

**THE EC-MALAYSIA
COUNTRY STRATEGY PAPER
2002-2006**

28 February 2002

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Executive summary

In the past two decades, Malaysia has witnessed an outstanding economic and social development to a level not matched by many other countries in Asia. GDP per capita is one of highest in South-east Asia at \$US 3.853 in 2000, with a current level of poverty of only 8%, and with healthcare of a relatively high standard.

Economic and trade relations between the EU and Malaysia are of increasing importance. The European Union figures among Malaysia's four most important trade partners, together with the US, Singapore and Japan (*2000 data*). The Union is Malaysia's third most important export market (after the US and Singapore) and the fourth most important source of Malaysian imports (after the US, Singapore and Japan). The EU is the second most important foreign investor in Malaysia, after the US.

Malaysia has experienced a long period of political and economic stability. However, the present global economic slowdown has brought to evidence challenges for Malaysia's further development, such as the need to accelerate deregulation and corporate restructuring, to reform the financial system, and to eliminate weaknesses in the labour market, and sectoral over-capacity and over-investment. Malaysia's trade surplus is a sign of economic vigour, but further effort is needed to stimulate domestic demand and broaden the components of growth.

Disparities exist between Kuala Lumpur, other industrialised and tourism-oriented regions on one side, and the more remote parts of the country, in particular Sabah and Sarawak, on the other. In ethnic and religious terms, Malaysia is a microcosm of several religions (i.e. Islam, Christianity, Hinduism and Buddhism) and various ethnic groups. Two decades of export-led growth and intensive foreign investment are challenged to translate into a skill-based economy, able to compete with Northeast Asia.

The European Union and Malaysia maintain long-standing and fruitful contacts, mainly on trade and economic issues. In the absence of a bilateral EU-Malaysia agreement, the 1980 EC-ASEAN Cooperation Agreement is the principal framework for co-operation. The ASEM dialogue provides another framework for inter-regional and bilateral exchanges.

Given Malaysia's political and economic prominence in ASEAN, it is the EU's intention to develop a meaningful dialogue with Malaysia on all political, trade, economic and social issues of common interest. This should be based on a specific institutional framework providing for a regular dialogue. The Commission's recent proposal to open a Delegation in Malaysia will facilitate this process.

The current level of Malaysia's development does not qualify the country as a recipient for specific development aid. Co-operation efforts should therefore focus on the enhancement of trade relations and the economic partnership. Particular attention should also be paid to actions to improve mutual understanding and to raise the EU's profile in the country. Co-ordination among EU partners will contribute to greater efficiency and to the projection of a common image.

EU support in 2002-2006 will be directed mainly to initiatives aimed at fostering trade and investment relations as well as in the area of higher education (focal areas). Other areas of co-operation (non-focal areas) will include science and technology, environment /energy and co-operation in social areas related to the challenges of globalisation and will be addressed, inter alia, under the existing thematic and regional programmes (ASEAN, ASEM, Asia).

1. EU co-operation objectives

The legal framework of the EU's relations with Malaysia is Article 177 of the Treaty establishing the European Community, the EU's ALA-Regulation and the 1980 EC-ASEAN Co-operation Agreement. There is no bilateral agreement between the EU and Malaysia.

Article 177 of the Treaty sets out three broad objectives for Community development co-operation:

- fostering of sustainable economic and social development,
- smooth and gradual integration of the developing countries into the world economy,
- poverty reduction.

It further states that Community policy should contribute to the general objective of developing and consolidating democracy and the rule of law and encouraging the respect of human rights and fundamental freedoms.

The EC's ALA-Regulation¹ applies to Malaysia. The focus of co-operation under the Regulation is on strengthening the co-operation framework and on making an effective contribution, through institutional dialogue, economic and financial co-operation, to sustainable development, social and economic stability and democracy.

Malaysia is signatory to the 1980 EC-ASEAN Co-operation Agreement², which emphasises: commercial co-operation, granting most-favoured nation treatment to the parties on a reciprocal basis and setting out their commitment to overcome trade barriers; economic co-operation, encouraging closer links through investment and technological progress; development co-operation, contributing to economic resilience and social well-being.

EU-Malaysia trade relations are governed under the framework of the WTO. The main EU instrument for trade co-operation with Malaysia is the Generalised System of Preferences (GSP), of which Malaysia is a beneficiary.

With the launch of the "New Dynamic in EU-ASEAN relations" at the Singapore Ministerial Meeting in 1997, following the Commission's proposals in 1996³, a new impulse was given to the dialogue between the two parties. The ASEAN-EC Joint Co-operation Committee in Bangkok in May 1999 adopted a Work Programme for the implementation of the new dynamic, focusing on practical ways of fostering business and trade links, which is being pursued. The September 2001 JCC in Brussels agreed on a new approach to EC-ASEAN co-operation, with a clear focus on policy dialogue in areas of mutual interest, where the EC can support ASEAN regional integration and other key priorities.

The Commission working document of April 2000 on the Asia-Europe Meeting process⁴ sets the EU priorities for co-operation in the context of ASEM, building on the achievements thus far, with an active and constructive dialogue in the three pillars of (i) political, (ii) economic

¹ Regulation (EEC) N° 443/92 of 25 February 1992 on financial and technical assistance to, and economic co-operation with, the developing countries in Asia and Latin America, currently under review

² Council Regulation 1440/80 of 30 May 1980, OJ L 144, 10.06.1980.

³ COM (2001) 314 final, 'Creating a new dynamic in EU-ASEAN relations', 3 July 1996.

⁴ COM (2000) 241 final, 'Perspectives and priorities for the ASEM process (Asia-Europe Meeting) into the new decade', 18 April 2000.

and financial, and (iii) cultural and intellectual issues. Co-operation in the next decade will focus in particular on regional and global security, trade and investment, socio-economic issues and regional macro-economic co-operation, consumers dialogue between regions and on educational exchanges.

In September 2001, the European Commission issued a Communication⁵, setting out a new strategic framework for co-operation with Asia in the coming decade. Its main objective is to strengthen the EU's presence in Asia, raising it to a level commensurate with the growing global weight of an enlarged Union. As regards South-East Asia, it proposes the strengthening of the EU's partnership with ASEAN, the enhancement of its bilateral relations with key ASEAN partners, and support for reinforced regional integration on the basis of mutual solidarity within ASEAN.

It is against this background that EU co-operation with Malaysia must be examined. EU-Malaysia relations take place mainly under the institutional framework of the EU-ASEAN as well as under the ASEM dialogue processes. Despite long-standing and fruitful contacts with the Malaysian Government, mainly on trade and economic issues, relations are not sustained by a well-established institutional framework, neither at political nor at technical level.

Malaysia enjoys a relatively high level of economic and social development. Therefore it does not qualify for EC bilateral development aid. It can participate in EC assistance for economic co-operation, plus some specialised co-operation under horizontal programmes.

2. The Malaysia Policy Agenda

In April 2001, Prime Minister Mahathir presented to Parliament the most recent Malaysian medium-term development programme (8th Malaysia Plan, 2001-2005).

The Government's policy is oriented by the 'Vision 2020', adopted in February 1991, which aims at gradually transforming Malaysia into a fully developed country, while guaranteeing a unitary Malaysian state, with defined individual rights and duties, and with citizenship replacing ethnic and religious political concepts. This involves developing production and infrastructure, selective incentive policies, preferential treatment for the majority Malay community, and evolving towards a knowledge-based and electronic economy, while maintaining inter-ethnic stability.

The 8th Malaysia Plan is the first phase in the implementation of the Third Outline Perspective Plan (OPP3, 2001-2010). This OPP3 will chart the development of the nation in the first decade of the 21st century. The three key thrusts of the 8th Plan are to shift the growth strategy from input-driven towards knowledge-driven concepts, in order to enhance potential output growth; to accelerate structural transformation within the agriculture, manufacturing and services sectors; and to strengthen socio-economic stability through equitable distribution of the nation's income and wealth.

The Plan sustains the objective of the National Vision Policy of transforming Malaysia into a fully developed country by 2020 and reducing the incidence of poverty to 0.5% by 2005. The underlying objectives will be difficult to achieve, as they are largely based on the assumption that GDP will grow at an average 7.5% p.a., with low inflation.

⁵ COM (2001) 469 final, 'Europe and Asia: a strategic framework for enhanced partnerships', 4 September 2001.

3. Country analysis

Official Name	Federation of Malaysia
Population	23.8 million (mid-2001)
Territory	330.000 km ² , divided among Peninsular Malaysia and the East provinces of Sabah and Sarawak (in the island of Borneo)
GDP (USD billions)	89.7
GDP Growth	8.3 %
GDP per capita	\$US 3.780 **
Inflation	1.5 %
Unemployment	3.68 % (2001) *
Currency	Ringitt (pegged to \$US at \$M 3.8:US \$1)
Official Reserves	\$US 30.4 billion (2001) *
Trade Balance	\$US 14.5 billion
Prime Minister	Mahathir Mohamad

Figures of 2000 unless otherwise stated. Source: World Bank, except * Asia Development Bank (ARIC indicators), and ** The Economist Intelligence Unit

3.1 Population and territory

Malaysia is a multi-racial, multi-cultural and multi-religious state. The *bumiputra*⁶ represent approximately 65% of the population, followed by Chinese (approx. 26%), Indians (approx. 8%) and others.

In geographical terms, Malaysia is situated at one of the most important maritime crossroads of the world.

Historically, Malaysia has been colonised by the Portuguese, the Dutch and the British. The Federation of Malaya gained its independence from Britain in 1957. In 1963, peninsular Malaysia, the East provinces of Sabah and Sarawak (on Borneo Island), and Singapore united to form Malaysia. In 1965, Singapore seceded from the Federation of Malaysia. In the 1950/60s, communist insurgents sought, without success, to overthrow the Government.

Malaysia is predominantly Muslim, but with important Buddhist, Hindu and Christian communities. The Constitution provides for freedom of worship.

The Malaysian Constitution and the national development plans provide for a system of privileges favouring the *bumiputra*, in order to help the Malays achieve a share of the economic wealth commensurate with their demographic weight.

3.2 System of Government

Malaysia is a Federation of 13 States under a constitutional monarchy. Each of the 13 States has its own Government, nine of which with a hereditary ruler. In addition, there are three federal territories: Kuala Lumpur, Labuan, and Putrajaya.

⁶ *Bumiputra* is the term used to refer to ethnic Malays and other indigenous populations collectively.

The king is elected for a five-year term among the nine hereditary rulers in the States. He appoints a Prime Minister and, on the latter's advice, a cabinet.

The legislature is based on a bicameral federal parliament, which consists of a Senate comprising 70 members, serving a six-year term of office, and a House of Representatives comprising 193 members. Elections to the latter are held every five years on the basis of universal suffrage, each constituency returning one member.

3.3 Political Situation

Malaysia is a multi-party democracy. The present federal Government is a coalition of 14 parties, the biggest of which is the United Malays National Organization (UMNO). The latest general election in 1999 gave the Government coalition a two-thirds majority in the House of Representatives. The opposition won 44% of the votes and the majority in two states.

The Malaysian Government stands firm in its position that the country must keep its independence, especially from Western influence. While Malaysia has long welcomed foreign investment, there are still some sectors of the economy, notably infrastructure, which the Government prefers to keep under domestic control, largely for old-fashioned reasons of economic independence.

Aspects of Malaysia's human rights record are a cause for concern, in particular certain legal practices (e.g. death penalty⁷, detentions under the Internal Security Act - ISA) and restrictions to the right to freedom of information, expression and association.

In April 2000, a National Human Rights Commission was established. The Commission plays a role of advisor to the Government and fulfils its duties within the very tight framework of national legislation. It is not an enforcement agency and does not have the power to investigate human rights abuses. However, it has launched in 2001 a public inquiry into alleged police violence and has questioned the basis of certain arrests under the ISA.

Malaysia has adhered to several international conventions. However it has not signed the International Covenant on Civil and Political Rights (nor its Optional Protocol on the death penalty) and has signed only two of the six major international human rights instruments.

3.4 Foreign policy

Malaysia's foreign policy is driven by the concept of non-interference and self-interest. ASEAN is a prime external political focus for Malaysia. On account of its political and economic weight, Malaysia is involved both in improving regional security in the Asia Pacific region and in assisting its less developed neighbouring countries, thus supporting ASEAN's cohesion and regional integration initiatives. Malaysia participates actively in the ASEAN Regional Forum (ARF), which was established in 1994 to enhance political and security co-operation in the Asia-Pacific region. Malaysia is one of a number of countries claiming sovereignty over parts of the Spratley islands in the South China Sea. Malaysia is committed to help end the isolation of Burma/Myanmar by encouraging political reform through economic development.

⁷ Malaysia recently lifted the *de facto* moratorium on the death penalty.

Malaysia participates in AFTA (ASEAN Free Trade Area⁸), and is committed to national treatment for investment under the ASEAN Investment Agreement (AIA) for ASEAN members by 2010 and third countries by 2020. In the October 2000 ASEAN Economic Ministers meeting in Chiang Mai, modalities were agreed for future non-compliance to pre-set AFTA tariff reductions.

Malaysia is an active partner in the ASEM process and has taken initiatives to promote education and exchanges among the ASEM countries.

Furthermore, Malaysia is an active member of the Organisation of Islamic Countries, the Non-Aligned Movement and the Commonwealth. It is also a member of APEC⁹.

3.5 Economic Situation

3.5.1 Malaysia's response to Asia's economic crisis

The Malaysian economy enjoyed an average annual growth of 8.6% in the decade ending 1997, which contributed to a substantial reduction of poverty and a rise in real wages. Since the early 1970s, the Government's social and economic restructuring policy (New Economic Policy-NEP), tried to reach a balance between economic growth and the redistribution of wealth through privatisations and encouragement of the private sector to take a greater role in the restructuring process.

In 1998, the economy was hit by the severe deflationary impact of the regional financial crisis (GDP contracted 7.5%). The country was badly hit by the turmoil and suffered from continued currency speculations. Both foreign and domestic investments dropped drastically, while high unemployment and a fall in real wages led to lower domestic demand and imports.

However, Malaysia did not seek support from the IMF. Instead, the Government adopted a National Economic Recovery Plan, consisting of an expansionary fiscal and monetary policy to stimulate domestic demand, a sharp reduction in imports, selective capital controls and structural reforms in the financial and corporate sector, and a fixed exchange rate to reduce currency volatility. In September 1998, the Ringgit was pegged to the US\$ at 3.80.

As a result of these measures, coupled with favourable external factors, Malaysia's economy was back on a more solid recovery path. Economic indicators have improved rapidly, GDP growth reached 8.5% in 2000 (5.4% in 1999); the inflation rate was 1.5% in 2000 (2.8% in 1999) and unemployment fell to 3.1% in 2000 (3.7% in 1999).

In terms of economic welfare, Malaysia ranks second in Southeast Asia, after Singapore, with a per capita income of US\$ 3.853. In spite of the Asian economic crisis, over the last 10 years

⁸ Malaysia obtained in May 2000 a waiver to delay the lowering of its automotive tariffs until 2005, instead of 2003 as planned, thus protecting its own car industry. This has led Thailand to claim compensation from Malaysia

⁹ Asia-Pacific Economic Co-operation, established in 1989 with 21 member countries in this region. APEC members committed themselves in 1994 under the Bogor (Indonesia) Declaration of Common Resolve to achieve free and open trade and investment in the region by no later than 2010 for industrialised economies and 2020 for developing countries.

the Malaysian economy achieved annual growth rates of more than 7%. Exports and imports have more than quadrupled in this period to reach €103 billion and € 86 billion respectively, placing Malaysia among the world's top 20 trading nations.

Figures for the 1st half of 2001 announce a downturn in total for 2001, with a sharp decrease in GDP growth (0.5 % est.), mostly due to a decrease in external demand. GDP growth is expected to fall short of the Government's initial 5.8% forecast for 2001. In October 2001, the Government revised downwards their estimate for growth for 2001 to 1.2%. Against such a background of economic uncertainty, the Government announced in 2001 two fiscal stimulus packages of RM 7.3 billion in Government spending, to promote domestic consumption and to foster development. Although there was pressure in mid-2001 for the Ringgit to be unpegged from the dollar to support exports, this did not materialise, given the strong reserves and a large trade surplus.

3.5.2 Trade

Malaysia is among the world's leading exporters of a wide range of electrical and electronics products, as well as a leading producer and exporter of palm oil, timber, rubber, pepper and cocoa, basic oil and chemicals, and the second largest exporter of tropical hardwood, latex goods and wooden furniture. Exports of frozen sea products are also significant.

Malaysia is a member of the World Trade Organisation. It has adopted the WTO Customs Valuation method and is implementing the TRIPS agreement since 1 January 2000. International trade has played a major role in the development of the country, as industrialisation has focused on export-oriented manufacturing industries and on imported technology.

The Declaration of the 4th Ministerial Conference in Doha – launching a new WTO Round – envisages further trade liberalisation to boost international economic growth, as well as the strengthening of the rules-based nature of the multilateral trading system through the decision to negotiate agreements on investment, competition, trade facilitation and public procurement. This is underpinned by commitments to strengthen substantially assistance to build capacity in developing countries to implement the existing WTO agreements and address the new issues. The Doha Declaration also addresses concerns of developing countries over the implementation of the Marrakech agreement. The negotiations will last three years - until January 2005.

Malaysia had played an important role in pre-Doha negotiations as an advocate of developing countries. It underlined that the implementation of past commitments must precede consideration of a new Round. Malaysia had also considered that it would be premature to include the issues of investment, competition and environment in an eventual new Round.

The results of the 4th Ministerial were welcomed with a moderate satisfaction. The two-year preparatory time frame agreed in Doha prior to the launching of negotiations on investment, competition, Government procurement and trade facilitation, will ensure Malaysia's better preparation to discuss regulations as well as improving trade terms related to the new issues. Malaysia would take a more active role in global talks on trade issues to monitor on an on-going basis the outcome of the Doha meeting and in determining the legal implications of the new issues.

Given Malaysia's important position in ASEAN and its consequent weight among developing countries in the WTO, it will be important to secure its support in the implementation of the Doha Declaration.

There are no preferential trade agreements between the EU and Malaysia. EU-Malaysia trade relations are governed mainly by the EC's Generalised System of Preferences (GSP). Malaysia has graduated in six sectors and only 26% of its exports to the EU benefit from this system (2000). However, it is only taking advantage of 46% of available preferences.

Malaysia enjoyed a positive overall trade balance in 2000 of € 16.7 billion, though there is a decreasing trend for 2001. As regards EU-Malaysia bilateral trade, Malaysia generates a trade balance of over € 4.7 billion. The EU is the fourth most important source of Malaysian imports, after the US, Singapore and Japan, with a share of 10.8% or € 9.3 billion and the third most important export market (after the US and Singapore) with a share of 13.7 % and a total value of € 14 billion. Annex 2 includes data on trade flows in Malaysia.

Malaysia has implemented a broad range of import restrictions. These include high tariffs on certain products. A particularly high level of protection is granted to the automobile industry through tariffs of up to 300%, import quotas, discriminatory excise taxes and local content requirements. Imports of heavy machinery are also restricted.

On the bilateral EU-Malaysia trade agenda, a number of issues remain:

- On the Malaysian side: the GSP scheme; anti-dumping; EU White Paper and legislation on food safety and phytosanitary matters; waste electric and electronic equipment; exports of oils and fats; better market access for tropical timber, fisheries products, meat and poultry products and cocoa.
- On the EU side: market access, such as non-automatic import licensing and quota restrictions for some sectors, customs and excise duty exemptions in favour of the national car industry, local content requirements in some sectors, etc

3.5.3 Investment

In response to the regional financial crisis, the Government initially reduced public sector expenditure to complement the tight monetary policy. This was followed by an additional development expenditure of RM 30.7 billion to stimulate economic activities and counter the sharp decline in private investment. Consequently, the share of public investment to total investment increased to 36.9 % in 1996-2000 period compared with 33.1 % in 1992-96.

To promote foreign direct investment (FDI), the equity policy for the manufacturing sector was liberalized, while the 30% limit imposed on foreign ownership was relaxed for several sectors, such as telecommunications, shipping and insurance. Also, foreign companies in the Multimedia Super Corridor Development Corporation (MSC¹⁰) are allowed 100% ownership. However, overall the equity liberalisation process remains slow.

¹⁰ A 25-year plan to transform the country into the "hub of multimedia activity in Asia" by building appropriate infrastructure and establish linkages with 12 Asian "intelligent" cities and the global information highway.

The EU was the second most important investor in Malaysia in 2000, with € 1.3 billion and 24% of total investment, after the US with € 2.1 billion and 37.7%. China is becoming an important new investor in Malaysia. Annex 2 includes data on foreign investment in Malaysia.

The EU will need to identify obstacles to investment by EU companies in Malaysia, strive to improve conditions for such investment, and encourage more openness and liberalisation.

3.6 Social situation

The New Economic Policy (NEP) enhanced the constitutional rights of *bumiputra*. This included job quotas and land rights, as well as a new language policy to establish the use of *bahasa malaysia* in administration and education. The rapid economic growth enabled progress towards this objective without traumatic economic implications for the other ethnic groups. The effects of the economic crisis required some substantive amendments of NEP provisions with respect to the *bumiputra*. To limit the impact of the crisis in the urban and rural areas, the World Bank approved, in June 1998, a US \$300 million loan for the economic recovery and the social sector.

The general level of education is impressive. The literacy rate reaches 93.7% of the population. The Government has announced its intention to make primary education compulsory. However, there are large inequalities between urban and rural schools, especially in terms of facilities and teacher quality. Moreover, the Government is concerned about falling standards of English among young Malaysians. Extensive programmes for selecting and supporting Malaysian students to complete their education at overseas universities do exist. However, Government scholarships for study abroad have been reduced considerably since 1987 and are limited to the *bumiputra*. Private education at all levels has boomed recently, especially at the tertiary level, and the Government wants to make Malaysia a regional centre for education.

Malaysia registers one of the lowest numbers of poor people (with incomes less than US \$ 2 per day) among Asian countries, down from 60% in 1970 to 8% in 2000. Healthcare levels are among the highest in Asia.

The ASEM Trust Fund¹¹ initiative assisted the restructuring of the Malaysian financial and corporate sector to enhance its industrial and export competitiveness. It also supported the social sector in Malaysia (see Annex 3).

3.7 Sustainability of Development

Malaysia needs to grow at a rate of 7% per annum to realise its vision of becoming a developed country by 2020 ('Vision 2020'). Even though this figure was surpassed in 2000 (8.5%), the prospects for 2001 look dim at 0.5%.

At the start of the 1997/98 crisis, Malaysia was in a better position in terms of economic fundamentals than some of its neighbours. Even so, the crisis was particularly felt at the social level, with an increase in poverty and unemployment levels. Although unemployment

¹¹ The ASEM Trust Fund (€ 42 million, in total) and the European Financial Expertise Network were launched in July 1998 in the wake of the Asian economic crisis to facilitate financial restructuring and support projects in the social sector.

has decreased since, structural weaknesses remain, such as the substantial shortage of skilled labour in certain sectors and an overcapacity in others. Due to the large presence of foreign workers (including illegal workers, outside official statistics), the number of unemployed people is largely underestimated¹². Also, wages have increased twice as fast as productivity in recent years.

Bank restructuring is progressing. While the compositions of “forced mergers” are known, little information has emerged about how the consolidated entities will function. There has been wide speculation that Bank Negara may have to devalue the ringgit, pegged to the US dollar at \$US 3.8 since September 1998, to maintain the competitiveness of exports.

After a good start, corporate restructuring has slowed. During the 1st semester of 2001, the proportion of NPLs (Non-Performing Loans) in the banking system has increased (13% of total loans, up from 10% in the beginning of 2001).

The global economic slowdown of 2001 has accentuated some structural weaknesses of the Malaysian economy that remain unsolved since the financial crisis. Deregulation, reform of the financial system, corporate restructuring, and domestic expansion need to be pursued. The Government is assisting Malaysian companies to diversify their operations in order to offset the adverse impact from the slowing of the US and Japanese economies.

3.8 Medium Term Outlook and Prospects

Malaysia’s overriding challenge is to provide sustainable economic growth within a stable socio-economic environment, developing economic resilience as well as increasing productivity and international competitiveness. The prospects for growth will need to take into account:

- On the economic side:
 - Facing the challenges of a more liberalized global economy and rapid technological transformation - developing a knowledge-based economy evolving into a less export dependent and skill-based market economy able to compete in the region;
 - Adopting sound macroeconomic management to create a business environment conducive to strengthen domestic investment and attracting quality FDI associated with high technology; promoting transparency in financial and corporate governance.

- On the social side:
 - Securing a stable multi-ethnic society from the spread of religious fundamentalism that may develop into a serious internal security threat;
 - Improving accountable and transparent governance;
 - Strengthening the national policy agenda in relation to global challenges and, in particular, the fight against terrorism, racism and fundamentalism;
 - Further promoting national policies against drugs trafficking and epidemic diseases.

¹² The International Labour Organisation estimated that out of a total of 2.5 million immigrants in Malaysia, there were close to 1.750.000 Indonesian workers, only 750.000 being legal. The majority of these workers were employed in the construction and in the plantations, two of the sectors mostly hit by the recession.

With regard to the environment, the economic crisis has resulted in an aggravation of the problems in the management of natural resources, such as those related to water availability and distribution, depletion of forests, destructive logging practices, increases in industrial emissions, and unsustainable tourism practices. The National Committee on Forestry and National Resources has already established guidelines on the sustainable management of forest resources for both Peninsular Malaysia and for Sabah and Sarawak.

4. General co-operation framework

4.1 Overview

Given the lack of bilateral co-operation arrangements and Malaysia's advanced level of economic development, the political and economic dialogue (in terms of policy and projects) takes place mainly in the context of relations between the EU and ASEAN and in ASEM. Specific economic and trade issues are dealt with in an *ad hoc* manner between the European Commission and the Malaysian authorities. Contacts with Malaysian trade organisations are not as regular and substantive as the economic importance of this country would deserve.

Malaysia has participated in EC-ASEAN regional programmes, covering energy, environment, transport, education and communication technology. In addition, Malaysia is associated with EC-Asia horizontal co-operation programmes such as Asia-Invest, Asia-Urbs, Asia IT&C and Asia Ecobest.

Since 1980, total EC assistance to Malaysia amounts to some € 27.8 million. The EC grant aid to the country, committed to technical assistance, training and NGO projects, increased from almost € 1.4 million in the 1980s to € 26.4 million in the 1990s, covering mainly tropical forestry, environment, trade and economic co-operation and drugs. In addition, the EU Member States have provided more than € 250 million during the same period.

From 1994 to 2000, Malaysia rapidly evolved from the status of an aid recipient to that of an economic partner. EU support was directed to strategic technical assistance to help Malaysia's development priorities and serve mutual interests (€ 8.2 million). This topped up the aid provided in the same period by the EU Member States (€ 100 million). NGOs were involved in few but significant projects, in particular on the strengthening of civil society, environment and forestry development.

The post-crisis period is characterised by an adjustment programme supported by the ASEM Trust Fund.

4.2 Past and on-going EC Co-operation

4.2.1 Economic and development co-operation

Due to Malaysia's advanced level of economic development, EC support has focused on economic co-operation rather than on aid to development, and has been channelled mainly into activities to increase trade and economic links with the EU, and to protect the environment. Most of the activities had a regional, rather than bilateral, character (EC-ASEAN, all-Asia programmes).

Initiatives supported by the EU in Malaysia in recent years have included:

- Trade and business co-operation under Asia-Invest,
- The establishment of the European Business Information Centre (EBIC),
- Support under the ASEM Trust Fund for macroeconomic and structural reform of Malaysia's financial sector,
- Support for trade facilitation actions under the ASEM's TFAP programme,
- Co-operation in higher education through the Programme of European Studies of the University of Malaya (UMESP),
- Co-operation in science and technology under the INCO-DEV R&D programme of the EC, and
- Support to NGO activities in the fight against drug abuse.

Further information on the above initiatives is outlined in Annex 3

4.2.2 Results

The main results of EC activities in Malaysia, through bilateral and regional co-operation, are:

- Human resource development and institution-building: strengthened capacity of key Malaysian institutions, in particular in the areas of environment and management of natural resources;
- Private sector development: provision of business training; transfer of EU expertise and technology in a range of sectors; increased co-operation between EU and Malaysian businesses and associations; and improved planning capacity at Government agencies responsible for industrial promotion;
- Governance and community development; networking and participation of national and regional NGOs through co-operation with EU NGOs; improved regional analysis of social and economic issues.

4.2.3 Lessons Learned

The main conclusions derived from EU-Malaysia past co-operation are as follows:

- The promotion of enterprise co-operation was successful in general to the extent that it met private sector interests when concentrating on access to EU technology for Malaysian firms and access to Malaysian and regional markets for EU firms.
- Tendering and implementing complex forestry projects was in some cases difficult, not allowing full implementation and an evaluation of the economic impact and the sustainability of the projects.
- The provision of EC-technical assistance on education issues is highly regarded and allays Malaysian concerns about EU's interest in Malaysia. This is the case as regards the project relating to the University of Malaya European Studies Programme (UMESP), which meets the interest of Malaysia in regional studies while involving it in co-operation with Europe.

- Limited budgetary resources have not permitted the development of a comprehensive programme of co-operation, but rather individual initiatives in specific sectors. Since the budget situation may not improve significantly in the near future, a framework with selected priorities is needed.
- Possibilities of Asian horizontal programmes and the R&D programme need to be better promoted to meet the increasing interest of Malaysian partners.
- The relevance of the EU as a trade partner and investor is not matched by an equivalent visibility of the EU in Malaysia.

4.3 Programmes of EU Member States and other Donors

Several EU Member States have bilateral assistance programmes in different sectors such as environment and forestry, education and vocational training, and governance (Annex 3).

During the 1997/98 crisis, Japan was Malaysia's main financing source, contributing \$US 1.5 billion under the regional Miyazawa plan. In addition, Malaysia secured a \$US 890 million loan in March 1998 from Japan's low-interest Overseas Economic Co-operation Fund. Moreover, Japan offered a trade insurance facility (\$US 560 million) and training of 10,000 people in the industry (\$US 20 million).

UNDP is focusing on complementing the efforts of the Malaysian Government in human and sustainable development¹³. Furthermore, UNCTAD, UNICEF and UNHCR have given occasional support.

The World Bank approved in June 1998 an Economic Recovery and Social Sector Loan of \$US 300 million to support the elimination of hard-core poverty and assist the near poor. World Bank operations are focused on education, the social sector and on technical assistance.

The Asian Development Bank is providing technical assistance for the reform of the financial sector under its Country Assistance Plan (2000-02).

5. Future European Community Co-operation Strategy

5.1 Objectives for co-operation

Malaysia's overriding challenge is to provide sustainable economic growth within a stable socio-economic environment with particular emphasis on economic reforms, increasing productivity and international competitiveness, and developing further into a knowledge-based economy. This should be accompanied by improved governance, further protection of the environment and an effective fight against the negative consequences of globalisation, while maintaining a stable multi-ethnic society.

In this context, the EU objectives in its co-operation with Malaysia are as follows:

- Strengthen bilateral relations on all political, economic and social issues of common interest;

¹³ First Country Co-operation Framework for Malaysia (1997-2001)

- Intensify bilateral trade and investment relations;
- Improve market access for EU exports;
- Encourage an open and transparent environment for EU direct investments, thus contributing to growth and employment in Malaysia, mainly in high technology sectors.
- Address any regulatory and other obstacles hindering trade on both sides;
- Enhance linkages between EU and Malaysian enterprises and increase the visibility of the EU and of its companies in Malaysia;
- Improve Malaysia's access to European expertise and best practices on macroeconomic and structural reforms, while creating confidence and better understanding as regards EU trade and economic policies;
- Raise the EU's profile in the country; improve understanding of the EU in Malaysia and mutual understanding through activities in higher education in particular;
- Encourage co-operation between Malaysia and the EU in the area of science and technology, especially in the ASEAN or ASEM frameworks;
- Promote and strengthen the role of civil society in Malaysia and address global challenges (e.g. the fight against the trafficking of human beings, drugs, money laundering, and HIV/AIDS);
- Foster co-operation in specific sectors of energy and environment of relevance to Malaysia;
- Promote co-ordination between EU partners (EC, Member States and the European business community) in Malaysia, to increase efficiency and to project a common image.

More regular high-level contacts need to be established with the Government (in particular involving the Ministry of Foreign Affairs and the Ministry of International Trade and Industry). On the operational side, the establishment of an institutional framework for bilateral relations (Senior Officials' Meeting) would be a privileged channel to reinforce bilateral relations, to provide a road map for, and to review co-operation, and to facilitate understanding and convergence of positions in international *fora*.

In July 2001, the Commission proposed the opening of a Delegation in Malaysia¹⁴, taking account of the economic and political importance of the country. A permanent presence will play an important role in the EU strategy vis-à-vis Malaysia and will be instrumental in achieving the above objectives, as it will enhance the dialogue with the Malaysian Government on all issues of common interest. It will also facilitate the programming and monitoring of co-operation.

The Commission's 'indicative multi-annual allocations of resources' provide for an amount of € 5.6 million for the next 5 years (2002-06) for bilateral activities with Malaysia under the economic co-operation budget line (B7-301: political, economic and cultural co-operation with developing countries in Asia). This indication does not preclude secondary financing under other thematic/regional budget lines and does not pre-empt the powers of the European Union's budgetary authorities. The final project selection will be subject to a detailed identification and appraisal to be undertaken by the Commission.

¹⁴ COM/2001/381 of 3 July 2001: *The Development of the External Service*.

5.2 Priorities for Co-operation

Co-operation will be based on the above objectives and focus on the following initiatives:

5.2.1 Main areas of concentration

Bilateral co-operation initiatives are proposed in two main focal areas:

1. *Trade and investment*

- Support Malaysia in its efforts to build up its regulatory, legislative and institutional capacities to implement and apply its WTO commitments in fields such as TBT/SPS, Trade Related Intellectual Property Rights (TRIPS), Trade Related Investment Measures (TRIMS) and Customs Valuation;
- Co-operate with the Malaysian authorities on the issue of protection of intellectual property;
- With regard to the Doha Development Agenda, provision of trade-related technical assistance and capacity building in key areas agreed at Doha, in particular competition (where Malaysia is currently setting up a competition authority) and trade facilitation (i.e. customs simplification and modernisation);
- Support to the Malaysian administration and companies to adapt to developments in EC legislation (e.g. food safety and phytosanitary matters, waste electrical and electronic equipment, GMOs and labelling etc) which may affect bilateral trade;
- Identify obstacles to foreign investment and support initiatives aimed at the improvement of conditions for EC investment in Malaysia, while encouraging more openness and liberalisation;
- Support Malaysia's macroeconomic and structural reforms through activities which will facilitate the access of Malaysia's companies to European expertise and best practices;
- Initiate, with the support of the European business community in Malaysia, vocational training activities for officials and business associations on EC trade-related policies and legislation;
- Support initiatives of the EC business community in Malaysia to promote EC trade and investment policy and raise the EC's trade and economic profile in Malaysia.

This type of bilateral activities can be supported under the budget line for political, economic and cultural co-operation. Horizontal programmes such as Asia-Invest can complement bilateral activities in this area.

2. *Higher education*

The main objective here is to enhance co-operation between European and Malaysian higher education institutes in view of the wider objective to strengthen relations, reciprocal understanding and knowledge between the EU and Asia. Particular attention will be paid in this context to the strengthening of the teaching and research capacity of the Asia-Europe Institute, which was established by the Malaysian Government within the University of Malaya, under ASEM.

Building on the experience of the University of Malaya European Studies Programme, and in line with the political commitment by all ASEM partners to foster HRD and exchanges

between Asia and Europe in the area of education, EC support will cover the following actions:

- Promoting EU-Malaysia university partnership and networking with a view in particular to the development of European studies in Malaysia;
- Facilitating, through the provision of grants, joint research in selected economic and social fields;
- Assisting the organisation of conferences and seminars of a regional or Europe/Asia interest;
- Developing synergies with similar higher education initiatives undertaken by the EU in the region under ASEM or other programmes, including the external mobility scheme for researchers under the new Research and Development Framework Programme.

The main EC instrument to support these activities is the budget line for political, economic and cultural co-operation, as well as horizontal programmes, particularly the Asia-Link programme or the ASEAN-EU University Network Programme.

5.2.2 Other areas of co-operation

Outside the main areas of concentration, and making use mainly of available EC horizontal co-operation instruments, the following non-focal areas will receive particular attention.

- In the area of Science & Technology, Malaysia's participation in the Community Framework Programme on RTD should be encouraged, especially in the ASEAN or ASEM contexts, thus creating a web of partnerships providing for the exchange of young scientists, managers and engineers in selected economic sectors. This would strengthen the position of European companies in the Malaysian market and support Malaysia's own economic development. In this context, Malaysia is strongly committed to the promotion of high technology, which is confirmed by the continuing support to the development of the Multimedia Super Corridor Project. Both the EU and Malaysia have a particular interest to co-operate in Information and Communication Technology and environment. Priority areas for R&D co-operation in the mutual interest will need to be determined through an in depth policy dialogue on S&T, especially at the level of the ongoing ASEAN or ASEM S&T dialogues. Malaysia is particularly interested in co-operation in the field of biotechnology (exchange of researchers). The INCO-DEV (International Co-operation for Development) programme of the EC's Framework Programme on R&D is an instrument for support in this area, as well as the recently approved Asia Information Technology and Communication (IT&C) Programme in so far as information society initiatives are concerned.
- Initiatives to promote and strengthen the role of civil society in Malaysia and to address global challenges, in particular the fight against the trafficking of human beings, drugs, money laundering, and HIV/AIDS. To support these areas through selected technical assistance and training actions, several EC instruments are available, in particular the budget line on drugs and the ASEM dialogue process on this issue, the EC human rights budget line (European Initiative for Democracy and Human Rights) and the budget line for co-financing of NGOs. As regards HIV/AIDS, the appropriate means are the *Action Plan on the fight against three major communicable diseases* and the *UN-proposed Global Health Fund on HIV/AIDS*,

Malaria and Tuberculosis. Possibilities for support also exist under the thematic HIV/AIDS programme (budget line on Diseases of poverty).

- **Environment and energy.** In the former sub-sector, support will be provided, through the horizontal programmes on environment and tropical forests, for the sustainable development of the forestry sector, particularly in the regions of Sabah and Sarawak, in synergy with the initiatives of Member States and international agencies. In the latter, Malaysia's participation in the EC-ASEAN Energy Facility and COGEN III will be promoted, in particular as regards clean energy production and the use of renewable energy such as co-generation processes.

5.3 Coherence with EU policies

Particular attention will be paid to developments in EU policies such as trade and investment, education and culture, Research & Development, environment, justice and home affairs, etc.

Coherence with developments in trade policies will be monitored closely, namely those concerning the results of the 4th WTO Ministerial in Doha, as well as the Commission's guidelines relating to the integration of environment into external relations policies¹⁵ and to the co-operation activities with third countries on higher education¹⁶.

5.4 Complementarity within the EU and with other donors

The European Commission is committed to providing for complementarities in co-operation programmes at EU and international level. This will involve all partners including EU Member States, business associations, universities and other institutions, NGOs, trade associations and others.

Information and communication are fundamental components in the initiatives under the present strategy, to ensure that it complements and supports the strategies of Member States.

The regular meetings of EU Heads of Mission and of economic counsellors in Malaysia serve this purpose. Regular meetings are to be held with the World Bank, the Asian Development Bank and the UN agencies.

EU visibility needs attention. EU funding of projects in Malaysia will be supported by specific publicity, to enhance visibility and improve understanding of the EU. Closer co-ordination between EU partners (EC, Member States, the European business community, and the International Financial Institutions) on the ground will contribute both to greater efficiency and to the projection of a common image.

¹⁵ SEC/2001/508, of 27/03/2001, Integrating the environment into external relations policies.

¹⁶ COM/2001/385, Strengthening co-operation with third countries in the field of higher education.

Annex 1: Socio-economic indicators¹⁷.

Population, mid-2001 (<i>millions</i>)	23.8
Population (<i>% of average annual growth, 1994-00</i>)	2.4
GDP (<i>USD billions</i>)	89.7
GDP growth	8.3
GDP per capita (<i>USD</i>)**	3,780
Inflation	1.5
Labour force (<i>% of average annual growth, 1994-00</i>)	3.0
Poverty (<i>% of population below \$US 2 per day, 2001*</i>)	5.2
Urban population (<i>% of total population</i>)	57
Life expectancy at birth (<i>years</i>)	72
Infant mortality (<i>per 1000 live births</i>)	8
Child malnutrition (<i>% of children under 5</i>)	20
Access to improved water source (<i>% of population</i>)	89
Illiteracy (<i>% of population age 15+</i>)	13
Unemployment (2001)*	3.68
Government finance (<i>% of GDP, includes current grants</i>)	
Current revenue	18.3
Current budget balance	1.4
Overall surplus/deficit	-4.2
Structure of economy (<i>average annual growth %</i>)	
Agriculture	8.6
Industry	45.1
Services	46.3
Trade (<i>USD millions</i>)	
Total exports (fob)	98,208
Fuel	2,618
Rubber	830
Manufactures	83,668
Total imports (cif)	83,707
Food	3,194
Fuel and Energy	3,628
Capital Goods	53,780
Balance of payments (<i>USD millions</i>)	
Exports of goods and services	112,359
Imports of goods and services	94,657
Resource balance	17,702
Net income	-7,364
Net current transfers (1998)	-2,000
Current account balance	8,338
External debt and resource flows (<i>USD millions</i>)	
Total debt outstanding and disbursed	44,575
IBRD	812
IDA	0

¹⁷ Figures of 2000 unless otherwise stated. Source: World Bank, except * Asia Development Bank (ARIC indicators), and ** The Economist Intelligence Unit

Annex 2: Selected data on Malaysia's trade flows and foreign investment

Table 1: Malaysian trade flows with the world and the EU

<i>Trade flows</i>	<i>in millions</i>				<i>share</i>	
	1999		2000		1999	2000
	RM	EURO	RM	EURO		
Malaysia-world						
Exports	321560	79007	373307	102839	100%	100%
Imports	248477	61051	312364	86051	100%	100%
Balance	73083	17956	60943	16788		
Malaysia-EU						
Exports	50522	12413	51026	14057	15.7%	13.7%
Imports	28974	7119	33692	9282	11.7%	10.8%
Balance	21548	5294	17334	4775	29.5%	28.4%

Table 2: Trade flows between Malaysia and its 4 main trading partners

<i>Trade flows</i>	<i>1999</i>		<i>2000</i>	
	€ million	% change	€ million	% change
Gross Exports	79007	20.2%	102839	30.2%
Gross Imports	61051	16.7%	86051	40.9%
Trade Balance	17957	34.0%	16789	-6.5%
Malaysia - EU				
Exports	12413	16.6%	14057	13.2%
Imports	7119	14.7%	9282	30.4%
Balance	5294	19.2%	4775	-9.8%
Malaysia - USA				
Exports	17295	21.4%	21098	22.0%
Imports	10643	3.7%	14287	34.2%
Balance	6652	67.0%	6810	2.4%
Malaysia - Japan				
Exports	9162	32.1%	13428	46.6%
Imports	12728	23.7%	18144	42.5%
Balance	-3566	6.4%	-4716	32.2%
Malaysia - Singapore				
Exports	13048	16.8%	18896	44.8%
Imports	8555	20.5%	12315	44.0%
Balance	4494	10.4%	6581	46.4%

Table 3: Approved foreign investment

<i>Approved foreign investment (value of investment in € million / share of overall approvals)</i>					
	1998	1999	2000	Change 00/99	2001 – Jan/July
EU	321 / (10.7%)	326 / (10.8%)	1310 / (24%)	302%	636 / (16.1%)*
Japan	428 / (14.3%)	247 / (8.2%)	792 / (14.5%)	321%	727 / (18.4%)
USA	1474 / (49.2 %)	1294 / (42.9%)	2058 / (37.7%)	159%	585 / (14.8%)
ASEAN	473 / (15.8 %)	311 / (10.3%)	1037 / (19%)	333%	569 / (14.4%)**
China	84 / (2.8%)	3 / (0.1%)	11 / (0.2%)	367%	857 / (21.7%)
Total	2996	3016	5460	181%	3950

Source: MIDA (Malaysian Industrial Development Authority).

* Figures for The Netherlands only

** Figures for Singapore only

Annex 3: EU-Malaysia co-operation projects

Co-operation with Malaysia funded by the European Community budget has been used to increase economic links and protect the environment. Given the advanced level of economic and social development of Malaysia, EC co-operation resources allocated to this country have been relatively scarce. Co-operation has taken place less on a bilateral basis than on a regional basis, both within the ASEAN framework and through ASEM and all-Asia programmes.

Bilateral co-operation

The EC has established the **European Business Information Centre (EBIC)** in July 1996 in Kuala Lumpur with the support of the Chambers of Commerce of its Member States, as part of its drive to bolster EU-Malaysia business links. EBIC-Malaysia provides information to Malaysian SMEs on issues related to the EU's Single Market, and gives access to instruments that facilitate business-to-business co-operation, such as the EC funded Asia Invest programme.

The **University of Malaya European Studies Programme (UMESP)** was launched in 1999. The programme promotes better mutual understanding between the EU and Malaysia through various activities, including assistance in creating a core curriculum on EU affairs and the establishment of a specialised documentation centre. The programme also covers the organisation of seminars and workshops, and publications to develop greater awareness of the European Union among Malaysia's policy-makers, business community and media.

In the environment and forestry sector, the EU has provided financial and technical assistance amounting to € 17.3 million. The main initiative concerns the launching in 1992 of the **EC-Malaysia Forest Programme**. Under this programme, support was provided for a mapping and GIS project for forest development and planning in Peninsular Malaysia (€ 3 million) and for a forest management training project in Sabah (€ 0.4 million). These aim to upgrade operational skills in forest harvesting, to reduce logging damage and contribute to the conservation and sustainable management of natural forests and their biological diversity.

Regional co-operation

Under ASEAN co-operation, Malaysia benefits from some 15 projects, which are ongoing or about to be launched, in education, environment, standards, drug rehabilitation, energy.

The **ASEM Trust Fund** and the European Financial Expertise Network have provided support in the form of technical assistance and capacity building projects. As of October 2001, the Fund had approved grants of US\$ 2.2 million to Malaysia (out of a total of US\$ 42 million) to finance 7 projects aimed at the restructuring of its financial and corporate sector and at enhancing industrial and export competitiveness. This represents about 5.2 % of the total of approved grants under the Fund.

The **ASEM's Trade Facilitation Action Plan (TFAP)** has been a catalyst of progress on the discussion of trade facilitation issues. As decided at the October 2000 ASEM Summit, a conference was organised on Trade Facilitation Issues in WTO, co-hosted by the Commission and the Government of Malaysia in Kuala Lumpur in June 2001.

In the context of Asian regional co-operation, under the **Asia-Invest Programme**¹⁸ a number of activities were funded since 1998 to facilitate, through the organisation of Interprise events, cross

¹⁸ Asia-Invest is a five-year and 45 MEURO program designed to help business organisations and companies to form partnerships. It assists on possible joint ventures, market access and investments. The main Asia-Invest instruments are (1) the Business Priming Fund, a scheme designed to help European and Asian SMEs in market access and business co-operation in selected sectors, and (2) the Asia-Interprise and Asia-

border co-operation among SMEs and the promotion of EU technology in the electronics, auto parts, pharmaceuticals and environmental technology sectors.

Other initiatives

Co-operation with Malaysia in **Science and Technology** stretches back to the mid-1980s. Since then, the EC has supported joint research projects with EU and Malaysian scientists within wider Asian projects in areas such as natural resource management, agriculture and health. In recent years, the EC has funded initiatives under its Framework Programmes of RTD (INCO-DEV facility), carried out by several research institutions, including the Forest Research Institute of Malaysia, the Malaysian Centre for Remote Sensing, University Putra Malaysia and University Sains Malaysia. EC co-operation in the information and communication field has recently been given an impulse through the launching of the *Asia Information Technology and Communication (IT&C) Programme*.

As regards funding of **NGO activities**, since 1980 the EC has provided approximately € 6.2 million for emergency aid, support for refugees (boat people) and in the area of drugs. The main initiative concerns the EC-funded 'Sustainable economic and social rehabilitation for drug users' project, involving 18 non-Governmental organisations in eight countries including Malaysia. Activities include social rehabilitation and counselling of drug users, the initiation of income generating activities and training in business entrepreneurship

Partenariat schemes, providing for the organisation of business meetings aimed at facilitating contacts between potential European and Asian partners.

Annex 4: EU Member States Activities in Malaysia

Member State	Programmes	Amount and Timing
Germany	<ol style="list-style-type: none"> 1. German – Malaysian Institute; vocational training (modern production methods in Malaysian industry) 2. Forest Management and Conservation in Peninsular Malaysia 3. Air Pollution Control (Department of Environment) 4. School of International Tropical Forestry, UMS to manage Sabahs forest resources 5. Dual Vocational Training; establish Vocational training system in Malaysia. 6. 15 German Experts employed by local institutions, financed by CIM’s Integrated Experts Programme 	<p>23.6 million DM, 1991 – 2003</p> <p>15 Mio DM, 1994 – 2004</p> <p>5 Mio DM, not yet started</p> <p>4.5 Mio DM, not yet started</p> <p>7.5 Mio DM, started in 2001.</p>
UK (excl. scholarships and other educational programmes)	<ol style="list-style-type: none"> 1. Elimination of Violence Against Women 2. Evaluation of impact on Malaysia’s forest administration of listing commercial timber species under CITES 3. Environmental links to sustainable development (WWF) 4. Judicial accountability workshop (CLA) 5. Child Protection 	<p>UKP 258,28,1 2001 – 2004</p> <p>UKP 38,000, 2001 – 2002</p> <p>UKP 60,00, 2001 – 2004</p> <p>UKP 18,000, January 2002</p> <p>Not determined; 2000 - 2003</p>
Denmark	<p>A third phase of cooperation has just been endorsed in May 2001. The overall objective of Danish environmental assistance as defined in “Strategy for Danish Environmental Assistance, 1996” is to promote increased efforts to combat global environmental problems. Initiatives are focused in South East Asia in order to:</p> <ul style="list-style-type: none"> • Prevent and limit air, water and soil pollution. • Promote sustainable use of energy. • Promote the environmentally sustainable utilisation of natural resources and the conservation of nature. 	<p>In average Denmark is supporting Malaysian projects with MR 40 mill. p.a., since 1994</p>
Netherlands	<p>Two projects in the field of sustainable forestry. No further ongoing projects under umbrella of a joint working group Malaysia–the Netherlands.</p>	<p>From 2000, Malaysia does no longer qualify for funding. Finalisation of ongoing projects.</p>
Finland	<p>Priority sectors / activities in <i>Malaysia and the Asia-Pacific Region</i> democracy, governance, human rights, media, indigenous peoples, disabled and culture.</p>	<p>Yearly average 1995 – 2000 of EUR 22.677. In 2001: EUR 184.998; expected to remain at 2001 level for coming years</p>
Sweden	<p>Sida supports research on agriculture, coastal management and integrated farming systems, Dryland projects: Sabah Forest Industries, Sabah Malaysia Rakyat Berjaya SDN BHD, of Innoprise Corporation, Sabah, Malaysia</p>	
France	<p>Vocational training; governance and judicial cooperation</p>	

NATIONAL INDICATIVE PROGRAMME

(2002-2004)

MALAYSIA

Country/Region:	Malaysia
Budget Years:	2002-2004
Budget Line:	B7-301
Legal Base:	ALA Regulation (Council Regulation 443/92 of 25 February 1992)
Cost of Order:	€ 3.5 Million
Programming Service:	DG RELEX H.5
Head of unit (<i>Acting</i>):	Winston McColgan
Coordinator:	J. FERREIRA

NOTA BENE: This National Indicative Programme limits its scope to budget years 2002-2004. It is part of the Country Strategy Paper, which also provides the framework for co-operation in 2002-2006.

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1. EC-Malaysia Country Strategy Paper

The present NIP follows up on the EC-Malaysia Country Strategy Paper (CSP), which takes into account the EU's co-operation goals, the Malaysian policy agenda, the country analysis, as well as past and ongoing co-operation.

The overarching objective of EC co-operation is the strengthening of the trade and economic partnership and enhancing Malaysia's productivity and international competitiveness. Particular attention will also be paid to actions to improve the understanding of the EU and to raise the EU's profile in Malaysia.

EU support in this period will be directed mainly to initiatives aimed at fostering trade and investment relations and encourage an open and transparent environment for investments, as well as enhancing EU-Malaysia understanding through common initiatives in the area of higher education (focal areas).

Other areas of co-operation (non-focal areas) will include science and technology, the promotion of the role of civil society in Malaysia, and environment and energy. Initiatives in these sectors will be supported mainly under the existing dedicated horizontal and regional programmes, and are therefore not part of this NIP.

Coherence of EU policies and complementarity within the EU and with other donors will be pursued in all areas of the co-operation. Closer co-ordination among EU partners on the ground will contribute to greater efficiency and to the projection of a common image. The forthcoming opening of an EC Delegation in Kuala Lumpur, foreseen for 2002, will facilitate the management of co-operation activities with Malaysia.

The final project selection will be subject to a detailed identification and appraisal to be undertaken by the Commission.

2. Summary of the strategy and priorities

2.1. Trade and investment

Co-operation in this field will be oriented to cover:

- Support Malaysia in its efforts to build up its regulatory, legislative and institutional capacities to implement and apply its WTO commitments in fields such as TBT/SPS, Trade Related Intellectual Property Rights (TRIPS), Trade Related Investment Measures (TRIMS) and Customs Valuation;
- Co-operate with the Malaysian authorities on the issue of protection of intellectual property;

- With regard to the Doha Development Agenda, provision of trade-related technical assistance and capacity building in key areas agreed at Doha, in particular competition (where Malaysia is currently setting up a competition authority) and trade facilitation (i.e. customs simplification and modernisation);
- Support to the Malaysian administration and companies to adapt to developments in EC legislation (e.g. food safety and phytosanitary matters, waste electrical and electronic equipment, GMOs and labelling etc) which may affect bilateral trade;
- Identify obstacles to foreign investment and support initiatives aimed at the improvement of conditions for EC investment in Malaysia, while encouraging more openness and liberalisation;
- Support Malaysia's macroeconomic and structural reforms through activities which will facilitate the access of Malaysia's companies to European expertise and best practices;
- Initiate, with the support of the European business community in Malaysia, vocational training activities for officials and business associations on EC trade-related policies and legislation;
- Support initiatives of the EC business community in Malaysia to promote EC trade and investment policy and raise the EC's trade and economic profile in Malaysia.

2.2. Higher education

The main objective here is to enhance co-operation between European and Malaysian higher education institutes in view of the wider objective to strengthen relations, reciprocal understanding and knowledge between the EU and Asia. Particular attention will be paid in this context to the strengthening of the teaching and research capacity of the Asia-Europe Institute, which was established by the Malaysian government within the University of Malaya, under ASEM.

Building on the experience of the University of Malaya European Studies Programme, and in line with the political commitment by all ASEM partners to foster exchanges between Asian and Europe in the area of education, EC support will cover the following actions:

- Promoting EU-Malaysia university partnership and networking with a view in particular to the promotion of European studies in Malaysia;
- Facilitating, through the provision of grants, joint research in selected economic and social fields;
- Assisting the organisation of conferences and seminars of a regional or Europe/Asia interest;
- Developing synergies with similar higher education initiatives undertaken by the EU in the region under ASEM or other programmes.

3. Indicative budget

During the period covered by the National Indicative Programme (2002-2004), an indicative allocation totalling € 3.5 Million will be committed to EU-Malaysia bilateral

co-operation, further to the financing possibilities under the existing thematic/regional programmes. This indication does not pre-empt the powers of the European Union's budgetary authorities.

The allocation will be entirely dedicated to a Small Project Facility to cover both focal areas of trade and investment and of higher education. The indicative breakdown of the allocation per sector is as follows:

Focal area 1: Trade and investment

Action: Trade related technical assistance and capacity building, promotion of EU investment **€ 2 Million**

Focal area 2: Higher education

Action: Enhance co-operation between European and Malaysian higher education institutes and promote mutual understanding **€ 1.5 Million**

4. Priorities: Trade and investment (Focal area 1) and higher education (Focal area 2)

4.1. Strategic context/justification

Various Malaysian organisations and structures (Government, business associations, Universities, NGOs) are highly interested in benefiting from EU experience and know-how in order to support Malaysia's development process and its competitive position in the world economy. Action in the focal areas identified should aim at improving the trade and investment relationship with Malaysia, on the one hand, and increasing the visibility of the EU in Malaysia through better understanding and improved people-to-people links, on the other hand.

To achieve these aims, there is a need for a flexible management and financial instrument, which can easily be adapted to the Malaysian needs and be used to the benefit of different institutions alike (government bodies, business associations, universities, NGOs etc). In fact, the needs are often selective and should be quickly answered, as they would determine some major follow-up actions such as adoption of legislation, engaging in future WTO negotiations, and replication of training activities.

Given the small budget allocation available for co-operation with Malaysia, the funding of large-sized bilateral projects is not possible and would not ensure the coverage of a relatively wide number of sub-sectors where co-operation is necessary. It is proposed to

channel the funding available through a small project facility, meeting the needs of Malaysia in the focal areas of trade and investment and higher education.

Furthermore the design of the programme and of the project selection process - call for interest open to any Malaysian organisation as leading applicant – would provide the right means for involving civil society representatives as beneficiaries of this programme.

Trade and investment (Focal area 1)

Whilst the EU-Malaysia relationship is based mainly upon trade and investment, there are sectors on which problems remain which hinder the strengthening of these ties. These were identified in the CSP.

The Doha declaration launching a new trade round outlined a number of areas on which some partner countries will need technical assistance and capacity building. This is intended to ensure consistent application of WTO rules and agreements in those countries and to improve their competitive position and access to world markets. A number of these areas concern new issues introduced successfully by the EU, such as trade facilitation, competition, investment and government procurement. A two-year preparatory phase was established until the 5th Ministerial session, where the modalities for negotiations in these sectors will be decided upon. These areas may be considered as potential fields for further cooperation.

Action in this field would complement that covered by the Asia-Invest Programme, and build on Asia-Invest initiatives such as the EU-Malaysia Partenariat being organised for 2002.

The opening of an EC Delegation in Kuala Lumpur, some time in 2002, is an expression of the EC's interest in developing a stronger relationship with Malaysia, in particular in the trade and investment area, commensurate with the economic and political importance of this country.

Higher education (Focal area 2)

Malaysia's progress in the education sector has been particularly impressive, reflecting the high priority given to human resources development. Malaysia's long-term development strategy, *Vision 2020*, under which it aims to achieve developed nation status by the year 2020, pays particular attention to the education sector. Malaysia enjoys levels of education which are among the highest in Asia.

The 8th Malaysia Plan (2001-05) continues to place a major emphasis on the enhancement of the general level of education. Extensive programmes for selecting and supporting Malaysian students to complete their education at overseas universities have been put in place and are ongoing. Malaysia was one of the first Southeast Asian countries to recognise the importance of the Internet for economic development and to encourage its use.

It is generally considered that knowledge in Europe about Malaysia and knowledge in Malaysia about Europe and the process of European integration are not very developed. In Malaysia in particular, the younger generations have directed their attention to other Asian countries and cultures. There is a clear need to provide for an intense cultural exchange to increase understanding leading to the deepening of relations.

The CSP reported that the provision by the EC of technical assistance on education issues was highly regarded and had allayed Malaysian concerns about the EU's interest in Malaysia. Moreover complementarily with EU Member State and ASEM initiatives on education is sound. The EC is indeed supporting a successful programme, the University of Malaya European Studies Programme (UMESP), the objective of which is to foster mutual understanding between the EU and Malaysia and to facilitate co-operation through linkages in the field of higher education.

The CSP confirms that one of the most important objectives in co-operation with Malaysia is to raise the EU's profile in this country, and to improve the understanding of the EU in Malaysia and mutual understanding through activities in the field of higher education.

EC regional programmes are established to support projects in the area of higher education, such as the Asia-Link programme and the ASEAN-EU University Network programme. However, the Commission is of the opinion that there is a need to integrate in a bilateral initiative trade and investment issues and higher education to achieve cross-fertilisation and support the Malaysian Government's programme for developing excellence in higher education. This will involve support to the consolidation of the work carried out under the present European Studies programme (based on the results of the evaluation of the programme, due to end in March 2002, which is currently being launched) and the establishment of links with business and industry. Such initiative will be based on the principle of partnership and constitute a short to medium-term commitment.

4.2. Action: establishment of a EU-Malaysia Small Project Facility 2002-04

The single proposed initiative under the present NIP consists in a coherent framework for support to small but strategic projects in selected areas, granting maximal impact to the small budget available for economic co-operation with Malaysia. This will aim at providing a more flexible and responsive tool to link policy objectives and co-operation activities of the EU in Malaysia.

4.2.1 Objectives

The EU-Malaysia Small Project Facility 2002-2004 will contribute to the reinforcement of the EU-Malaysia comprehensive partnership, by providing financial contributions to small, but strategic EU-Malaysia projects.

4.2.2 Expected results

Through the implementation of this programme, it is expected to subsidise and facilitate the effective implementation of about 6 projects per year that would:

- Strengthen the relationship between EU and Malaysia,
- Increase the ability of the EU to influence policy development and reform process in Malaysia,
- Develop trade and investment relations,
- Create university partnerships between Malaysian and European universities with a view to developing European studies in Malaysia,
- Help joint research between EU and Malaysian universities and develop networking among researchers,
- Develop documentation centres,
- Develop stronger linkages with key and influential actors in Malaysia,

4.2.3 Activities

Projects will be supported to the extent that they are strategic in nature and have a strong European dimension, inter alia by involving qualified European institutions, associations, expertise etc.

The “Small project facility 2002-2004” will support projects that promote economic links (trade and investment) and educational links (higher education) between the EU and Malaysia.

In particular, proposals in the following fields would be considered:

- Technical assistance and capacity building on issues resulting from the WTO Doha Ministerial Declaration, in particular competition (where Malaysia is currently setting up a competition authority) and trade facilitation (i.e. customs simplification and modernisation);
- Technical assistance and capacity building in areas covered by new EU legislation which may affect bilateral trade;
- Market access and facilitation of EU investment in Malaysia;
- Higher education initiatives, namely consolidation and development of European studies and related activities, with particular emphasis on the strengthening of the teaching and research capacity of the Asia-Europe Institute, and networking between universities;
- Promotion of mutual understanding through media and cultural initiatives.

In providing technical assistance on issues arising from the Doha Development Agenda and on new EU trade-related legislation, particular attention will be paid to measures concerning the protection of the environment in Malaysia.

Proposals in other areas may be considered on condition that the project is consistent with the priorities and objectives of the EU in Malaysia and where the proposal is of an exceptionally high quality and relevance.

Projects funded by the EU-Malaysia Small Project Facility 2002-2004 may take the form of:

- Technical assistance and capacity building;
- Conferences, seminars, workshops and cultural events;
- Training and educational activities;
- Other activities that promote the image of the European Union as a model or example of best practice.

They will be complemented by EC initiatives under the relevant horizontal programmes and projects funded under regional fora such as ASEAN and ASEM. Funding under this Facility may be combined with that of the Malaysian authorities and where appropriate by the private sector.

4.2.4 Implementation

The EC Delegation in Kuala Lumpur – soon to be established – will manage the EU-Malaysia Small Project Facility 2002-2004, in close coordination with the Malaysian authorities. Modalities of implementation will be worked out at a later stage.

4.2.5 Risks and conditionalities

The sustainability of the programme depends on the results achieved by the individual projects implemented by the various beneficiaries. Close coordination with the Malaysian authorities and a careful selection process to enhance complementarities with Member States initiatives and EC regional programmes are essential factors limiting the risks.

4.2.6 Performance/Outcome Indicators

To be defined at the formulation stage by the future EC Delegation in Kuala Lumpur once established.

However, from the outset some indicators can already be outlined:

- Number and extent of WTO regulations/legislation adopted and implemented;
- Extent of EC trade-related legislation complied with by Malaysia and Malaysian companies;
- Number of government officials and organisations participating in technical assistance and capacity building activities on new EC legislation and on the new issues in the Doha Declaration;

- Number of successful initiatives bringing together Malaysian and EU business associations for promotion of trade and investment;
- Number and quality of workshops supported;
- Number of research reports produced.
- Number of students participating in higher education programmes, namely in European studies.
- Number of conferences, workshops and cultural events
- Number of joint research activities between Malaysian and EU universities.

4.2.7 Financial envelope

The total EC estimated financing is of € 3.5 Million for a period of 3 years (2002-2004). The maximum EC funding per project will be determined by the future EC Delegation in Kuala Lumpur at the moment of conception of the proposed Facility.

4.2.8 Indicative timeframe

Preparation: 2002; start of commitment: 2003.

NATIONAL INDICATIVE PROGRAMME

2005-2006

MALAYSIA

Country/Region:	Malaysia
Budget Years:	2005-2006
Budget Lines:	19 10 02
Legal Base:	ALA Regulation (Council Regulation 443/92 of 25 February 1992)
Cost of Order:	€2.1 million
Programming Service:	DG Relex H5
Head of Unit:	Pierre Amilhat
Coordinator:	João P. Ferreira

NB: This National Indicative Programme follows on the NIP 2002-04 and is part of the Country Strategy Paper for 2002-06 which provides the framework for co-operation for this period.

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1. INTRODUCTION

1.1 THE ALA REGULATION

The Council Regulation (EEC) N° 443/92 of 25 February 1992 on financial and technical assistance to, and economic co-operation with the developing countries in Asia and Latin America (“ALA Regulation”), indicates that five-year programmes must be established for financial and technical assistance and for the economic co-operation. The Regulation also provides that the indicative multi-annual guidelines that apply to the main partner countries are to be adopted in coordination with a committee composed of representatives of the EU member States.

The multi-annual strategic planning is based on a Country Strategy Paper (CSP) covering a period of five years and setting out the priority areas where the Commission intends to implement its co-operation. The CSP is translated into operational guidelines, laid down in multi-annual National Indicative Programmes (NIPs).

The focus of the ALA Regulation is on strengthening the co-operation framework and providing an effective contribution, through institutional dialogue and economic and financial co-operation, to sustainable development, social and economic stability and democracy. The ALA Regulation applies to Malaysia.

1.2 THE COUNTRY STRATEGY PAPER 2002-2006

The CSP 2002-2006 for Malaysia, including the NIP for 2002-04, was adopted by the Commission on 8 May 2002. The documents were prepared in consultation with the Government of Malaysia and EU Member States. The CSP earmarked an indicative allocation for Malaysia of € 5.6 million. The Commission allocated an indicative amount of € 3.5 million under the NIP 2002-04 and reserved an indicative amount of € 2.1 million for the period 2005-06.

The CSP outlined the main objectives for the EU relations with Malaysia in the period concerned, notably to enhance the bilateral relationship in particular through the strengthening of the economic and educational and cultural links. The CSP also referred to the opening of the Commission Delegation in Kuala Lumpur and put forward a suggestion for regular, comprehensive senior officials’ meetings between the European Commission and Malaysia.

Two priority sectors have been identified for EU co-operation with Malaysia:

- (1) trade and investment: technical assistance and capacity building to help Malaysia in implementing its WTO commitments, namely in key areas agreed at Doha, support to help the Malaysian administration and companies to adapt to developments in EC legislation, and promote EC investment and market access in Malaysia., *and*
- (2) higher education: to enhance co-operation between European and Malaysian higher education institutions in view of the wider objective to strengthen relations, mutual understanding and knowledge between the EU and Asia.

The NIP 2002-04 provided for the establishment of a Small Projects Facility covering both sectors of trade and investment, and higher education.

The CSP outlined other non-focal (cross-cutting) areas for co-operation with Malaysia including science and technology, environment /energy and co-operation in social areas related to the challenges of globalisation (fight against the trafficking of human beings, drugs, money laundering, and HIV/Aids). These sectors are dealt with under the existing EC horizontal / thematic and regional programmes (ASEAN, ASEM, Asia).

The priority sectors and the cross-cutting issues correspond to the Malaysian Government's overall economic co-operation and development agenda.

1.3 THE NATIONAL INDICATIVE PROGRAMME 2002-2004

As mentioned above, the NIP 2002-2004 provided for the establishment of a Small Project Facility covering the two focal areas identified in the CSP:

National Indicative Programme Malaysia 2002-04			
Area of co-operation	2002	2003	2004
Trade and investment		€ 2 million	
Higher education		€ 1.5 million	
Total for 2002-04		€3.5 million	

Focal area 1: Trade and investment (€2 million)

Under this sector, the SPF focuses on the provision of technical assistance and capacity building to help Malaysia in implementing its WTO commitments, specifically in key areas agreed at Doha, support to help the Malaysian administration and companies to adapt to developments in EC legislation, and the promotion of EC investment and market access in Malaysia. The programme also aims to contribute to a wider presence of Malaysian economic operators in the EU and a greater understanding of the EU's monetary union (Euro).

Focal area 2: Higher education (€1.5 million)

Here the SPF is intended to support actions aimed to enhance co-operation between European and Malaysian higher education institutions in view of the wider objective to strengthen relations, mutual understanding and knowledge between the EU and Asia.

In essence, the Small Projects Facility was conceived as a demand-driven programme mainly, managed locally by the new EC Delegation in Kuala Lumpur mainly through calls for proposals. The Facility will contribute to the reinforcement of the EU-Malaysia comprehensive partnership, by providing financial contributions to projects (about 8-10 projects / year) which are small in financial terms, limited in time, and of strategic importance and mutual interest to Malaysia and the EU.

Implementation of the programme is expected to start in mid-2004.

2. THE MID-TERM REVIEW

While the CSP/NIP for Malaysia were approved by the ALA Committee in May 2002, the Mid-Term Review exercise was launched in the 1st quarter of 2003 to determine whether the CSP and the NIP needed to be revised given developments in the world at large, in the country in question, and changes in the objectives and thrust of Community policies.

As regards changes in Community policies, the MTR concentrated mainly on accommodating the new issues arising from the WTO Doha Development Agenda (TRTA), as well as justice and home affairs issues such as the problems of managing migratory flows and related matters.

Specifically, the General Affairs and External Relations Council of March 2003 fixed four criteria to assess the validity of the strategy towards the partner country (CSP) and of the general direction of the co-operation programme (NIP) and the need of possible changes. These criteria were implemented in the form of questions as follows:

- Significant changes in Malaysia's overall situation, policy changes or unforeseen events in this country?
- Significant changes or new priorities in external EU/Community policies – in particular TRTA, JHA-related matters such as migration, counter-terrorism, conflict prevention?
- Significant changes of setting or context, regionally or internationally?
- Results of and/or progress in the implementation of Community co-operation with Malaysia?

2.1 SUMMARY OF THE FINDINGS

2.1.1 Main Political, Economic and Social Developments in Malaysia

The Commission through the MTR exercise examined the political developments in Malaysia (notably as regards the change in Premiership from Mr. Mahathir Mohamad to Mr. Abdullah Badawi) as well as the economic developments (mainly in terms of external trade policy) and social developments (focusing on human rights issues, on the risks relating to the rise of political Islam and on the organisation of the Malaysian society notably as regards the Bumiputra policy). In general terms, Malaysia continues to enjoy political stability, reasonably effective rule of law, racial harmony and impressive economic achievements. It was inferred that there have been no significant changes in Malaysia's overall situation, policy changes or unforeseen events.

2.1.2 New EC/EU Policy Objectives and Commitments

It was felt that the new EU/EC external policy developments and the changes of regional/international setting or context which were examined were:

- *either* already set out in the CSP as priority sectors and therefore covered under the NIP (e.g. TRTA);
- *or* set out in the CSP as cross-cutting issues (e.g. some JHA issues such as migration, the trafficking of human beings, drugs, money laundering) and covered under other *fora* and co-operation instruments;
- *or* were ultimately not considered sufficiently significant in so far as Malaysia is concerned to the extent of requiring a modification of the strategy (e.g. counter-terrorism, conflict prevention).

A fact which played a role in this exercise is the very scarce resources available to the Commission for co-operation with Malaysia (given Malaysia's reasonable socio-economic indicators), which limits the margin of manoeuvre in terms of possible addition of new priority sectors to the CSP/NIP.

2.1.3 Results, Performances and Lessons Learned

When preparing the NIP 2002-04, the Commission decided that the Small Project Facility should be conceived and launched by the new Commission Delegation in Kuala Lumpur.

Given that the Delegation was established only in April 2003, and that the Commission's internal process of devolution of external aid management has been slower than originally expected, the launching of the Small Project Facility has been somewhat delayed.

The SPF Financing Proposal was approved the Member States' ALA committee in September 2003 and preparations were initiated thereafter. At the moment of writing, the SPF is just about to start being implemented.

In the light of the above, it is therefore not yet possible to carry out an evaluation of the present co-operation programme.

2.1.4 Quality improvements

Quality improvements to the CSP/NIP were not considered at length in the context of the MTR exercise, given the constraints outlined under point 2.1.3 above.

2.2 CONCLUSIONS

The Commission concluded that both the strategy and the general direction of co-operation set out in the CSP remained relevant and for the reasons outlined above did not require a revision before 2006.

2.3 CONSULTATION

The Member States' representatives in Malaysia were consulted and provided a favourable opinion on the analysis and the conclusions proposed by the Commission. The same is true as regards the Malaysian authorities.

3. THE NIP 2005-06

3.1 SUMMARY OF THE NIP PRIORITIES

The Commission proposes that given the limited funding available for co-operation with Malaysia the single priority sector for co-operation with Malaysia in 2005-06 be *Focal Area 2* in the CSP, i.e. higher education, and more specifically the financing of a dedicated 'Malaysia window' under the EC's Erasmus Mundus Programme for the promotion of higher education links with third countries.

The action and the programme are qualified under point 3.2 below.

3.2 INDICATIVE BUDGET

During the period covered by the National Indicative Programme (2005-06), an indicative allocation totalling € 2.1 million will be committed to EC-Malaysia bilateral co-operation, in addition to the financing possibilities under the existing and forthcoming (Asia-wide, regional and thematic) programmes. This indication does not pre-empt the prerogative of the European Union's budgetary authorities.

Focal area 2 of the CSP: higher education

Action: Financing of 'Malaysia window' under the EC's Erasmus Mundus programme: **€2.1 million.**

Programme: Provision of funding for scholarship grants for Malaysian graduate students through the Erasmus Mundus programme.

3.3 PRIORITY AND ACTION: HIGHER EDUCATION – FINANCING OF 'MALAYSIA WINDOW' UNDER THE EC'S ERASMUS MUNDUS PROGRAMME.

3.3.1 Strategic Context/Justification

Strategic context – EU background

The Country Strategy Paper 2002-06 for Malaysia identified the sector of higher education as a priority sector for bilateral co-operation and outlined the activities to be covered therein:

- Promoting partnerships and networking between EU and Malaysian higher education institutions with a view in particular to the promotion of European studies in Malaysia;
- Facilitating, through the provision of grants, joint research in selected economic and social fields;
- Assisting the organisation of conferences and seminars of a regional or Europe/Asia interest;

- Developing synergies with similar higher education initiatives undertaken by the EU in the region under ASEM or other programmes.

The Commission's Communication on 'Strengthening co-operation with third countries in the field of higher education'¹ stresses that it is vital to promote the EC as a world-wide centre of excellence for study/training as well as for scientific and technological research as an immediate objective.

In its latest communication on a strategy for relations with Asia ('Europe and Asia: a Strategic Framework for Enhanced Partnerships'²), the Commission proposed the strengthening of the awareness of Europe in Asia (and vice versa) as one of six main objectives, notably through the promotion of exchanges in education, culture and science as well as fostering inter-regional civil society contacts.

In its July 2003 Communication on "A New Partnership for Southeast Asia"³, the Commission indicated that higher education was a key sector for relations with Southeast Asia, and outlined the objectives for co-operation in this field:

- improving mutual understanding and increasing awareness of Europe in Southeast Asia and vice versa;
- re-positioning Europe as a major higher education partner and as a centre of excellence in Southeast Asia
- promoting scientific and technological development, thus enhancing growth and competitiveness;
- strengthening the economic and cultural presence of Europe in Southeast Asia (and vice versa).

In the Communication, the Commission stated its intention to continue to support relevant programmes and develop strategic dialogues at national and regional level.

On the occasion of bilateral meetings at ASEM summits, Former Malaysia Prime Minister Mahathir and Commission President Prodi addressed the topic of higher education. Both agreed on the necessity to seek common projects that increase the "real scope for cultural and intellectual cooperation" including by way of student and faculty mobility and two-way exchanges.

Also, the Commission has recently decided to strengthen its approach of support to higher education, in particular scholarships, in Asia.

At present there are two EC regional programmes concerning Asia in the field of higher education:

¹ Communication from the Commission to the European Parliament and the Council on strengthening cooperation with third countries in the field of higher education, COM/2001/0385 final.

² COM (2001) 469 of 4 September 2001.

³ COM (2003) 399 of 9 July 2003.

- Asia-Link, which aims at developing Asian higher education systems and promoting regional and multilateral networking between higher education institutions in the EU and Asia through the awarding of projects in the areas of human resource development, curriculum development and institutional/systems development; and the
- ASEAN-EU University Network Programme (AUNP), which provides support to partnership projects submitted by groupings of EU and ASEAN higher education institutions, as well as to network initiatives such as round-table meetings of higher education experts and rectors' conferences.

The Commission's Strategy Paper and the Indicative Programme for multi-country programmes in Asia for 2005-06, adopted on 7 April 2004⁴, identify co-operation in higher education as one of the three focal areas for Asia-wide programmes. The Indicative Programme provides for the continuation of the Asia-Link programme with a view to promoting regional and multilateral networking between higher education institutions in Europe and the developing countries in Asia covered by the ALA Regulation.

In the framework of Asia-Link the Commission is organising a European Higher Education Fair (together with an Asia-Link Forum) to be held in Bangkok on 19-21 November 2004. The initiative was requested by the EU Member States representatives in Bangkok in 2002 with a view to promoting European higher education institutions in Southeast Asia and to raise the interest of youngsters in the region to study in Europe. This is the first initiative of its kind in Southeast Asia. The Fair will focus on universities and students from Thailand, Laos, Cambodia and Malaysia, with the participation of about 90 European exhibitors. The Forum will facilitate experience-sharing and match-making between Asian and European universities and higher education agencies.

Also, in the context of the AUNP, the first EU-ASEAN rectors' conference will be held at the Asia-Europe Institute of the University of Malaya in Kuala Lumpur in October 2004.

Moreover, the European Parliament and Council have recently adopted a new, comprehensive EC initiative (Erasmus Mundus programme⁵) aiming mainly to enhance the quality of higher education within the European Union and the attractiveness of the European higher education area, as well as to promote intercultural understanding through co-operation with third countries. It intends *inter alia* to attract high-level third country graduate students and scholars to Europe, specifically through scholarships. The programme has a world-wide character and covers the period 2004-08 with a budget of € 230 million.

Given its intention to engage in support for scholarships to the benefit of Asian students, the Commission has decided to enhance the participation of certain Asian partners in Erasmus Mundus through the provision of additional funds for those countries. This will be

⁴ Commission Decision 2004/1268.

⁵ Decision N° 2317/2003 of the European Parliament and of the Council of 5 December 2003 establishing a programme for the enhancement of quality in higher education and the promotion of intercultural understanding through co-operation with third countries (Erasmus World) (2004-2008), *O.J. L 345/03, 31/12/2003*.

carried out in full complementarity with the above mentioned Asia-Link and AUNP initiatives.

Strategic context – the Malaysian situation

As stated in the Country Strategy Paper, Malaysia's progress in the higher education sector in recent years has been particularly impressive, reflecting the strategic priority given to human resources development. Malaysia's long-term development strategy, *Vision 2020*, whereby it aims to achieve developed nation status by the year 2020, pays particular attention to the education sector. While Malaysia enjoys overall levels of education which are among the highest in Asia, it is recognised that its higher education system needs to be enhanced.

Malaysia's national development strategy, the 8th Malaysia Plan (2001-05) continues to place a major emphasis on the enhancement of the general level of education as well as strengthening domestic curricula in science and mathematics. Extensive programmes for selecting and supporting Malaysian students to complete their education at overseas universities have been endowed with substantially more funding. Malaysia was one of the first Southeast Asian countries to recognise the importance of the Internet for economic development and to encourage its use.

It is generally considered that knowledge in the EU about Malaysia and knowledge in Malaysia about the EU and the process of European integration are insufficiently developed. The level of knowledge of European issues and culture among Malaysian students is not very high. Malaysia's younger generations have directed their attention to other Asian countries and cultures, as well as to the English-speaking world. The great majority of Malaysian youngsters who plan to study abroad think primarily of the US, Australia, or the UK. EU countries other than the UK are much less favoured. There is a clear need to enhance cultural exchanges and deepen the relations between the EU, as an economic, political and social entity, and Malaysia.

The CSP reported that the provision by the EC of technical assistance on education issues was highly regarded and had allayed Malaysian concerns about the EU's interest in Malaysia. The EC supported for a period of 3 years until March 2002 a successful programme of European Studies, the University of Malaya European Studies Programme (UMESP, € 1 million). The Small Projects Facility (higher education section) provided by the NIP 2002-04 will also build on the results of this project.

Justification

The Small Projects Facility (SPF) provided by the previous NIP (2002-04) was aimed at enhancing the trade and investment climate between the EU and Malaysia and at promoting co-operation in the higher education sector.

These objectives remain valid overall. However, the implementation of the SPF has been somewhat delayed, as mentioned above. The allocation, under the SPF, for trade / investment (€ 2 million) is higher than that for higher education (€ 1.5 million). The sector

of trade and investment will continue to be supported through the present SPF and under other EC financial instruments. Also, the amounts earmarked for co-operation with Malaysia in 2005-06 are lower than those in the previous period and require the identification of one focal area only.

The Commission therefore feels that the present NIP should focus on the sector of higher education, in line with the Country Strategy Paper. It is considered that for countries such as Malaysia, that do not need development assistance given their reasonably good socio-economic indicators, EU bilateral co-operation in this area is particularly relevant and of mutual interest.

In implementing this priority, the Commission proposes to launch one single initiative under the 2005-2006 NIP consisting in a 'Malaysia Window' in the framework of the EC Erasmus Mundus programme, providing for the financing of additional allocations for Malaysian students. This proposal is seen as a logical follow-up to the UMESP programme and to the higher education activities which will be carried out under the present SPF for Malaysia.

Also, the timing of the proposal for a specific 'Malaysia Window' in the Programme is most appropriate, coinciding as it does with the momentum being gathered under this major new world-wide European initiative in higher education.

3.3.2 Actions

The NIP's allocation will be dedicated to one single proposal focusing on focal area 2 of the CSP, i.e. higher education. The action will consist in the financing of a 'Malaysia window' in the EC's Erasmus Mundus programme through the provision of funding for scholarship grants for Malaysian postgraduate students.

3.3.2.1 Objectives

The overall objective of this action is to increase mutual understanding and awareness and to contribute to the reinforcement of the EU-Malaysia comprehensive partnership, by facilitating interactions between higher education institutions and students on both sides.

The action will allow Malaysian students to gain a positive and more accurate view of modern Europe, and enable them to promote and facilitate networking and institutional co-operation in fields of mutual interest.

In addition, the action would contribute substantially towards the improvement of political, economic, and cultural links between the EU and Malaysia.

The specific objective of the action is to foster linkages between the EU and Malaysia in higher education by encouraging and enabling Malaysian students to complete postgraduate studies in Europe.

3.3.2.2 Expected results

The programme, in so far as it follows on the higher education activities under the present SPF and complements at bilateral level the existing and forthcoming regional / thematic

programmes in this field, is expected to open the way for structured and sustainable co-operation in the area between the EU and Malaysia.

The expected results are Malaysian graduate students completing masters degrees in Europe. Quantitatively, it is expected that under the present 'Malaysia window' approximately 70 Malaysian graduate students⁶ will complete Erasmus Mundus Masters Courses at EU universities.

The programme is expected to increase future demand from Malaysia for European higher education. Also, given the fact the programme will create personal links between Malaysian students and their European counterparts, it can be expected to foster future cooperation. This is particularly important to the extent that the selected students may become decision-makers in Malaysia in the future.

3.3.2.3 Activities

Masters Courses at EU universities which have been designated by the overall Erasmus Mundus Programme as 'Erasmus Mundus Masters Courses' will be allocated a specific number of EC-funded scholarship grants for foreign students. The 'Malaysia Window' funding will be used to fund grants for Malaysian students. Such funding will be over and above the funding which Malaysia could expect to receive from the overall Erasmus Mundus programme. University consortia and the EC will publicise the scholarship opportunities worldwide using a variety of media.

Each university consortium running an Erasmus Mundus Masters Course will establish lists of the students (for attendance on its Erasmus Mundus Masters Course) considered eligible for scholarships. The selection criteria will be those adopted by the Erasmus Mundus Programme, with a particular focus on the excellence of students.

University consortia will submit an application for funding with their proposed scholarship lists to the EC for final approval, and the Malaysian authorities will be informed accordingly.

Co-ordination and synergy with EC regional and thematic programmes, namely the EU-ASEAN University Network Programme (AUNP) and Asia Link, will be envisaged.

3.3.2.4 Implementation

The Commission shall be responsible for the implementation of the activities to be financed in accordance with the procedures and standards defined for the Erasmus Mundus Programme.

It is foreseen that from 2005 onwards the European Commission will entrust the management of some EC programmes, including Erasmus Mundus, to an Executive Agency based in Brussels.

Part of the programme implementation will be undertaken by the university consortia that will be chosen to run Erasmus Mundus Masters Courses. They will publicise the

⁶ This figure is a rough estimate, given that the number of beneficiaries may vary in respect of the combination of one or two-year master courses.

programme in Malaysia widely, carry out the initial selection of students for scholarships, put in place appropriate arrangements to host third country students and make payments to students.

In co-operation with the Executive Agency, the Commission Delegation in Kuala Lumpur will be involved in monitoring the implementation of the specific 'Malaysia Window' funding under the programme.

3.3.2.5 Cross-cutting issues

Gender issues

Based on the Platform for Action endorsed in the Beijing UN Conference on Women in 1995 and on Council Regulation (EC) No 2836/98 on integrating gender issues in development co-operation, Commission Communication COM (2001) 295 defines a Programme of Action for mainstreaming gender in Development Co-operation.

An important issue in Malaysian society and culture concerns the fact that often Malaysian Muslim women are discriminated against because laws, policies and customary practices are somewhat influenced by gender-biased religious or cultural practices.

The proposed action will follow the Community's equal opportunities policy, and an effort will be made to ensure an adequate gender balance of students.

3.3.2.6 Risks and assumptions

The risks and assumptions related to the programme are that information on opportunities under the Erasmus Mundus Programme reaches the targeted students; that EU universities remain competitive with other higher education providers; that there is continued support for the programme from the Malaysian authorities; that students who receive scholarships will return to Malaysia and pursue high-level careers; and that their positive experiences in Europe are disseminated to others.

3.3.2.7 Main indicators

The main indicators will be the numbers of Malaysian students participating in the programme and the numbers of degrees awarded to the students. More indirectly the indicators will be the overall numbers of Malaysian students participating in higher education courses in the EU, and the impact of the action in Malaysia in terms of knowledge and awareness of Europe and EU issues.

3.3.2.8 Estimated EC contribution

The estimated EC contribution represents the total indicative amount available for the NIP 2005-06, i.e. € 2.1 million.

3.3.2.9 Coordination with Member States and other donors

In order to preserve the necessary coherence between the activities of the programme and activities undertaken by other donors in the sector, regular meetings will take place with all interested parties, and in particular EU Members States' representatives in Malaysia, to

ensure an open exchange of information, to avoid overlapping of activities and/or financing and to incorporate the lessons learnt by these other actors into the work of the programme.

Extensive consultation took place between the Commission and EU Member States in the preparation of the overall Erasmus Mundus Programme for which this programme provides additional funding for Malaysia, and will continue in the framework of the Erasmus Committee.

3.3.2.10 Indicative timeframe

It is intended that funds for the programme be committed in 2005 in order that scholarships for students may be awarded as from academic year 2005/2006.

ANNEX 1: EC-supported projects in Malaysia (ongoing)

PROJECTS UNDER EC ASIA-WIDE PROGRAMMES INVOLVING MALAYSIAN INSTITUTIONS						
EC Programme	Project Title:	CRIS Number:	Applicant:	EC Contribution:	Malaysian institution involved:	Other Asian countries involved:
Asia Invest	Southeast Asian Chamber Academy - Professional Development for the Southeast Asian Chambers of Commerce and Industry and Business Organisations	71774	Eurochambres (Belgium)	190.995 €	Federation of Malaysian Manufacturers	None
Asia Invest	“Asia-Interprise” Machinery: Italy, Thailand and Malaysia	To be determined (contract under preparation)	Lombardy Foreign Trade Centre, Italy	127.972,05 € (to be confirmed upon contract signature)	Federation of Malaysian Manufacturers, Malaysia	Thailand
Asia IT&C	SEABCIN (South East Asian Botanical Collections Information Network)	51837	Rijksuniversiteit Leiden (Netherlands)	395.384 €	Herbarium Forest Department/ Sarawak Herbarium/ Kepong Herbarium	Indonesia, Philippines, Sri Lanka
Asia IT&C	IT facilitated Asian Adaptation of the European Foundation for Quality Management based Total Quality Management Model	51854	GAIA (Spain)	400.000 €	Ansted Service Centre, Ansted University	India, Pakistan
Asia IT&C	LITES (Life Long Learning through IT&C in Environmental Education for Sustainability)	51887	NETPEM (India)	380.483,44 €	Centre for Environmental Technologies	India

					(CETEC)	
Asia IT&C	Vo@Net (Virtual Open-Access Network for Education and Training - Enhancing Interconnectivity between European and Asian Universities)	51890	Environment & Resources, Technical University of Denmark	399.535,27 €	Universiti Malaya Institute of Biological Sciences, Faculty of Science	Thailand
Asia IT&C	EIVC (EU-Ipoh Virtual City): “Achieving Best Practices In E-Government For Ipoh Virtual City via PRISMA”	71541	Ipoh City Council, Perak State	400.000 €	Ipoh City Council	None
Asia IT&C	EAPSTRA (EurAsian Network for Product Lifecycle Support & Training)	71548	Technische Universität Clausthal, Institut für Maschinenwesen (Germany)	298.012,96 €	Universiti Teknologi Malaysia	Thailand
Asia IT&C	PROCONNECT (Protecting Consumers in E-Commerce Transaction)	71549	Consumers International (United Kingdom)	200.000 €	Universiti Teknologi MARA	Thailand
Asia-Link	Implementation and Realisation of an Asian-European Master Degree and Continuing Training Sessions in Food Science and Technology	49227	Ecole Nationale Supérieure des Industries Agricoles et Alimentaires, Montpellier (France)	243.487,75 €	University Putra Malaysia (Malaysia)	Philippines, Thailand
Asia-Link	New Educational Tools for Sustainable Management of Peatlands in the Humid Tropics - PEATWISE	57645	Wageningen University (The Netherlands)	300.000 €	University of Malaysia Sarawak	Indonesia

Asia-Link	Development of teaching and training modules for higher education in the waste management sector	57670	Technical University of Hamburg-Harburg, Department of Waste Management (Germany)	299.800,95 €	University Putra Malaysia, Department of Environmental Sciences	Thailand
Asia-Link	Design and implementation of a curriculum on curriculum development <i>Management responsibility: HQ (to be devolved to China)</i>	CN/ASIA-LINK/005	University of Bremen, Institute of Technology and Education (Germany)	298.911 € (to be confirmed upon contract signature)	Faculty of Education, Universiti Kebangsaan	China
Asia-Link	Development of a core curriculum in European Integration Studies	84641	College of Europe (Belgium)	299.535 € (to be confirmed upon contract signature)	School of Social Sciences, Universiti Sains Malaysia	Thailand
Asia Pro Eco	Enhancement of the building capacity for technology transfer exemplarily carried out for the introduction of environmentally-friendly chicken manure treatment and application possibilities in Asia	79016	Technical University of Hamburg-Hamburg (Germany)	499.630,70 €	University Putra Malaysia	None
Asia Pro Eco	Sustainable Building and Construction Conferences Asia	79077	United Nations Environment Programme, Division of Technology, Industry and Economics, Paris (France)	350.609 €	CTMC - Construction Technology and Management Centre, Faculty of Civil Engineering, Universiti Teknologi Malaysia	China

Asia Pro Eco	Transfer and adaptation of the EU perspectives, methodologies, and know-how to Malaysia in the field of Eco-Tourism	79718	EU-Malaysia Chamber of Commerce and Industry, Kuala Lumpur, Malaysia	495.571,25 €	EU-Malaysia Chamber of Commerce and Industry, Kuala Lumpur/World Wide Fund for Nature Malaysia (WWF Malaysia)/ Malaysia Nature Society (MNS)	None
Asia Urbs	Achieving Innovation and Best Practices in Urban Management <i>Management responsibility: HQ</i>	75748	Perak State Government	500.000 €	Perak State Government	None
Asia Invest	Southeast Asian Chamber Academy - Professional Development for the Southeast Asian Chambers of Commerce and Industry and Business Organisations	71774	Eurochambres (Belgium)			China
PROJECTS UNDER EIDHR (EUROPEAN INITIATIVE FOR DEMOCRACY AND HUMAN RIGHTS) BUDGET LINE						
	Community Centres for the empowerment of Indian women in Malaysia <i>Management responsibility: HQ</i>		Friedrich Naumann Foundation	982,71 €	ERA Malaysia (Education and Research Association for Consumers)	None

ANNEX 2: Projects supported by EU Member States in Malaysia.

Denmark	Finland	France	Germany	Italy	Spain	UK
<p>Malaysian/Danish Cooperation on Environment and Development entering last phase 2003-2006. Since 1994, DK has supported some 100 projects with a total budget of 500 Million DKK (2003).</p> <p><u>The Environmental Cooperation Programme 2003-2006</u> covers five focal areas: Environmental Planning and Strategy, Renewable Energy and Energy Efficiency, Solid Waste, Environmental Hazardous Chemicals and Biodiversity. Programme is complemented by support to NGOs and cooperation between private sectors of Malaysia and DK.</p> <p><u>Total budget for 2003:</u> 87.0 Million DKK. <u>Total budget for 2004:</u> 50 Million DKK for interventions on solid waste and hazardous chemicals and continued support to NGOs and the private sector.</p>	<p>Funds granted by the Embassy of Finland for local cooperation in Malaysia since 1999,</p> <p>Special attention to projects regarding: training of women, children and disabled people; including orang asli-communities, support to local cultural identity and good Governance; training of journalists and representatives of media</p> <p>Amount committed in 2004: € 220.000; Indicative amounts for 2005-06: 2005, € 150.000; 2006, € 150.000</p>	<p>Fields of intervention: cultural co-operation, Higher education, scientific co-operation. Amount for 2004: € 617,000.</p>	<p>In the field of cultural co-operation, the amount for 2004 will be around € 600.000.</p> <p>In the field of technical co-operation, the allocated amount for 2004 will probably be around € 2million. This amount will be distributed among four projects in the following two sectors:</p> <p>(1) Environment (1 project forest management, 1 project air pollution control, 1 project; school of international tropical forestry at Univ. Malaysia Sabah);</p> <p>(2) Education (vocational training). An additional Fund for small scale projects has been set up with € 10.000 for 2004 to support projects (not yet identified) on poverty alleviation/basic needs/education.</p>	<p>The Italian Government Scholarship Program is offered to Malaysian citizens every year. Fields of intervention: Italian language courses, University courses, Masters, PhD.</p> <p>Funds yearly allocated by the Italian Government for the Scholarship; for 2004: € 30.987.</p> <p>Scholarships granted by the Program started in the academic year 1999/2000. 1999-2003: 62 scholarships; 2003-2004: 15 scholarships</p>	<p>Cooperation through the Spanish Agency for International Cooperation in 2003: Scholarships: € 80.000; Seminars for professionals and experts: € 112.000. Other cooperation in 2003: Technical and professional training including equipment: € 3.130.000, <i>but declining to € 1.200.000 over the 3-year period 2004-6.</i></p>	<p><u>British Council/ local cultural cooperation in Malaysia:</u> £ 3,222,000 (Annual basis).</p> <p><u>Scholarship Programme:</u> Post-scholarships amount for Malaysian students 2004: £ 784,000; Amount towards this over the next 3 years: £ 2,700,000</p> <p><u>Environment:</u> Amount for one environment project: £ 27,700; Additional amount for further activity under the Darwin Initiative: £ 100,000</p> <p><u>Child Protection Project:</u> Child Justice budget for 2003-2004: £ 79,000, of which around £ 36,000 will be spent in this financial year; Support for women's NGOs: £ 47,000.</p>

Annex 3: Assistance of major third countries to Malaysia.

<u>Country</u>	<u>Type of support</u>
Japan	Two ODA loans are currently granted: one for dam construction and another for education (scholarships). On the whole, the trend in ODA flows from Japan to Malaysia is quickly declining as a result of both Malaysia's economic performance and Japan financing problems.
Australia	Malaysia has graduated from Australian ODA flows. Australia provides increasing assistance in the field of military cooperation and Counter Terrorism. This assistance is paid from the budgets of Defence and Law enforcement.
Canada	Malaysia has graduated from CIDA. Canada provides a very limited number of higher education scholarships.
USA	Malaysia has graduated from US ODA flows. The USA provide increasing assistance in the area of military cooperation and Counter Terrorism under the International Military Education and Training (IMET) program, the Excess Defense Articles (EDA), the Foreign Assistance Act, and the Non-proliferation, Anti-terrorism, Demining, and Related Programs (NADR) funds.