in 1974 when Japan became a member of GATT. Today, when export promotion has lost its momentum, there are still 3 systems in force involving (1) special deduction of income related to overseas transactions, (2) overseas market development reserve for small and medium enterprises, and (3) reserve for overseas investment loss. The development of export promotion taxation systems is given in Fig. III.3-1.

(2) Export Financing

Measures providing for preferential treatment in the areas of financing and taxation are considered to have played a major role in promoting trade, especially in export promotion. Changes in the export financing system are as indicated in the accompanying Fig. III.3-2. The figure divides financing periods into 2 general categories of short-term financing and middle- and long-term financing. Short-term financing is represented by export advance bills, by which financing is made prior to shipment, and loans against negotiations of of export usance bills, which provide for financing after shipment. The export advance bills supplied funds required for the production, collection, and purchasing of goods agreed upon in export contracts when those goods were procured in Japan. The interest rate for an export advance bill was lower by 1 to 3% per annum than

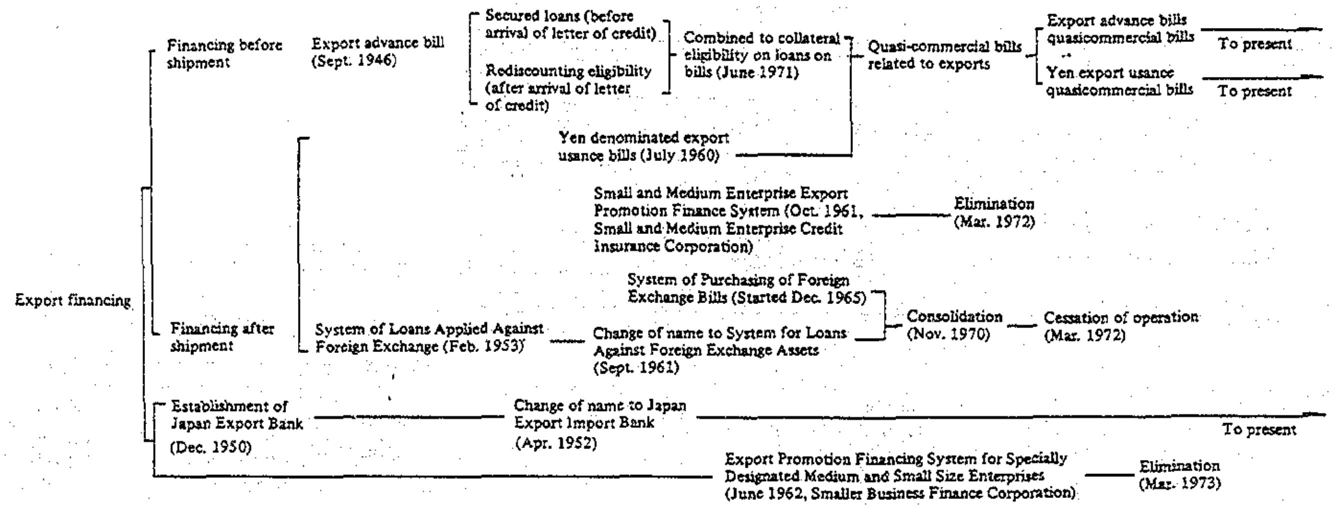
Fig. III.3-1 The Development of Export Promotion Taxation Systems



Source: *MITI "International Trade White Paper" 1950-1979.*

[From Japan Economic Research Center, "Sekai Keizai to Nippon (The World Economy and Japan) – 1990"]

Fig. III.3-2 Background and Outline of Export Financing Changes in Export Financing System



Source: *White Paper on International Trade and Industry, Ministry of International Trade and Industry, 1950 to 1979 editions.*

the discount rate for the commercial bill. At the time of the Nixon shock in April 1971, however, criticism mounted against Japan for its excessively preferential export terms and the sharply increasing surpluses in its balance of payments in comparison with other nations, and in late September 1972, this system was abolished. In October of the same year it reappeared as export advance quasi-commercial bills and has continued in this new form to the present day. As one export promoting measure advanced by the Bank of Japan, the loans against negotiations of export usance bills provide low-interest financing in Japanese yen, on a par with international levels, to city banks which have purchased export usance bills. Inaugurated in 1953, the system was renamed as loans against negotiations of export usance bills in 1961. This system continued for some 20 years in all before it was taken out of operation in March 1972. The interest rate reached 5.25%; the highest one, in the year preceding its abolition and was ordinarily kept at the lowest rate applicable to trade financing. The financed amount used by this system reached ¥1 trillion at the end of 1970.

Middle- and long-term financing is represented by (1) investment and financing by the Export-Import Bank of Japan and (2) export promotion financing for the specially designated medium- and small-sized enterprises, financed by the Smaller Business Finance Cooperation. Financing by the Export-Import Bank of Japan is based on cooperative financing in concert with city banks. The cooperative financing ratio is that less than 70% of the funds be supplied by the Export -Import Bank at an interest rate of between 6.0 and 9.0% as of May 1979. Most recently, financing by the Export-Import Bank of Japan has been characterized by sharply expanded import funds. The foreign currency loan system for emergency imports, established in late 1977, was followed in October 1978 by the inauguration of the new foreign currency loan system for resource development. The export promotion financing system for specially designated medium- and small-sized enterprises, begun in 1962, ended at the end of fiscal 1972. The terms of these loans included, among other items, a lending period of 2 to 7 years and an annual interest rate of 7.5%.

(3) Improvement in Export Environment

In 1954, the government established the Export Council to coordinate export promotion. The Council was a semi-governmental group of the highest level chaired by the Prime Minister and comprised of related cabinet ministers, the presidents of the Bank of Japan and the Export Bank, and other financial leaders. In the beginning, it established export targets for each year and served as the forum for deliberations on promotional measures. In 1964, it introduced a system for certification of companies contributing to exports so as to raise the interest in companies to export. From 1968, it recognized higher depreciation rates and increased foreign currency reserves for companies contributing to exports, thus substantially subsidizing them. This system, however, was abolished in 1972. Along with the growth in Japan's exports and its continuing surpluses, the Council came to oversee all trade, including imports. In 1970, it changed its name to the Trade Council.

Malaysia established the EPC in 1985, which has a similar nature, but the EPC does not function as strongly as proposed in the IMP. One reason for this is that the EPC is currently under the jurisdiction of the MTI. To enable speedy response such as shown by the Cabinet Council of Investment (CCI) headed by the Vice-Prime Minister in improvement of the investment environment, it may be necessary for the Prime Minister to take strong leadership as the head of the EPC.

The EPC is considering the following for improvement of the export environment. Items [2][*1 *] and [3] are underway now.

Improvement of Export Environment

[1] Streamlining of trade procedures and standardization of procedural documents

[2] Preparation of export guidebook

[3] Review and improvement of export incentives

[4] Training of exporters

Improvement of Export Organizations

[5] Promotion of general trading companies

[6] Provision of overseas information by export associations

[7] Support by overseas offices of government agencies

[8] Strengthening of role of MEXPO

(4) Improvement of Quality

The export inspection system was introduced at a very early period, being enforced for silk in 1895. Inspections have been made on specific products wit the aim of raising the evaluation of Japanese products overseas and contributing to the sound development of exports based on the Export Commodity Control Law from 1948 and the current Export Inspection Law since 1957. At the present time, inspections are made on

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*1 * According to the May 25 Business Times, an export guidebook will be released by MEXPO in August.

60 machinery and metal products, 51 sundry goods, 40 types of textiles, 23 agricultural, forestry, and fishery products, and 2 types of medical equipment.

The inspection system is summarized in Fig. III.3-3.

Product tests and inspections and further performed by the Industrial Craft Laboratory for general goods and the Nagoya Industrial Engineering Laboratory for ceramic goods.

In Malaysia, SIRIM is planning to introduce a new "Scheme for the Assessment and Registration of Quality System". Products of companies registered in the system will be guaranteed to be of a certain level of quality, freeing users from the trouble of checking on the quality. Currently, 30 companies have applied for participation in the scheme, including Japanese affiliates such as Sony.

Further, in the "Technical Assistant Project" consulting service of MEXPO, experts and consultants are being sent to factories to improve and provide guidance on quality. The service is proving to be very popular in the private sector. The problem is the shortage of absolute numbers of experts able to judge quality. Malaysia has great hopes vis-a-vis Japan in this area.

The level of awareness of quality control itself is low in Malaysia and SIRIM has requested dispatch of QC experts as well.

(5) Designs

In 1957, Japan started its G mark (Good Design Mark) system. This was aimed at improving the awareness of good design not only among manufacturers, but among users as well.

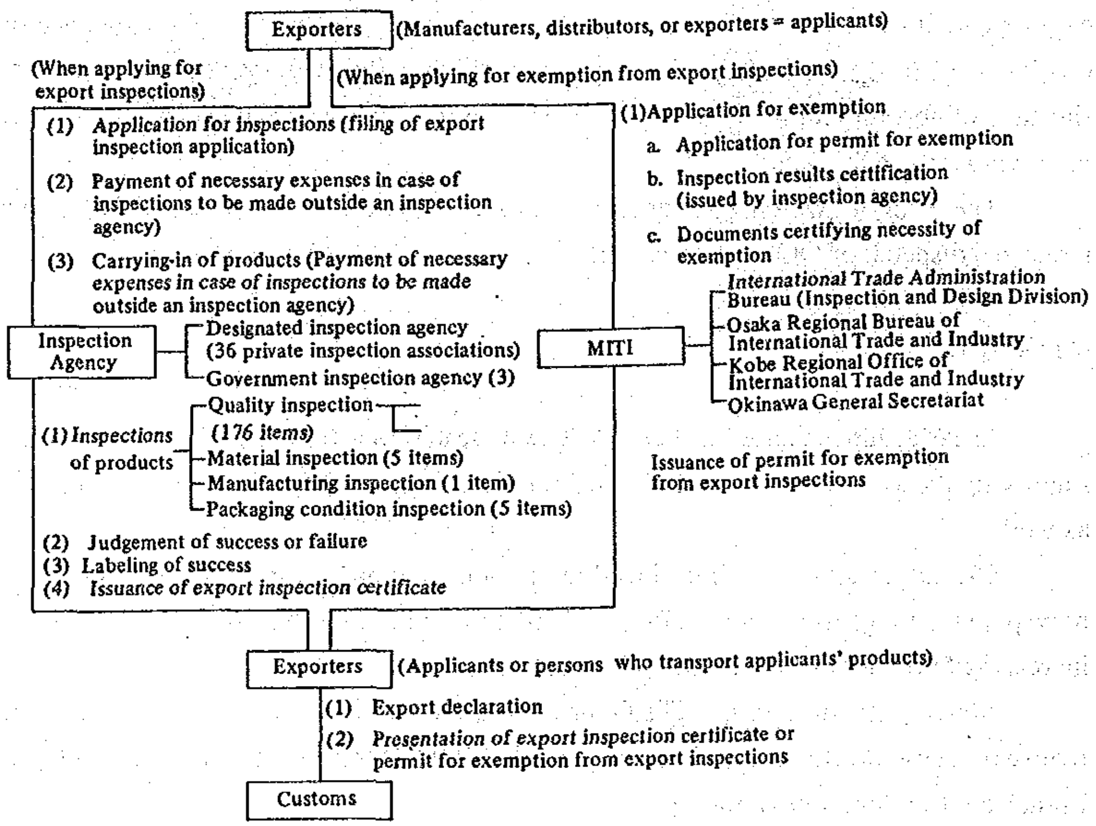
G-mark products are introduced in the domestic market through exhibitions, the newspapers, magazines, television, and other media. The system has the merit of increasing familiarity of the products themselves.

Starting from 1960, JETRO has handled exhibitions of G-mark products overseas. These products have been displayed at JETRO trade centers in New York, San Francisco, London, and Hamburg.

Further, in 1966, the "Japan Superior Design Commodities Export Promotion Program" was started. This was designed to promote the exports and designs of (1) small and medium enterprises and (2) local regions and (3) aid in the design guidance programs of various design centers and (4) in marketing by export associations.

Malaysia was not found to have any scheme for direct promotion of designs or any organizations in charge of the same, but MEXPO does introduce and market

Fig. III.3-3 Outline of the Export Insxpection System



Malaysian products. MEXPO's activities are widespread, as seen in III.3-2-2-(1)-1 and is strained in manpower and budget.

MEXPO is smaller, compared with the trade promotion organizations of other countries which are seen to be successful in their activities and highly regarded by domestic private companies. MEXPO performs almost the same tasks as those of other organizations, but must work with a much smaller budget and staff (see Table III.3-6).

The EPC is deliberating on whether to strengthen the role of MEXPO to help improve the export environment, but first it would have to increase MEXPO's size. For this, one idea would be to make it an independent entity, as in other countries, rather than a unit of MTI. Under the current system, there is considerable shifting of staff, so experts are not developed. Something must be done to training manpower well versed in trade practices and marketing.

Table III. 3-6. Comparison of Trade Promotion Organizations

	Korea Trade Promotion Corporation	Singapore Trade Development Board	Hong Kong Trade Development Council
Year established	1962	1983	1966
No. of staff	394 in Korea, 181 overseas	About 150	453 in Hong Kong, 133 overseas
Overseas offices	781 locations	20 locations	20 locations
Budget	36,341 million won (FY 1988) (approx. US$46.28 million)	S$22 million (FY 1986/87) (approx. US$10.89 million)	HK$224.03 million (FY 1987) (approx. US$28.72 million)
Budget per capita staff	US$80,000	US$73,000	US$49,000
Main activities	(1) Development of overseas business (through dispatch of missions, dispatch of missions for promotion of purchasing of parts, etc. (2) Overseas market surveys (3) Trade information service (4) PR activities (5) Exhibitions	(1) Collection and dissemination of trade information (2) Sponsoring of and participation in exhibitions (3) Dispatch of missions overseas for export negotiations, etc. (4) Introductin of Singaporean products (5) Negotiations over trade agreements (6) Handling of export and import procedures (7) Issuance of certificates of origin	(1) Reception of missions (2) Overseas market surveys (3) Display centers (4) Sponsoring of and participation in exhibitions and business conferences (5) Trade inquiry service Registered manufacturers: 25,000 Importers: 92,000 (6) Fashion library

	National Agency for Export Development (Indonesia)	Dept. of Export Promotion* (Thailand)	Malaysia Export Center
Year established	1971	–	1980
No. of staff	300	300	39 133 overseas
Overseas offices	11 locations	13 locations	29 locations
Budget	Approx. 7,000 million rupia (FY 1988) (approx. US$4.2 million)	Approx. 190 million baht (approx. US$754)	M$1 million (FY 1988) (approx. US$ 391,000)
Budget per capita staff	US$14,000	US$25,000	US$10,000
Main activities	(1) Sponsoring of exhibitions domestically and overseas (2) Dissemination of information on trade practices (3) Dissemination of overseas market information (4) Assistance in arranging business negotiations (5) Cooperation in product development	(1) Dessemination of overseas market information (2) Exhibitions and dispatch of missions (3) Sponsoring of seminars * In Ministry of Commerce	(1) Trade inquiries (2) Sponsoring of seminars (3) Exhibitions and dispatch of missions (4) Consultant services (5) Dissemination of trade information

Export Industrial Promotion & Export in Asian 5 Countries & Regions

JAPAN	KOREA	TAIWAN	THAILAND	MALAYSIA
Industrial Rationalization Period (*the first half of 1950's*) Financial Preferential Measures Export Preferential Finance (Low Interest Rate Reduction of the Bank of Japan). Foundation of the Export Bank of Japan in *1950*. Tax Preferential Measures Export Income Deduction Special Deduction for Export Export Insurance Foundation of JETRO	**After the Disturbance in Korea** *(1950's)* Export Promotion in Import Substitutional Industrialization Export Promotion Fund/Export Credit Finance Foreign Capital *Deposit/Export Subsidiaries* (but Export was depressed)	**Import Substitutional Industrialization Period** *(the first half of 1950's)* Public Key Industry (Co-ordination/Bave of USA Aids Import Rate/Double Price System		
Industrial Development Promotion Period (the latter half of 1950's) Shipment Export (Loans from Export-Import Bank of Japan) Special Deduction of Incomes related to overseas trans-*actions*		**Transition to Export Oriented Industrialization** (the latter half of 1950's) Starting Rice, Sugar, Agricultural Processing Products Export (Public Sector)/Export • Import Exchange Link System		**Import Substitutional Industrialization Period** (1958-) Prior Status Ordinance (1958) Import Substitutional Industrialization by the Introduction of Foreign Capital
High Growth Period (1960's) Economic Liberalization. Strengthening International Competitiveness. Plant Export (Loans from Export-Import Bank of Japan) Special Deduction For Exports Overseas Market Development Reverse System Expansion of JETRO	**Transition to Export Oriented Industrialization** (1960's) Private Enterprises Promotion in Export Industry/Direct Subsidiaries/Low Interest/Accelerated Depreciation/Tax Exemption & Deduction (Cost Reduction) Export Light Industry (Textile & Wig) Promotion	**Export Oriented Industrialization in Full Swing** (1960's) Exceptional Loan/Export Loan/Export Processing Zone/Trade Company Promotion/Tax Preferential Treatment by Investment Act./Introduction of Foreign Capital	**Input Substitutional Industrialization Period** (1960's) Promotion of Industrial Investment Act Establishment/Export Promotion According to Economic Plan/Raising Tariff due to Trade District Expansion	

JAPAN	KOREA	TAIWAN	THAILAND	MALAYSIA
	Export Industry Rapid Growth Period (1970's) Expansion of Low Interest Loan/Export Processing Zone/Won Devaluation/Sōgō-Shosha System/Export-Import Bank of Korea/Introduction of Value Added Tax	**Export Industry Advanced Period (1970's)** Strengthening Public Enterprises/Export Insurance/ Export Import Bank's Medium- & Long-Term Export Loan System/Foreign Trade Development Association (Far East Trade Service)	**Parallel Commitment with Export Oriented Industrialization Period (1970's)** Export Industry Promotion Project by Investment Promotion Act of 77 Investment Preferency on Domustis Raw Materials, Labour-Incentive, and Localization/Tariff & Transaction Tax Exemption & Deduction/Preferential Treatment on Reduction by Bank of Thailand. Strengthening Export Industry Promotion Project Strengthening Tax Preferential Treatment/Sōgō-Shosha Promotion	**Parallel Commitment between Import Substitutional & Export Industry Promotion (1970's)** Export Industry Promotion Guide Line of Introduction of Foreign Capital IFTZ Act (1971) Electronics Processing with Introduction of Foreign Capital Export Financial System (1977) NEP BUMIPUTRA
	Coping With Trade Conflict (1980's) Export Self-Constraint Enterprise Advances to U.S.A. Open Market Promotion		**Export Oriented Industrialization in Full Swing (1980's)** Strengthening Policy Adjustment Function/Strengthening Export Development Promotion Organization/Establishment of Trade Training Center/Strengthening Investment Preferential Treatment & Introduction of Foreign Capital/Various Export Tax Rebate/Consideration on VAT Introduction	**Export Oriented Industrialization (1980's)** Strengthening Export Development Promotion System in 1983 Income Deduction/Accelerated Depreciation/Investment Deduction/Sōgō-Shosha Neutralizing Foreign Capital Constraint Industrial Master Plan (1986-) Specifying 12 Prior Type of Industry. Resource • Non-resource