2001 Country Reports on Economic Policy and Trade Practices
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MALAYSIA

Key Economic Indicators

(Millions of U.S. dollars unless otherwise indicated)

	1999	2000	2001 1/
Income, Production and Employment:			
Nominal GDP	79,037	89,659	90,920
Real GDP Growth (pct) 2/	6.1	8.3	2.0
GDP by Sector (1987 prices)			
Agriculture	4,625	4,654	4,712
Manufacturing	15,200	18,386	18,423
Mining And Petroleum	3,677	3,794	3,829
Construction	1,822	1,841	1,932
Services	24,331	25,620	26,639
Government Services	3,736	3,788	4,056
Per Capita GDP (US$)	3,480	3,850	3,810
Labor Force (000s)	9,010	9,573	9,801
Unemployment Rate (pct)	3.0	3.1	3.9
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)(pct) 3/	1.4	5.5	3.9
Consumer Inflation (pct)	2.8	1.6	1.3
Exchange Rate (RM/US$ - annual average)	3.80	3.80	3.80
Balance of Payments and Trade:			
Total Exports FOB	84,097	98,429	87,754
Exports to United States 4/	21,428	25,568	22,188
Total Imports FOB	61,452	77,574	69,550
Imports from United States 4/	9,079	10,938	9,496
Trade Balance	22,645	20,855	18,204
Balance with United States 4/	12,349	14,630	12,692
External Public Debt	20,265	20,650	23,088
Fiscal Surplus/GDP (pct)	-6.0	-5.8	-6.5
Current Account Surplus/GDP (pct)	15.9	9.4	7.3
Debt Service Payments/GDP (pct)	7.5	6.3	6.5
Gold and Foreign Exchange Reserves 5/	30,900	29,900	29,900
Aid from United States 6/	0.7	0.7	1.048
Aid from All Other Countries	N/A	N/A	N/A

Note: All data converted at annual average exchange rates.
1/ Malaysian Government estimates.
2/ Calculated in Ringgit to avoid exchange rate changes.
3/ As of August for 2001
4/ Annualized estimate on eight-month data from U.S. Department of Commerce for 2001
5/ As of October 15 for 2001.
6/ U.S. government assistance to Malaysia in FY2001 fell into four broad categories: the Trade Development Agency (TDA), approximately $250,000; the International Military Education Training (IMET) program, $700,000; the Enhanced International Peacekeeping Corporation Program (EIPC) $348,000; and the U.S.-Asia Environment Program (U.S.-AEP), $252,000.

1. *General Policy Framework*

Malaysia's economy slowed dramatically in 2001 in line with the economic slowdown in the United States, Malaysia's chief trading partner. The slowdown contrasts with Malaysia's strong recovery from the 1997-1999 regional economic and financial crisis. In 1998 the economy contracted 7.4 percent but rebounded with 6.1 percent growth in 1999 and 8.3 percent growth in 2000, based largely on strong exports of electronics to the United States. Although consumer and investor confidence improved with the recovery, aggregate domestic consumption and investment remained subdued. In response to the global economic slowdown in 2001, the government introduced two stimulus packages, injecting $1.9 billion in new spending to boost the economy. The government projects a budget deficit equal to 6.5 percent of GDP during 2001, followed by a deficit equal to 5.0 percent of GDP in 2002.

In 1998, the government established an asset management corporation, Danaharta, and a special purpose vehicle, Danamodal, to inject funds into banks in need of recapitalization to deal with a growing number of non-performing loans (NPLs) during the financial crisis. The government also created the Corporate Debt Restructuring Committee (CDRC) to provide a framework for creditors and debtors voluntarily to resolve liquidity problems of viable businesses and serve as an alternative to bankruptcy. As of June 2001, Danaharta has removed approximately 40 percent of the NPLs from the banking system. As of August 2001, CDRC has received requests for loan restructuring involving 62 cases with debts of $14.8 billion. CDRC leadership has pledged to resolve outstanding cases by August 2002.

The government plays a strong, active role in the economy as investor, economic planner, approver of investment projects and public and private procurement decisions, as well as the author and implementer of domestic policies and programs. The government actively seeks to bolster the economic status of the Malay and indigenous communities (commonly referred to as *bumiputera*), in part through the awarding of privatization contracts. The government holds equity stakes, generally minority shares, in a wide range of domestic companies, usually large players in key sectors, and can exert considerable influence over their operations. The economic downturn, however, slowed the push to privatization and increased emphasis on government support for sensitive industries, such as automobiles, steel, and public transportation. The government has said it will consider granting assistance to troubled corporations on the basis of three criteria: national interest, strategic interest, and equity considerations under *bumiputera* policies.

Tariffs are the main instrument used to regulate the importation of goods in Malaysia. However, 17 percent of Malaysia's tariff lines (principally in the construction equipment, agricultural, mineral, and motor vehicle sectors) are also subject to non-automatic import licensing designed to protect import-sensitive or strategic industries. According to the Ministry of International Trade and Industry, the average applied MFN tariff rate of Malaysia is approximately 9.18 percent. However, duties for tariff lines where there is significant local production are often higher. For example, 6.8 percent have tariff rates between 16 and 20 percent, 16.9 percent have tariff rates that exceed 20 percent, and many lines have rates well over 100 percent.

The level of tariff protection is generally lower on raw materials and increases for those goods with value-added content or which undergo further processing. The government urges Malaysians to purchase domestic products, instead of imports, whenever possible. In addition to import duties, a sales tax of 10 percent is levied on most imported goods. Like import duties, however, this sales tax is not applied to raw material and machinery used in export production. Malaysia has been an active participant in multilateral and regional trade fora such as the World Trade Organization (WTO) and APEC, which it chaired in 1998.

Fiscal Policy: The government is pursuing an expansive fiscal policy in order to stimulate economic growth. In 2001, the government introduced two supplementary budget packages, totaling $1.9 billion in new spending. The 2002 budget, released October 19, provides for a deficit equal to five percent of GDP and features some personal income tax cuts along with provisions to stimulate domestic consumption and investment. The Malaysian government will finance the projected $4.9 billion deficit primarily from domestic sources, although the government also plans an additional $950 million (net) in new foreign borrowings.

Monetary Policy: The Central Bank continues its accommodative monetary policy, featuring low interest rates to stimulate economic recovery. The government loosened monetary policy in 1998, reducing reserve requirements from 13.5 percent as of year-end 1997 to 4 percent in September 1998. The average base lending rate dropped from 8.0 percent in December 1998 to 6.8 percent in August 1999. In September 2001 the Central Bank cut the 3-month intervention rate by 50 basis points to 5 percent, leading to a further drop in the base lending rate to 6.4 percent.

2. Exchange Rate Policy

As part of a broad effort to stabilize the currency while stimulating the economy, on September 1, 1998, the government fixed the exchange rate of the Ringgit to the dollar at RM 3.8/$1 and instituted selective capital controls, including a controversial tax on repatriated principal and profits. The government subsequently abolished most capital controls, but has maintained the fixed exchange rate, in spite of concerns that falling foreign exchange reserves, between May 2000 and June 2001, could lead to a reconsideration of the policy.

3. Structural Policies

Pricing Policies: Most prices are market-determined but controls are maintained on some key goods, such as vegetable oil, fuel, public utilities, cement, motor vehicles, rice, flour, sugar, tobacco, and chicken. No restrictions are placed on wheat imports.

Tax Policies: Tax policy is geared toward raising government revenue and discouraging consumption of "luxury" items. Income taxes, both corporate and individual, comprise 44 percent of government revenue with indirect taxes, export and import duties, excise taxes, sales taxes, service taxes, and other taxes accounting for another 29 percent. The remainder comes largely from dividends generated by state-owned enterprises and petroleum taxes.

The year 2002 budget focuses on stimulating domestic consumption and investment. The new budget marks the fifth consecutive federal government deficit. The budget features pump-priming measures, including a slight reduction in personal income taxes, lower import duties on over 200 products, as well as tax rebates and incentives to promote exports and e-businesses.

Standards: Malaysia has extensive standards and labeling requirements, but these appear to be largely implemented in an objective, nondiscriminatory fashion. Food product labels must provide ingredients, expiry dates and, if imported, the name of the importer. Electrical equipment must be approved by the Ministry of International Trade and Industry; telecommunications equipment must be "type approved" by the Communications and Multimedia Commission. Telecommunications and aviation equipment must be approved by the Department of Civil Aviation. Pharmaceuticals must be registered with the Ministry of Health. In addition, the Standards and Industrial Research Institute of Malaysia provides quality and other standards approvals.

4. Debt Management Policies

Malaysia has $42.7 billion in foreign debt, of which almost 90 percent ($37.9 billion) is medium and long-term debt (both public and private sector), almost all of which was granted on concessional terms. Short-term external debt remains low at an estimated $4.8 billion in 2001, up slightly from the $4.6 billion registered in 2000. Malaysia’s debt service ratio declined from a peak of 18.9 percent of gross export earnings in 1986 to 5.1 percent in 2000. The government estimates that the debt service ratio will increase to 5.8 percent in 2001.

5. Significant Barriers to U.S. Exports

Import Restrictions on Motor Vehicles: Malaysia maintains several measures to protect the local automobile industry, including high tariffs and an import quota and licensing system on imported motor vehicles and motor vehicle parts. Malaysia also maintains local content requirements of 45 to 60 percent for passenger and commercial vehicles, and 60 percent for motorcycles. Arguing that the national car industry requires additional time to become competitive internationally as a result of the regional financial crisis, Malaysia has requested additional time before reducing or abolishing these measures. Malaysia has requested an additional two-year extension of the phaseout period, until the end of 2003, for local content requirements in selected auto industry sectors that are inconsistent with its obligations under the WTO Agreement on Trade-Related Investment Measures (TRIMS) (see investment barriers). Further, ASEAN has accepted Malaysia's request for an extension of its commitments under the ASEAN Free Trade Area (AFTA) to reduce tariffs in the auto sector beginning in 2000. These restrictions have hampered the ability of U.S. firms to penetrate the Malaysian market. Customs tariffs and excise duties (up to 50 percent) for motorcycles are also significant barriers for U.S. companies. Malaysia is also considering new emissions standards for motorcycles that could restrict market opportunities for imports.

Products	*Tariff (pct)*
Automobiles (CB)	140-300
Automobiles (CKD)	80
Vans (CBU)	42-140
Van (CKD)	40
4WD/ Multipurpose (CBU)	60-200
4WD/ Multipurpose (CKD)	40
Motorcycle (CBU)	60
Motorcycle (CKD)	30

Restrictions on Construction Equipment: In October 1997 Malaysia imposed a restrictive licensing regime on imports of heavy construction equipment and raised import duties for the second year in a row, as detailed below. In October 1996 it raised duties on construction equipment from 5 to 20 percent. In addition, the initial capital allowance for imported heavy equipment will be reduced from 20 to 10 percent in the first year, and the annual allowance will be reduced from between 12 percent and 20 percent to 10 percent. In April 1999, another licensing requirement was established for certain iron and steel products.

Products	*Tariff (pct)*
Heavy Machinery & Equipment	5
Multi-Purpose Vehicles	50
Special Purpose Vehicles	50
Construction Materials	10-30

Duties on Selected Goods: Effective October 19, 2001, the 2002 budget reduced high import duties on selected goods that were imposed to protect local producers from competition from imports. The budget also harmonized the import duties on selected intermediate and finished goods in order to avoid anomalies and to reduce the cost of doing business. Import duties on 55 "long-protected" items, (including suitcases, textiles, and cigarette lighters) have been reduced from between 20 and 105 percent to between 10 percent and 50 percent. Import duties on 25 intermediate goods, with duties higher than finished goods (including cocoa paste, plugs and sockets, and ball point pen parts) have been reduced from between 10 and 30 percent to between 5 and 25 percent. Import duties on 109 goods, where the rates are not consistent with rates on goods from the same category (including adhesives, lingerie, and linens) have been reduced from between 25 and 30 percent to between 0 and 25 percent. Import duties on 27 items, which are competitive or not produced locally (including hydraulic fluids, color television receivers, and binoculars) have been abolished.

Duties on High Value Food Products: In the 2002 budget, the government reduced tariffs on 64 selected food items to increase consumption and to harmonize import duties rates with Common Effective Preferential Tariff (CEPT) rates. Import duties for items such as anchovies, sweet corn, peaches, and mixtures of dried nuts and fruits were reduced from between 5 and 30 percent to between 2 and 15 percent. Duties for processed and high value products, such as canned fruit, snack foods, and many other processed foods, range between 20 and 30 percent. The applied tariff on soy protein concentrate is 20 percent.

Duties on Alcoholic Beverages and Tobacco Products: In 2001, the government increased the sales taxes for tobacco from 15 to 25 percent and for alcohol from 15 to 20 percent. In the 2002 budget, the government increased the import duty on cigarettes and tobacco products from \$47/kg to \$57/kg and increased the excise duty on cigarettes and tobacco products from \$10.50/kg to \$13/kg.

Tariff Rate Quota for Chicken Parts: Although the government applies a zero import duty on chicken parts, imports are regulated through licensing and sanitary controls, and import levels remain well below the minimum access commitments established during the Uruguay Round.

Plastic Resins: U.S. exports of some plastic resins are hampered by 20 percent tariffs. Additional measures may be forthcoming. In October 2000, the Plastic Resins Producers Group of the Malaysian Petrochemicals Association requested government help in overcoming the combined effect of high feedstock resins and cheaper imported resins.

Float Glass Tariff Differentials: Malaysia levies high duties (30 to 60 percent ad valorem equivalent) on rectangular-shaped float glass. Nearly all float glass that moves in world trade is rectangular. To qualify for the lower ad valorem MFN tariff rate of 30 percent levied on non-rectangular float glass, exporters often must resort to time-consuming, wasteful procedures such as cutting off one or more corners or cutting one edge in a slanted fashion. This is an inefficient and expensive process that requires distributors to recut each piece of glass into a rectangular shape once it has cleared customs.

Rice Import Policy: The sole authorized importer of rice is a government corporation with the responsibility of ensuring purchase of the domestic crop and wide power to regulate imports.

Film and Paper Product Tariffs: Malaysia no longer has import duties on instant print film. The 2002 budget eliminates import duties on other film for color photography of paper, paperboard, and textiles. In August 1994, the government raised tariffs on several categories of imported kraft linerboard (used in making corrugated cardboard boxes) to between 20 and 30 percent depending on the category. These tariff increases are to be phased out after five years and are subject to review every two years. Malaysia did not change the tariff levels after the 1996 review. Effective in February 2000, Malaysia increased the tariff on newsprint (rolls and sheets) to 10 percent.

Direct Selling Companies: In May 1999 the Malaysian government announced new requirements for the licensing and operation of direct selling companies. These requirements include the provisions that: a) no more than 30 percent of the locally incorporated company can be foreign owned, b) local content of products should be no less than 80 percent, c) no new products would be approved for sale that did not meet local content requirements, and d) all price increases would be approved by the Ministry of Domestic Trade and Consumer Affairs. These guidelines also spell out the conditions under which companies may receive one, two and three year operating licenses. The Ministry indicated that the local content targets are not mandatory, except for adherence to Malaysia's national equity policy. In October 2001, the Minister of Domestic Trade and Consumer Affairs announced that the government had lifted its freeze on multi-level direct selling licenses. Licenses will be issues to companies with paid-up capital of RM 2.5 million ($657,000). Companies with foreign shareholders must have paid-up capital of RM 5 million ($1.3 million). The paid-up capital requirement for single-level and mail order companies is RM 500,000 ($131,578). Existing licensed companies will be given one year to comply with this ruling. Single-level companies will be permitted to apply for multi-level licenses in November 2001, provided they have been operating for three years and have annual sales of more than RM 1 million ($263,157).

Franchising Practices: The Malaysian government designated 2001 as "Franchising Year 2001," and it boasts the country as the top choice among franchisors and investors in the region, soon to rival Japan. While the Malaysian government's lofty predictions may be unrealistic, there is nevertheless much room for growth. However, the recently enacted Malaysian franchise law contains some provisions that are troubling to international franchisors including disclosure requirements, regulation of the relationship between the franchisor and the franchise, the role of the Malaysian government in franchising, and some differences in the treatment of domestic and foreign franchisors.

Government Procurement: Malaysian Government policy calls for procurement to be used to support national objectives such as encouraging greater participation of ethnic Malays (*bumiputera*) in the economy, transfer of technology to local industries, reducing the outflow of foreign exchange, creating opportunities for local companies in the services sector, and enhancing Malaysia's export capabilities. As a result, foreign companies do not have the same opportunity as some local companies to compete for contracts and in most cases foreign companies are required to take on a local partner before their bid will be considered. Some U.S. companies have voiced concerns about the transparency of decisions and decision-making processes. Malaysia is not a party to the plurilateral WTO Government Procurement Agreement.

Investment Barriers: Malaysia encourages direct foreign investment particularly in export-oriented manufacturing and high-tech industries, but retains considerable discretionary authority over individual investments. Especially in the case of investments aimed at the domestic market, it has used this authority to restrict foreign equity (normally to 30 percent) and to require foreign firms to enter into joint ventures with local partners. To alleviate the effects of the economic downturn, Malaysia announced relaxation (extended to December 31, 2003) of foreign-ownership and export requirements in the manufacturing sector for companies producing goods that do not compete with local producers. Most foreign firms face restrictions in the number of expatriate workers they are allowed to employ.

Trade-Related Investment Measures: Malaysia has notified the WTO of certain measures that are inconsistent with its obligations under the WTO agreement on Trade-Related Investment Measures (TRIMs). The measures deal with local content requirements in the automotive sector. New projects or companies granted "pioneer status" are eligible to receive a 70 percent income tax exemption. Proper notification allows developing-country WTO members to maintain such measures for a five-year transitional period after entry into force of the WTO. Malaysia was scheduled to eliminate these measures before January 1, 2000. In December 1999, Malaysia requested a two-year extension of the phase-out period. Subsequently, Malaysia requested an additional two-year extension. The United States is working in the WTO committee on TRIMs to ensure that WTO members meet its obligations.

Services Barriers: Under the WTO basic telecommunications agreement, Malaysia made commitments on most basic telecommunications services and partially adopted the reference paper on regulatory commitments. Malaysia guaranteed market access and national treatment for these services only through acquisition of up to 30 percent of the shares of existing licensed public telecommunications operators, and limits market access commitments to facilities-based providers. At least two U.S. firms have investments in basic and enhanced services sectors.

Professional Services: Foreign professional services providers are generally not allowed to practice in Malaysia. Foreign law firms may not operate in Malaysia except as minority partners with local law firms, and their stake in any partnership is limited to 30 percent. Foreign lawyers may not practice Malaysian law or operate as foreign legal consultants. They cannot affiliate with local firms or use their international firm's name.

Under Malaysia's registration system for architects and engineers, foreign architects and engineers may seek only temporary registration. Unlike engineers, Malaysian architectural firms may not have foreign architectural firms as registered partners. Foreign architecture firms may only operate as affiliates of Malaysian companies. Foreign engineering companies must establish joint ventures with Malaysian firms and receive "temporary licensing," which is granted only on a project-by-project basis and is subject to an economic needs test and other criteria imposed by the licensing board. Foreign accounting firms can provide accounting or taxation services in Malaysia only through a locally registered partnership with Malaysian accountants or firms, and aggregate foreign interests are not to exceed 30 percent. Auditing and taxation services must be authenticated by a licensed auditor in Malaysia. Residency is required for registration.

Banking: In March 2001, the Central Bank unveiled its 10-year Financial Sector Master Plan for developing a more competitive and resilient financial system. The Plan is focused on building competitive domestic banks and defers the introduction of new foreign competition until after 2007. No new licenses are being granted to either local or foreign banks; foreign banks must operate as locally controlled subsidiaries. (In December 2000, the government reissued a banking license to the Bank of China. That license had been surrendered in 1959.) Foreign-controlled companies are required to obtain 50 percent of their local credit from Malaysian banks.

Insurance: The Financial Sector Master Plan also recommends phased liberalization of the insurance industry, including lifting restrictions on employment by expatriate specialists, increasing caps on foreign equity, and opening the reinsurance industry to competition. Insurance branches of foreign insurance companies were required to be locally incorporated by June 30, 1998; however, the government has granted extensions to that requirement. Foreign shareholding exceeding 49 percent is not permitted unless the Malaysian Government approves higher shareholding levels. As part of Malaysia's WTO financial services offer, the government committed itself to allow existing foreign shareholders of locally incorporated insurance companies to increase their shareholding to 51 percent once the WTO Financial Services Agreement goes into effect in 1999. New entry by foreign insurance companies is limited to equity participation in locally incorporated insurance companies and aggregate foreign shareholding in such companies shall not exceed 30 percent.

Securities: Foreigners may hold up to 49 percent of the equity in a stockbroking firm. Currently there are nine stockbroking firms that have foreign ownership and 20 representative offices of foreign brokerage firms. Fund management companies may be 100 percent foreign-owned if they provide services only to foreign investors, but they are limited to 70 percent foreign-ownership if they provide services to both foreign and local investors. In February 2001, the Securities Commission released its Capital Markets Master Plan, which features liberalized foreign participation limits by 2003, at which time foreigners would be permitted to purchase a limited number of existing stockbroking licenses and take a majority stake in unit trust management.

Advertising: Foreign film footage is restricted to 20 percent per commercial, and only Malaysian actors may be used. The government has an informal and vague guideline that commercials cannot "promote a foreign lifestyle." Advertising of alcohol products is severely restricted.

Television and Radio Broadcasting: The government maintains broadcast quotas on both radio and television programming. Eighty percent of television programming is required to originate from local production companies owned by ethnic Malays. However, in practice, local stations have considerable latitude in programming because of a lack of suitable local programming. Sixty percent of radio programming must be of local origin. The Communications and Multimedia Act transferred responsibility for regulating broadcasting from the Ministry of Information to the Ministry of Energy, Telecommunications, and Multimedia.

Other Barriers: U.S. companies have indicated that they would welcome improvements in the transparency of government decision-making and procedures, and limits on anti-competitive practices. A considerable proportion of government projects and procurement are awarded without transparent competitive bidding. The government has declared that it is committed to fighting corruption and maintains an Anti-Corruption Agency, a part of the office of the Prime Minister, to promote that objective. The agency has the independent power to conduct investigations and is able to prosecute cases with the approval of the Attorney General.

6. Export Subsidies Policies

Malaysia offers several export allowances. Under the export credit refinancing scheme operated by the central bank, commercial banks and other lenders provide financing to exporters at a preferential interest rate for both post-shipment and pre-shipment credit. Malaysia also provides tax incentives to exporters, including double deduction of expenses for overseas advertising and travel, supply of free samples abroad, promotion of exports, maintaining sales offices overseas, and research on export markets. To spur exports, 70 percent of the increased export earnings by international trading companies has been exempted from taxes.

7. Protection of U.S. Intellectual Property

Malaysia is a member of the World Intellectual Property Organization (WIPO), the Berne Convention, and the Paris Convention. Malaysia provides copyright protection to all works published in Berne Convention member countries regardless of when the works were first published in Malaysia. Malaysia is also a member of the WTO and was scheduled to meet its obligations under Trade Related Intellectual Property Agreement (TRIPS) on January 1, 2000. In 2000, the Malaysian government passed a number of new laws and amendments to existing legislation in order to bring Malaysia into compliance with its TRIPS obligations. New legislation on plant varieties is still being drafted.

As the number of manufacturing licenses for CDs increased, so did piracy rates for music and video discs. Malaysia's production capacity for CDs far exceeds local demand plus legitimate exports, and pirated products believed to have originated in Malaysia have been identified throughout the Asia-Pacific region, North America, South America, and Europe. The International Intellectual Property Association (IIPA) estimates 2000 industry losses in Malaysia due to piracy at $161 million. IIPA estimates 2000 piracy rates at 66 percent for business software, 98 percent for entertainment, and 80 percent for movies. In April 2000 the United States Trade Representative (USTR) placed Malaysia on the Special 301 Priority Watch List for its failure to substantially reduce pirated optical disc production and export. After an out-of-cycle review, in October 2001, USTR upgraded Malaysia to the Special 301 Watch List, in recognition of the steps Malaysia has taken to implement new legislation and enforce protection of intellectual property rights.

The Malaysian government is aware of the problem and has expressed its determination to move against illegal operations. The Prime Minister and his cabinet have publicly spoken out about the need to improve IPR protection. A special task force, chaired by the Minister of Domestic Trade and Consumer Affairs, includes representatives from all ministries and agencies with responsibility for IPR. Government and industry cooperation has expanded. For example, in July 2000, the Ministry and the Business Software Alliance (BSA) launched "Crackdown 2000" targeting corporate use of unlicensed software.

In April 2000, the Malaysian Parliament passed amendments to the Copyright Act, the Patents Act, and the Trademarks Act, as well as legislation on layout designs of integrated circuits and geographical indications. In September 2000, the Ministry of Domestic Trade and Industry gazetted the Optical Disc Act 2000 establishing a licensing and regulatory framework for manufacturing copyrighted work and to control piracy. Manufacturers are required to obtain licenses from both the Ministry of International Trade and Industry and the Ministry of Domestic Trade and Consumer Affairs. Manufacturers were given six months, until September 15, to comply with the new act.

Suppressing CD-based digital piracy is consistent with the government's objective to establish the Multimedia Super Corridor as the preeminent locus of high-technology manufacturing and innovation in Asia. Police and legal authorities are generally responsive to requests from U.S. firms for investigation and prosecution of copyright infringement cases. However, despite thousands of raids and inspections since April 1999, no one has been criminally prosecuted for piracy. Notwithstanding these efforts of the government, illegal production of optical disks remains a significant problem in Malaysia, and its effects have been observed throughout the region.

Trademark infringement and patent protection have not been serious problem areas in Malaysia for U.S. companies in recent years.

8. Worker Rights

a. The Right of Association: By law most workers have the right to engage in trade union activity, but less than 10 percent of the work force is represented by one of Malaysia's 544 trade unions. Exceptions include certain categories of workers labeled "confidential" and "managerial and executives," as well as police and defense officials. No legal barrier prevents foreign workers from joining a trade union, but the Immigration Department places conditions on foreign workers' permits that effectively bar the workers from joining a trade union. Government policy places a de facto ban on the formation of national unions in the electronics sector, but allows enterprise-level unions.

b. The Right to Organize and Bargain Collectively: Workers have the legal right to organize and bargain collectively, and collective bargaining is widespread in those sectors where labor is organized. However, severe restrictions on the right to strike weaken collective bargaining rights. The law requires that the parties to a labor dispute submit to a system of compulsory adjudication. Thus, though theoretically legal, strikes are extremely rare.

c. Prohibition of Forced or Compulsory Labor: The constitution prohibits forced or compulsory labor, and the government enforces this prohibition. There is no evidence that forced or compulsory labor occurs in Malaysia except for rare cases that, when discovered, are prosecuted vigorously by the government.

d. Minimum Age for the Employment of Children: Malaysian law prohibits the employment of children younger than the age of 16. The law permits some exceptions, such as light work in a family enterprise, work in public entertainment, work performed for the government in a school or training institutions, or work as an approved apprentice. In no case does the law permit children to work more than six hours per day, or more than six days per week, or at night. Child labor occurs, but there is no reliable recent estimate of the number of child workers. Most child laborers work in the plantation sector, assisting parents with the physical labor, but not receiving a wage. Child labor can also be found in urban areas in family-run food businesses, night markets and small-scale manufacturing.

e. Acceptable Conditions of Work: There is no minimum wage, but prevailing wages generally provide an acceptable standard of living. Malaysian law stipulates working hours, mandatory rest periods, overtime rates, holidays, and other labor standards. The government enforces these standards. Working conditions and occupational safety concerns are considerably worse in the plantation sector. An occupational safety law provides some protections, but there are no specific statutory or regulatory provisions that provide a right for workers to remove themselves from a dangerous workplace without arbitrary dismissal.

f. Rights in Sectors with U.S. Investment: U.S. companies invest widely in many sectors of the Malaysian economy. Worker rights in sectors in which there is U.S. investment generally do not differ from those in other sectors. U.S. companies invest heavily in the electronics sector, in which workers' right to organize is limited to enterprise-level unions.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

Category		Amount
Petroleum		1,252
Total Manufacturing		3,411
Food & Kindred Products	-8	
Chemicals & Allied Products	312	
Primary & Fabricated Metals	-4	
Industrial Machinery and Equipment	202	

Electric & Electronic Equipment	2,718	
Transportation Equipment	0	
Other Manufacturing	192	
Wholesale Trade		271
Banking		(D)
Finance/Insurance/Real Estate		470
Services		150
Other Industries		(D)
TOTAL ALL INDUSTRIES		5,995

(D) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.