

**MALAYSIA – EUROPEAN COMMUNITY**

**STRATEGY PAPER**

**FOR THE PERIOD 2007- 2013**

*FINAL DRAFT*

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## LIST OF ACRONYMS

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
ASEAN	Association of Southeast Asian Nations
ASEM	Asia Europe Meeting
AUNP	ASEAN-EU University Network Programme
BN	Barisan National – National Front
CSP	Country Strategy Paper
EAEF	EC ASEAN Energy Efficiency Programme
EBIC	European Business Information Centre
ECAPII	EC ASEAN Intellectual Property Programme II
EIB	European Investment Bank
EIC	Euro Info Centre
EICC	European Info Correspondence Centre
EIDHR	European Initiative for Democracy and Human Rights
EM	Erasmus Mundus
EUMCCI	EU Malaysia Chamber of Commerce and Industry
FDI	Foreign direct investment
FP	Framework Programme for Research
GDP	Gross domestic product
GNP	Gross national product
GSP	Generalized System of Preferences
ILO	International Labour Organisation
IMF	International Monetary Fund
INCO	International Cooperation component of the 6 <sup>th</sup> Framework Programme for Research
IT&C	Information Technologies and Communications
MIP	Multi-annual Indicative Programme
NDP	National Development Policy
NEP	New Economic Policy
NIP	National Indicative Plan
PAS	Parti Islam sa-Malaysia
R&D	Research and Development
RTD	Research and Technical Development
SEA	South East Asia
SME	Small and medium-sized enterprise
SP	Strategy Paper
SPF	Small Projects Facility
TEIN2	Trans Eurasia Information Network 2
TFAP	Trade Facilitation Action Plan
TREATI	Trans-Regional EU-ASEAN Trade Initiative
UMNO	United Malays National Organisation
UNDP	United Nations Development Programme
WB	World Bank
WTO	World Trade Organisation

## EXECUTIVE SUMMARY

Malaysia is a country with a population of about 27 million inhabitants. Its territory comprises approx. 330,000 square km, four fifths of which are covered by forest. Malaysia's course of history has been dictated by its strategic position at one of the world's major crossroads, and a place of cohabitation and interaction of a wide array of races, religions and traditions. The present-day Federation of Malaysia came into existence only in 1965, when Sarawak and Sabah joined the Federation of Malaya, which in turn originated from a negotiated and peaceful independence from the British Empire in 1957.

Since independence, Malaysia has adopted the political system of a parliamentary democracy. The political scene has been characterised by an extraordinary degree of political stability and continuity through an encompassing national coalition of political parties. The political leadership of the country has been focusing on two key long-term goals: cementing national unity and economic development with equity. While national unity remains elusive, the highly successful industrialisation drive (since the mid-1980's) has turned the country into one of the world's most important trading nations. The national poverty rate has fallen from 49.3% in 1970 to 5.7% in 2004. Malaysia's economic performance and fundamentals are strong; its social development is exemplary among developing countries.

EC cooperation with Malaysia has not been noteworthy until very recently, partly because Malaysia has not actively sought EC cooperation. With the opening of an EC Delegation to Malaysia in 2003, federal and state authorities, civil society, academia and local and EU business community, have shown much greater interest in EC cooperation, which has increased markedly. The ongoing CSP (2002-6) allocates a modest €5.6 million to EC-Malaysia cooperation, focussing on two priority or focal areas: trade and investment facilitation, and higher education. Activities carried out in the field of higher education will be financed within the context of the regional programming for Asia.

So far, cooperation has been successful in areas of strategic importance and mutual interest, with a particular focus on economic relations, scientific and technology cooperation, as well as education, addressing in particular the human capital and technological requirements of development. Some cooperation activities are also conducted, successfully, in the area of human rights, especially gender equality and protection of the vulnerable. Cooperation has not yet extended to areas such as the fight against international organised crime and terrorism, good governance, justice and home affairs.

Some aspects of Malaysia's human and political rights record remain a cause for concern, in particular certain legal practices like the death penalty and corporal punishment, the modalities of detention under the Internal Security Act, and restrictions to the right to freedom of information, expression and association.

The next SP (2007-13) proposes **a shift to a more policy-dialogue oriented cooperation with a focus on trade and investment**. Aspects that may be covered would include: trade and investment relations, human capital via higher education and research, human rights, governance, sustainable forestry and biodiversity management and related trade. This bilateral cooperation will be complemented by a limited range of actions and support, received through various EU funded thematic and regional programmes/budget lines, including e.g. Asia wide cooperation programmes (Asia Link in particular for higher education), the EU-funded RTD Framework programme.

Under the Development Cooperation Instrument (DCI), an indicative amount of € 17 million has been earmarked for Malaysia for the period 2007-13. These resources may be supplemented by projects and programmes financed under regional programmes for Asian countries and under various thematic programmes.

## 1. THE POLITICAL, ECONOMIC, SOCIAL AND ENVIRONMENTAL SITUATION

### 1.1. Analysis of the Political Situation

The Federation of Malaysia, which gained independence from British rule in 1957, comprises 13 states and 3 federal territories. The political regime is a parliamentary democracy. The country's Head of State is the king. The position is rotated every five years among the hereditary sultans of nine federal states (Conference of Rulers). In view of the strong political and personal relations between the Executive and the federal Parliament, and the submissive tendency of the Judiciary, institutional mechanisms of checks and balances are of limited effectiveness while power is excessively concentrated in the executive, the Prime Minister in particular. The parliament consists of an upper chamber, whose members are either appointed by the king or elected by the state legislatures, and of a lower chamber, whose members are directly elected by universal suffrage. General elections take place every five years.

Malaysian politics are shaped by the country's geographical, racial, religious and cultural diversity. The Bumiputra<sup>1</sup> represent 67% of the population, followed by the Chinese accounting for 25% and the Indians making up 8%. The country is largely Muslim (60% of the population), with important Buddhist, Hindu and Christian communities. Political parties are very largely based on ethnicity, while one party is of religious (Islamic) nature.

Since independence, Malaysia has been ruled by the same coalition government of the National Front (Barisan Nasional, BN), headed by the main Malay party, the United Malays National Organisation (UMNO) and including the parties representing the other main ethnic groups of Peninsular Malaysia and after 1963, of Sarawak and Sabah. The anti-Chinese riots, after the general elections of 1969, proved to be an economic turning point, whose effects last to the present day. The Malaysian Constitution attributes privileges to the Bumiputra and the BN government has accordingly introduced new policies of positive discrimination in favour of the Bumiputra: the New Economic Policy (NEP), succeeded by the National Development Policy (NDP) after 1990, with the aim of reducing ethnic tensions by improving the economic well being of the Bumiputra and their share in national wealth. Opposition parties are unable to compete on equal terms with the governing coalition. Public meetings are tightly controlled, elections are called at short notice and the media, with the exception of the internet and opposition party publications, are either closely aligned to the Government or exercise self-censorship to ensure annual renewal of their printing licenses.

A marked political shift towards a strong executive, impinging on the independence of Parliament and the judiciary, occurred in 1987, when Mahathir Mohamad, UMNO president and Prime Minister since 1981, consolidated power after a schism within UMNO. Calls for reform and change in the leadership intensified after the 1997-98 Asian financial crisis. Anwar Ibrahim, Deputy Prime Minister and leader of the reform movement, was dismissed from government in 1998, and later jailed on dubious charges of obstruction of justice, corruption, and sodomy. In the 1999 general elections, UMNO lost its Malay majority as a consequence of popular discontent with the treatment inflicted upon Anwar Ibrahim. The main beneficiary was the Islamist Parti Islam sa-Malaysia (PAS), which gained control over two state legislatures, Terengganu and Kelantan. Dr. Mahathir retired from politics in October 2003 after 22 years in power. He was succeeded by his deputy, Abdullah Badawi, who brought a more gentle and people-oriented style, but maintained continuity in the substance of the government's priorities and stance.

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<sup>1</sup> Ethnic Malays and other indigenous populations.

The rise in popular support for PAS turned out to be short-lived. In the March 2004 general elections, BN scored its strongest-ever results, winning 64% of the popular vote but 90% of the seats in the second chamber of Parliament. The coalition also won back the state of Terengganu. UMNO, which campaigned on a moderate, progressive version of Islam (Islam hadhari, civilizational Islam), regained the support of Malay/Muslim voters. Its unexpectedly strong showing strengthened the hand of the new Prime Minister Abdullah, who also seems to have started to heed the calls to come to terms with corruption in the administration and to improve public governance. Reflecting the strong political position of the new Prime Minister, Anwar Ibrahim was released from jail in September 2004, but remains barred from any political position until 2008.

Malaysia is a signatory to the Universal Declaration of Human Rights. It ratified the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) and the Convention on the Rights of the Child (CRC) in 1995. Malaysia has **not ratified** the International Covenant on Civil and Political Rights (ICCPR), the International Covenant on Economic, Social and Cultural Rights (ICESCR) and the Convention against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment (CAT).

Although the Federal Constitution contains provisions to protect human rights, there are various security-related laws that give the police wide-ranging and discretionary powers, including the authority to detain people for a period of two months, extendable to two years, by simple minister-level decision. The Royal Commission on the Police set up by the Prime-Minister and composed of prominent and highly-respected Malaysians recommended in May 2005 some limitation on the right of detention as well as the setting-up of an Independent Police Complaints and Misconduct Commission. But the Government has yet to act on these. The Royal Commission also highlighted corruption across the police force, its lack of compliance with existing human rights regulations, gender insensitivity and ignorance regarding recent child legislation. A significant number of the Royal Commission's 125 recommendations will likely be implemented.

Malaysia retains the death penalty for nine offences, including a mandatory death sentence for drug trafficking. Seven Malaysians have been executed (by hanging) since 1999 - a decrease from the period of the 1980s to the mid 1990s, when an average of 22 people were executed each year. The death penalty continues to enjoy widespread public support and there is no medium-term prospect of a moratorium. The use of physical punishment (whipping) is an obstacle to the signature of CAT.

As regards migration issues, Malaysia is not party to the 1951 Convention relating to the Status of Refugees and the 1967 protocol. Both asylum seekers and refugees are considered as illegal immigrants in Malaysia. Thus, the current refugee situation in Malaysia raises important social, humanitarian and public health issues, which require concerted action on the part of all the stakeholders. Particular attention should be paid to the reduction of the vulnerability of women.

Malaysia, which is party to the 1988 UN Drug Convention, is not a producer of illegal drugs, although large seizures of precursor chemicals and the destruction of a lab producing crystal methamphetamine in 2004 suggests that the situation might be changing. Malaysia has, in the last decade, experienced rising rates of domestic drug addiction and has therefore launched an initiative in 2003 to reduce drug use to negligible levels by 2015. More recently, this is being supplemented with demand reduction/prevention programmes in public schools and workplaces.

## 1.2. Analysis of the Economic Situation including Trade

Malaysia has experienced rapid, competitive and successful industrialization in the past thirty years, transforming itself from an economy relying primarily on mineral and agricultural products such as tin, palm oil, rubber or timber, into one dominated by manufacturing and services. In 2005, the manufacturing and the services sectors accounted for 32.9% and 53.7% of the country's gross domestic product (GDP) respectively, while the share of agriculture and mining amounted to 14.5%. With a per capita income of approximately € 4,000 in 2005<sup>2</sup>, the country ranks as the third richest country in ASEAN, after Singapore and Brunei, and is now categorized as an "upper middle income country" by the World Bank.

Like Japan and the four "Asian tigers", Malaysia has adopted an export-led growth strategy. Being a relatively small country whose exploitation of natural resources is finite and with uncertain terms of trade, it has been acutely aware that sustaining its rapid economic advancement depends on its ability to integrate into the regional and global economy, and to use its comparative advantages in the global value-added chain. Helped by massive foreign direct investment (FDI) flows since the 1980's, Malaysia has become one of the world's leading exporters in a wide range of electronic products, while also diversifying into processed palm oil, tropical timber, rubber, pepper, cocoa, basic oils and chemicals, latex goods and wooden furniture.

Malaysia now ranks among the top 20 trading nations in the world. Electronic products make up its single most important export category, accounting for 50% of total merchandise exports in 2005. The export-oriented manufacturing industries are, however, heavily dependent on imported parts and technologies. Malaysia's merchandise exports amounted to 100% of its gross national product (GNP) in 2005, while its imports of goods reached 88%. These figures illustrate the extreme dependence of Malaysia's economy on international trade and market access.

The country's economic growth has been sustained by high domestic savings and large FDI inflows. The primary and secondary sectors were largely opened to foreign investment in the 1980s, except for steel and automobiles, which remained protected. The service sector has remained highly protected until now, not least because this is the sector where the Bumiputra have the most at stake. Import restrictions are increasingly of a non-tariff nature. Market access is hampered by extensive licensing practices, regulatory uncertainty as well as by Bumiputra-biased public procurement which is estimated to be in excess of 50% of GDP.

Malaysia adopts a pragmatic approach to its international trade relations, pursuing advancement through the multilateral (World Trade Organisation), regional (AFTA) and bilateral (with Australia, India, Japan, Korea, New Zealand, Pakistan and United States) routes simultaneously. No bilateral preferential trade agreement currently exists between Malaysia and the EU, though a Vision Group established by the European Trade Commissioner and ASEAN Economic Ministers spelled out in its report in May 2006 the possibility of an EU-ASEAN Free Trade Agreement. Malaysia participates actively in the Trans-Regional EU-ASEAN Trade Initiative (TREATI), which aims to support EU-ASEAN trade relations and ASEAN regional integration through a process of dialogue and regulatory co-operation. The first TREATI workshop in Malaysia, on trade in wood products, took place in May 2006. In 2005, the EU was the fifth most important source of imports for Malaysia with a share of 9.5%, after ASEAN, Japan, US and China (including Hong Kong), and its third most important export market with a share of 13.2%<sup>3</sup>, after ASEAN and US. Malaysia counts among the biggest beneficiaries of EU's Generalized System of Preferences (GSP). Regarding FDI, EU represented the largest source of funds in the

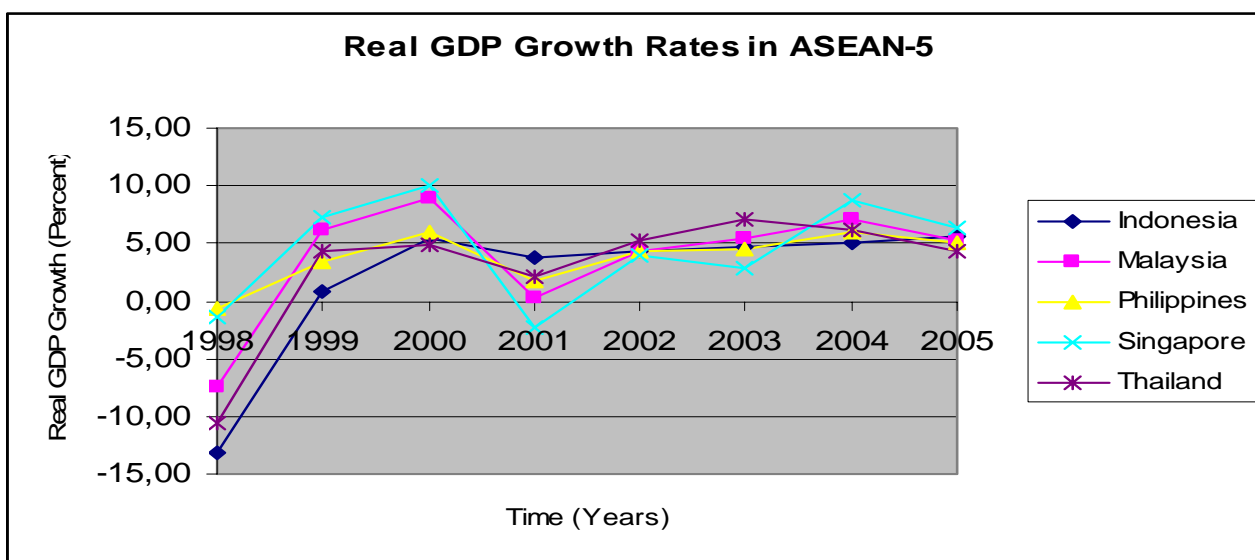
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<sup>2</sup> Over US\$ 8000 in purchasing power parity terms.

<sup>3</sup> According to Eurostat figures.

manufacturing and related services sector in the period 2000-05, accounting for 26% of the total value of approved projects.

While this relatively open economic structure has allowed the country to exploit global opportunities, it has also made it vulnerable to external shocks. The regional economic crisis of 1997-98 is a case in point and can arguably be considered a watershed in Malaysia's economic development. In the decade prior to 1997, the country enjoyed an annual GDP growth of 8.6% on average. The crisis plunged the economy into a deep but short recession, with the economy contracting by 7.4% in 1998. Thanks to a "National Economic Recovery Plan", which comprised expansionary fiscal and loose monetary policies, as well as firm structural reforms especially in the financial but also in the industrial sector, a fixed exchange rate vis-à-vis the US dollar, and to a subsequently favourable external environment, the economy returned to solid growth as early as 1999. Being the only country in the region that has eschewed IMF support and imposed temporary selective capital controls did not seem to have dented its growth prospects. As the following chart illustrates, Malaysia's GDP growth after the crisis has been in line with that of its neighbours. From 1999 to 2005, Malaysia's GDP grew by an average of 5.2% per year.



Source: International Monetary Fund

In 2005, the economy expanded by 5.3%, after a post-crisis peak of 7.1% in 2004. Growth was mainly driven by private domestic demand. A positive growth rate was recorded for all economic sectors except construction. Externally, the country recorded a very comfortable current account surplus of 16.4% of GNP - which has been a trend since 1998.

The solid economic expansion has been accompanied by a tight labour market. The unemployment rate stood at 3.5% at end 2005, notwithstanding a relatively young population and a rapidly expanding labour force. To supplement locally-available labour, Malaysia has accepted up to 3 million migrant workers, both legal and illegal. The government periodically cracks down on illegal migrant workers, which has sometimes led to social tensions and labour shortages. Wage pressures are nonetheless contained. Inflation reached a high of 3% in 2005 due to rising food and energy prices and higher taxes.

The country's fiscal and financial parameters are healthy. In 2005, the federal government ran a budget deficit of 3.4% of GDP, but overall public finances showed a surplus of 1.4%. Federal government debt is not particularly high by international standards; it stood at 48% of GDP at end 2005. Malaysia's total external debt appears manageable too; it amounted to 41% of GDP at end 2005, the bulk of which is owned by the private sector. 78% of the external debt is of medium- to



long term maturity. Foreign reserves held by Bank Negara reached EUR 15.7 billion as of end 2005, corresponding to the financing of 8 months of imports and 1.5 times short-term external debt.

Malaysia's economic fundamentals remain strong overall. Its near-term outlook appears favourable. In the medium- to longer term, its economic prospects will depend on its ability to move up the value-added chain, and to develop more knowledge intensive industries. Crucial policies in this regard are: an open stance towards FDI, not least in the services sector which needs to be opened up; human capital development; innovation and research capacities; more competition and less interference of government-enforced Bumiputra-related concerns in the functioning of markets.

### **1.3. Analysis of the Social Situation**

In terms of UNDP's Human Development Index, Malaysia's score of 0.796 in 2005 ranks 61<sup>st</sup> among 177 assessed countries. It is just a fraction short of the UNDP threshold of 0.8 for high human development. Malaysia's ranking has been broadly stable in the past decade. There is, however, considerable variation among the Malaysian states. Kelantan, Kedah and Sabah would not make it to the world's top 100 on their own scores.

#### ***Demographics***

The Malaysian population has been growing by an annual average of 2.6% from 2000 to 2005. It is estimated to have reached 26.8 million in May 2006. The population's age structure conforms to the classical pyramid shape typical of a developing country. 63.1% of the population is concentrated in the 15-64 working age group, 31.7% in the 0-14 age group and 4.7% in the 65-onwards group.

#### ***Employment***

Despite a continuous economic expansion, a tight labour market, and an addition of almost 2.5 million workers in employment during the past decade, the female labour force participation rate has not shown any major increase and remains below 50%, in stark contrast to the male labour force participation rate, which exceeds 85%. Access to higher education, as well as better representation of women in political life, at management levels and in legislative office, remain areas where there is scope for improvement. The national overall unemployment rate remains stable at around 3.5%.

With respect to labour productivity, some concerns have arisen regarding the neglect of on-the-job training on the workplace by a sizeable proportion of Malaysian firms, although it is widely perceived as a key factor to further improving productivity and competitiveness and developing a knowledge-based economy. Another factor impeding stronger productivity growth is the lack of further improvements in health and safety at the workplace. Despite a decline of accident rates at work during the 1990s, improvements seem to have come to a halt in recent years. Reported rates of fatal injuries remain at levels twice as high as in Europe.

Working conditions are also an issue. Export processing zones have flourished in Malaysia over the last decades. While these may offer advantages such as higher wages than establishments outside the zones, they generally require longer working hours and shift work. The ILO has repeatedly advocated for the repeal of those parts of the Industrial Relations Act which limit the scope of collective agreements for companies granted "pioneer status". There are further ongoing inquiries regarding collective bargaining in the public service and equal treatment of foreign workers in social security and accident compensation schemes. Last but not least, Malaysia denounced the Convention on the abolition of forced labour in 1990.

### ***Poverty***

Malaysia registers one of the lowest shares of poor people among Asian countries. The incidence of poverty was reduced from 50% in 1970 to 5.7% in 2004, according to the national definition.<sup>4</sup> The Millennium Development Goal to reduce the proportion of the population living below the poverty line by 50% was achieved in 1999. This impressive achievement notwithstanding, income inequality is high and growing. The country's Gini coefficient for income distribution stood at 0.462 in 2004. Geographically, the highest incidences are in Sabah and Kelantan. Ethnic differences remain marked; poverty incidence in 2004 was 8.3% for Bumiputra (with a significant proportion of these being the Orang Asli indigenous community in Peninsular Malaysia and the indigenous communities of Sabah and Sarawak), 0.6% for Chinese, and 2.9% for Indians. Malaysia's indigenous peoples have become increasingly marginalized, disenfranchised, and detached from the forests in which they live and on which they depend. Moreover, poverty has a significant gender-bias for religious and cultural reasons.

The NEP, and since 1990 the NDP, have been tantamount to a "social contract" between the Federal authorities and the ethnic groups. The Federal authorities guarantee to the Chinese and Indians that they would remain welcome in Malaysia, their "adopted motherland", enjoy equal rights and treatment under the federal constitution and be allowed to thrive. Meanwhile the Bumiputra – or the people who originate from the Malaysian Federation – would, by law (Constitution), receive preferential treatment in a number of respects, to help them escape poverty and acquire a share of national income and wealth more commensurate with their share in population. This positive discrimination permeates almost all walks of Malaysian life, from higher education to bank credit, housing, jobs in the public sector, and reserved quotas in publicly-listed companies and foreign-owned companies in terms of equity, managerial positions and jobs. Public schools and public administration have to fully adopt the Bahasa Malaysian language. The country's rapid economic growth has enabled progress towards this objective without traumatic implications for the other ethnic groups. In 2004, Bumiputra ownership of listed companies amounted to 18.9%, compared with less than 5% in the early 1970s; Bumiputra ownership of commercial real estate was even lower, at 11.7% – both still far from the 30% ownership objective aimed by the government.

### ***Education and health***

The general level of access to education, as distinct from quality, is rather high. Quality is on the whole not up to market requirements deriving from strengthening competitiveness and from moving up the value added chain. The literacy rate of the above 15-years-old population reaches 89%. The government places great emphasis on education and aims to provide a "world-class quality education system". Primary education is compulsory for all Malaysian children and both primary and secondary education is free for students aged 7-17 in the public school system. The federal government allocated almost 21% of its total expenditure in 2005 on education. However, there are large inequalities between urban and rural schools, especially in terms of facilities and teacher quality. There is also a gender bias in literacy rates, with illiteracy rates among women almost twice as high as for men. The UNDP gender-related development index shows a generally positive and improving picture for women both where literacy and access to education are concerned. The big gap in literacy levels that existed between young females and males has been progressively narrowed, and by 2000 there were no sex differentials.

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<sup>4</sup> The poor are defined as households earning a monthly income of less than RM152 (€33) per capita in peninsular Malaysia, RM173 (€38) per capita in Sabah and RM167 (€36) per capita in Sarawak.

The university system includes 16 public universities and university colleges and 1 international university, funded by the government. Private education at all levels has boomed since the mid-1990's following the government's strategic decision to bring the private sector into higher education. There are at present 539 private education institutions in Malaysia. The vision of the Malaysian government for the national higher education system is to become a hub of regional excellence, able to attract foreign students to Malaysia. There are already more than 35,000 foreign university students in the country, half of which from China.

However, Malaysia's higher education system is still relatively un-competitive in terms of quality output: the quality of teaching, research and academic leadership has not yet reached levels compatible with the human capital requirements of a knowledge-based society, partly on account of pro-Bumiputra policies as applied to the higher education sector. Thus, over 50,000 Malaysian students are currently studying abroad, and this number is expected to increase in the years to come. Moreover, Malaysia suffers from brain drain – not unrelated to the pro-Bumiputra policies and Bumiputra-based patronage – while the Government is very concerned about falling standards of English among young Malaysians.

The country's level of public healthcare provision ranks among the highest in Asia, though there are geographical variations: some predominantly rural parts of the country are well below average. 7% of the federal government's 2005 expenditure was channelled towards healthcare.

Combating HIV/AIDS has been mainstreamed as a cross-cutting issue in the programming process by analysing the government's policy agenda on HIV/AIDS and sexual and reproductive health in particular, as well as the importance of the theme in the partner country.

#### **1.4. Analysis of the Environmental Situation**

The environment is increasingly becoming a policy issue in Malaysia. The main environmental concerns that the country faces are identified in detail in "The Country Environmental Profile" in annex 3. The main challenges are:

- The imbalance between environmental concerns and economic interests. The challenge in the long term is to demonstrate the positive economic impact of environmental policies;
- To ensure that national policies are implemented uniformly at all levels of government throughout the country; their effectiveness largely depends on the implementation at the local and state levels;
- To raise public awareness of environmental issues.

To address environmental concerns in an effective way, the following objectives are prioritized and are already being pursued by the Malaysian authorities:

- Capacity-building at the level of local and State authorities, to improve their ability to effectively implement environmental policies;
- Further improvement of the sustainable management of natural resources and reinforced biodiversity protection, with particular focus on tropical forests and their components;
- Promotion of market-driven pollution control policies on the basis of the "polluter pays" principle. This should, in particular, apply to the following discharges:
  - Waste water, and other effluents
  - Emissions in the open air
  - Other waste products;
- Promotion of energy efficiency and renewable energy resources.

## **2. MALAYSIA'S POLICY AGENDA**

The Malaysian government is guided by an overarching goal in its policies, the “National Vision Policy”, otherwise known as Vision 2020. This policy, first spelt out in 1991, aims at transforming Malaysia into a developed country by 2020: it not only calls for the appropriate economic policies, but also emphasizes political stability and continuity, social cohesion, and continued vigilance to preserve peace and solidarity among the country's different ethnic and religious groups.

The concrete steps towards Vision 2020 are laid out in successive five-year development programs. The current 9<sup>th</sup> Malaysia Plan (2006-2010) is built on five key thrusts:

- 1) Moving the economy up the value chain
- 2) Raising the capacity for knowledge and innovation, and nurturing a ‘first class mentality’
- 3) Addressing persistent socio-economic inequalities constructively and productively
- 4) Improving the standard and sustainability of the quality of life
- 5) Strengthening the country's institutional & implementation capacity ~ establishing a more effective implementing and monitoring mechanism

The Malaysian government is acutely aware of the challenges the country faces in the increasingly competitive global environment, and especially with the emergence of China. The Bumiputra, in particular, are admonished to become more self-reliant and more entrepreneurial, and to rely less on government hand-outs and preferential treatment. But actual actions taken by the government are not yet in consonance with this key message, essentially for political reasons. Every effort is made by the government to suppress extremist manifestations of Islam and to promote a practice of Islam that is moderate, open and compatible with a modern society (Islam Hadhari: civilizational Islam).

### **2.1. Political agenda**

The transition of power from Prime Minister Mahathir to Prime Minister Abdullah has been seamless. The present government is likely to pursue a course of gradual reform and liberalization. Unless hit by a significant shock, e.g. a severe economic recession or major scandals, UMNO and the BN coalition are likely to remain in power for the foreseeable future. At the political level, emphasis is laid on a democracy and open dialogue, but de facto severely tempered by security, public order and racial harmony considerations. Ethical values, moral standards and good governance are promoted, especially in the public sector. The fight against corruption, a major feature of Mr Abdullah's agenda, seems to have lost urgency and the implementation of reforms needs to be revived. Externally, Malaysia's policy is driven by (1) its need to develop economic partnerships and (2) its sovereignty and security. It is first and foremost committed to cooperation and integration within ASEAN. It is also committed to multilateralism (United Nations), as the only mechanism it thinks capable of guaranteeing global peace, justice and security.

### **2.2. Economy and Trade**

At the economic level, the structural transformation to remain competitive is the overriding determinant of policy. The manufacturing sector should shift towards higher value-added and more advanced skill- and advanced technology-based industries. The agricultural sector should become a new engine of growth by, for example, exploiting bio-technology and tapping into the global market for halal food. As for services, the domestic financial sector is going through a long-term restructuring process to make it more efficient and able to withstand international competition, while at the same time Malaysia aims to become a leading international centre for Islamic finance. The government also sees great potential for Malaysia in attracting foreign students and health tourists. Foreign investment will continue to be emphasized in selected

strategic sectors. As a member of both WTO and AFTA, Malaysia is committed to further liberalize its markets, but it is determined to do so at a speed it deems socially, and politically, bearable, which is why Malaysia is loath to enter into new time-bound international liberalization obligations.

### **2.3. Social Sectors**

In Vision 2020, great emphasis is put on the development of human capital as the main catalyst for future economic growth. Education absorbed almost a quarter of total government operational spending in 2005, not including the major role of the private sector in higher education. The higher education system, however, is confronted with a major problem regarding the quality of teaching and research staff, and regarding the low level of the curricula. In other social fields, the government's priorities include the eradication of entrenched poverty, the related promotion of rural development, the improvement of public healthcare and the implementation of women's development programs towards greater gender equity, and the provision of child care to support the female labour force. Policies to foster innovation, human resource development and decent work opportunities in the formal sector, notably for women and the low-skilled, are recognised as essential in helping the country achieve developed country status. Social protection measures are further needed to support the process of restructuring and to strengthen socio-economic stability.

### **2.4. Environmental Policy**

At the environmental level, the government is committed to three objectives<sup>5</sup>: First, a clean, safe, healthy and productive environment for present and future generations; second, conservation of the country's unique and diverse cultural and natural heritage and biodiversity with effective participation by all sectors of society; and third, sustainable lifestyles and patterns of production and consumption. The use of renewable and environment-friendly energy sources is promoted by the government, but it is recognized that, in general, the level of awareness of the population needs to be raised, through education and awareness programs. Progress in relation to objectives 1 and 3 is rather limited.

The challenge of establishing an appropriate balance between environmental concerns and economic interests is evident in the tropical forest sector. Tropical forestry and biodiversity are important to Malaysia, both in economic and environmental terms. Forests are at the heart of Malaysia's rich ecosystems. The authorities have taken important steps and achieved significant results during the last decade with respect to enforcement of sustainable management of the country's tropical forests. Nonetheless, challenges remain: external competitiveness; protection of the forests against illegal activities; land rights of indigenous communities. On the other hand, the timber sector is a major source of budgetary revenue, especially for the States of Sarawak and Sabah. The EU is the third most important destination for Malaysia's timber and timber product exports. Moreover, given the trans-boundary nature of many environmental challenges in Southeast Asia, such as hazes resulting from forest fires and other forms of pollution, intraregional cooperation should be improved.

## **3. PAST AND ONGOING EC CO-OPERATION, COORDINATION AND COHERENCE**

The European Commission is committed to the Paris Declaration (March 2005) on alignment and co-ordination of policies and harmonisation of procedures. The Council Conclusions of November 2003 foresees the development of EU roadmaps on harmonisation in all countries.

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<sup>5</sup> As laid out by the Ministry of Natural Resources and Environment.

Cooperation between EC and Malaysia had almost reached a standstill by 2003, with little ongoing bilateral cooperation and Malaysia being a strikingly marginal beneficiary of EU-funded regional cooperation programmes. Since the opening of the EC Delegation in April 2003, the cooperation between EC/EU and Malaysia has improved and this trend can realistically be expected to gain strength: 1 new project started in 2000; 5 in 2001; 7 in 2002; 11 in 2003; 21 in 2004 (all but 2 were regional programmes); and 19 in 2005. Seminars and conferences are paving the way for a more active involvement of Malaysia in the EU-funded Research Framework programme, while co-operation in higher education sector promises prospects of more cooperation in the field of human capital development in Malaysia.

### **3.1. Economy and Trade**

Economic and trade related co-operation between EU and Malaysia has been implemented in the past almost exclusively through regional programmes that were focused on trade and investment facilitation, energy, environment, information technology, and communications. The only exception has been the EBIC project, which ran from 1995 to 2003, and which was a bilateral cooperation project. Past and ongoing initiatives supported by the EC in Malaysia included:

- Trade and investment (including ICT) facilitation projects under Asia-Invest and Asia IT&C;
- The European Business Information Centre in Malaysia (EBIC);
- Support under the ASEM Trust Fund and ASEM TFAP programme;
- Projects funded under the newly set-up Asia Trust Fund programme;
- Participation in EC ASEAN Intellectual Property programme (ECAPII);
- Participation in the EC-ASEAN COGEN programme;
- Projects under the Asia-Link and AUNP higher education programmes;
- Erasmus Mundus scholarships.

### **3.2. Human capital development: Higher Education cooperation, scholarships and research cooperation**

Cooperation in the field of higher education between Malaysia and the European Union has progressively widened during the last few years, focusing on the establishment and reinforcement of partnerships to promote exchanges of best practices and knowledge. Cooperation has taken place through two regional programmes:

- Asia Link implements partnership projects between higher education institutions (11 ongoing projects);
- AUNP has focused on enhanced dialogue between different stakeholders (e.g. authorities, higher education institutions, academic community) in the EU and ASEAN on commonly agreed areas of interest (e.g. quality assurance, credit transfer systems, sustainable development in higher education)

Cooperation in the field of research is implemented exclusively through the EU-funded RTD Framework Programmes and in particular its International Co-operation (INCO) component. Seven projects involving Malaysian partners have been implemented as part of the 5<sup>th</sup> FP and there are at present 6 ongoing projects involving Malaysian partners under the 6<sup>th</sup> FP. Priority areas of cooperation in the field of research are increasingly the seven thematic priorities, in particular: information society (3 ongoing projects), biotechnology, nanotechnology, food quality and safety, sustainable development and health.

From 2002 onwards, Malaysia has shown an active interest, including at the political level, in the ASEM TEIN 2 programme, aimed at establishing high capacity connectivity between the Asian members of ASEM and the EU GEANT network, to support research and education networks. It will thus also facilitate future R&D cooperation activities and networks between Malaysia and EU. In early 2005, Malaysia set up MYREN, or Malaysian Research Network, linking also up to ASEM TEIN Phase II which is operational since 2006.

### **3.3. Environment**

Environment has been a cross-cutting issue in the focal sectors for cooperation. However, specific projects focusing on the environment have been selected in the framework of existing regional and global programmes:

- Asia Pro Eco: there are at present 3 ongoing projects focusing on eco-tourism, sustainable urban environment and the transfer of technology and expertise;
- Asia Urbs: two ongoing projects focusing on sustainable urban management;
- Participation in EC ASEAN Energy Efficiency programme (EAEF);
- In the specific field of tropical forests, there are five regional or global activities involving Malaysian partners and focusing, in particular, on sustainable forest management, indigenous communities' development and the promotion of legal timber production.

### **3.4. Other Actions**

Cooperation with Malaysia includes ongoing activities focusing on issues of concern with respect to gender and human rights:

- Two projects co-financed in the framework of the European Initiative for Democracy and Human Rights, focusing in particular on the support to the women of the minority Indian communities in the country and on the promotion of freedom of expression;
- A project co-financed under the Gender thematic programme and promoting gender equality in policy, legislation and education through the support of the activities of three local NGOs;

### **3.5 Lessons learned**

The assistance and cooperation that has been extended to Malaysia over the last few years has mainly taken place through regional programmes and for the remainder through thematic programmes. The trend during the late 1990's and early 2000 had clearly been a declining one. However, following a pro-active strategy of identifying priority needs and of dissemination of information about the possibilities of cooperation in the identified priority areas, actual cooperation has clearly resumed an encouraging and sharply upward trend. In this context Malaysia has been keen to improve:

- networking in areas of business, higher education and research,
- access to EU market and technologies,
- transfer of best-practices and know-how through targeted technical assistance,
- human capital development, from the academic to the research and policy making world,
- human rights-related projects, especially in relation to gender equality, domestic violence, and empowerment of the poor and vulnerable.

The regional (Asia-wide) and thematic programmes have been flexible instruments allowing the re-launch of cooperation activities between Malaysia and the EU during the last two years.

#### **4. THE EC RESPONSE STRATEGY.**

One of the main targets of Vision 2020, Malaysia's ambitious roadmap to achieve a developed-nation status, is to double the real GDP every ten years. To achieve this target, Malaysia's real GDP would have to grow by around 7% annually.

With the progressive deepening and widening of EU-Malaysia cooperation, it has become clear over the last 2 years, that in order to better respond to the demands from Malaysian counterparts (mainly requests for flexible and targeted technical assistance, transfer of knowledge and expertise and networking) it will be necessary to operate through more tailor-made programmes. This is true in the focal area for cooperation, trade and investment and the sub-themes thereof: higher education/research cooperation (instruments like the 6<sup>th</sup> Framework Programme for research despite their relevance appear to be too cumbersome to be attractive), "horizontal" air services but even more so area of human rights and conservation of bio-diversity/tropical forest. The latter is an area in which the EU has engaged in an important dialogue to promote the establishment of a Voluntary Partnership Agreement in the framework of FLEGT, and which now needs concrete decisions and policy dialogue-oriented activities.

The European Commission recognises the crucial role of policy dialogue with the Malaysian government as an effective tool for further intensifying the EU-Malaysian relationship, for sharing knowledge and expertise in key priority areas, for addressing common concerns and interests, and for further strengthening the overall ties between Malaysia and the EU. It is for this reason that Malaysia also has been encouraged to enter into negotiations on Partnership and Co-operation Agreement with the Commission.

##### **4.1 Focal sector: EU-Malaysia Policy Dialogue Facility on Trade and Investment**

It is proposed to set up a Policy Dialogue instrument to support a result-oriented dialogue with Malaysian stakeholders on trade and investment including on aspects such as:

- trade and investment co-operation and facilitation in areas of mutual interest to support expansion of the ongoing trade and investment flows;
- development, design and implementation of a bilateral Forest Law Enforcement Governance and Trade (FLEGT) Partnership Agreement between Malaysia and the EU;
- human capital development, higher education policy, scholar and student mobility;
- promotion of human rights;
- governance, transparency, accountability<sup>6</sup>.
- migration.

Under the Development Cooperation Instrument (DCI), an indicative amount of € x million has been earmarked for Malaysia for the period 2007-13. These resources may be supplemented by projects and programmes financed under regional programmes for Asian countries and under various thematic programmes.

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<sup>6</sup> *Within the DCI area of cooperation on governance, democracy, human rights and support for institutional reform, in particular related to co-operation and policy reform in the fields of security and justice, the Community will carry out measures which shall fully respect OECD-DAC guidelines, taking also into consideration relevant European Council Conclusions*



## 4.2 Cross-cutting issues

Based on key issues identified in this SP, the following cross-cutting issues will where appropriate be mainstreamed in the design of the policy dialogue, in particular:

- **Gender:** gender equality;
- **Environment:** sustainable development;
- **Social dimension of globalisation:** decent working conditions and legal protection against abuse by employers or employment agencies. Where appropriate, social partners should be involved in each action foreseen in the framework of this Country Strategy Paper.

## 4.3 Regional and Thematic Programmes

To complement interventions under this SP and in addition to the funding made available under the IP, the thematic programmes in areas such as higher education; democracy and human rights; migration and asylum; human and social development; environment and sustainable management of natural resources including energy; and non-state actors- could also be applicable to Malaysia. In particular:

- **Higher Education:** The main objective of EU's co-operation in the higher education sector in Asia is to enhance international cooperation capacity of universities in third countries by facilitating transfer of know-how and good practices in the field of student and academic staff mobility. The European Commission will contribute to financing a mobility scheme between European universities holding an Erasmus Charter and third country universities that will complement existing programmes in the field of higher education. The types of mobility to be funded are:
  - for students: master, doctorate and post-doctorate mobility opportunities
  - for academic staff: exchanges for the purposes of teaching, practical training and research.

Higher cooperation activities will be funded under the regional programming for Asia.

- **Democracy and Human rights:** Good governance and human rights will to the extent possible be pursued through the new thematic programme for the promotion of Democracy and Human Rights.
- **Environment and Sustainable Management of Natural Resources .**

These thematic activities are complementary to the strategic objectives pursued by the Commission under this SP and form part of the policy dialogue with Malaysia. Furthermore, the participation of Malaysia in several sub-regional (ASEAN, ASEM) and regional (Asia-wide) projects and initiatives in the areas of e.g. higher education (ASIA Link), investment promotion and environment, employment and social policy will reinforce the strategic lines contained in this document. These activities are meant to be carried out, inter alia, by civil society actors, including social partners. The financing of these thematic, regional and sub-regional activities will be in addition to financial resources provided under the bilateral MIP.

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## **EU/EC CO-OPERATION OBJECTIVES**

### **1. The EU Treaty Objectives for External Cooperation**

In accordance with Article 177 of the Treaty Establishing the European Community,<sup>7</sup> community policy in development cooperation shall foster:

- Sustainable economic and social development of developing countries;
- Smooth and gradual integration of developing countries into the world economy;
- The campaign against poverty in developing countries.

The Community's development policy shall contribute to the general objective of developing and consolidating democracy and the rule of law, and encouraging respect for human rights and fundamental freedoms. Development cooperation is a multidimensional process covering broad-based equitable growth, capacity and institution building, private sector development, social services, environment, good governance and human rights.

In addition, **Article 181a of the Treaty Establishing the European Community**<sup>8</sup> foresees that the Community carry out economic, financial and technical co-operation measures with third countries that are complementary to those carried out by Member States and consistent with the development policy of the Community. Community policy in this area shall contribute to the general objective of developing and consolidating democracy and the rule of law, and to the objective of respecting human rights and fundamental freedoms.

### **2. Objectives of the EU as laid down in other applicable documents**

- a. Commission Communication COM(2001)469 "Europe and Asia: A Strategic Framework for enhanced partnerships" with the following 6 objectives: **(i)** contribute to peace and security in the region and globally, through a broadening of our engagement with the region; **(ii)** further strengthen our mutual trade and investment flows with the region; **(iii)** promote the development of the less prosperous countries of the region, addressing the root causes of poverty; **(iv)** contribute to the protection of human rights and to the spreading of democracy, good governance and the rule of law; **(v)** build global partnerships and alliances with Asian countries, in appropriate international fora, to help address both the challenges and the opportunities offered by globalisation and to strengthen our joint efforts on global environmental and security issues; **(vi)** and help strengthen the awareness of Europe in Asia (and vice versa).

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<sup>7</sup> <http://europa.eu.int/abc/obj/treaties/en/entoc05.htm>

<sup>8</sup> <http://europa.eu.int/eur-lex/en/treaties/dat/12002E/htm/12002E.html>

- b. The Regulation of the European Parliament and the Council of 18 December 2007 establishing the Development Cooperation and Economic Cooperation Instrument is applicable to Asian countries and defines objectives, principles and implementation modalities of EC co-operation.
- c. Malaysia is signatory to the 1980 Co-operation Agreement between the European Community and the ASEAN countries. The Agreement covers trade, economic co-operation and development as a basis for institutionalised dialogue.
- d. On 9 July 2003, the European Commission adopted a Communication on a "New Partnership with South East Asia", setting out a comprehensive strategy for future EU relations with the region. The strategic priorities identified in the Communication include (i) supporting regional stability and the fight against terrorism, (ii) promoting human rights, democratic principles and good governance, (iii) mainstreaming justice and home affairs issues (iv) new dynamism into regional trade and investment relations (v) development of less prosperous countries, and finally (vi) intensifying dialogue and cooperation in specific policy areas, such as economic and trade issues, justice and home affairs matters, science and technology, higher education and culture, transport, energy, environment, and information society.

### **3. The EU Development Policy**

The common Statement of the Commission, the Council and the Parliament on the Development Policy of the European Union defines the political framework, common objectives and principles of co-operation for Member States and the Commission as well as implementation modalities. This Statement is intended to take account of changes both within the EU and internationally since the first statement on the European Community's development policy was adopted by the Council and Commission in November 2000. Furthermore, the Commission's Communication on Policy Coherence for Development (COM(2005)134) includes a commitment to strengthen the social dimension of globalisation through an integrated social and economic approach aimed at combating inequalities and promoting social cohesion and decent work for all.

### **4. The 2005 UN Summit conclusions on human and social development**

The importance of strengthening the social dimension of globalisation and of promoting productive employment and decent work opportunities was highlighted in paragraph 47 of the UN Summit conclusions of September 2005 regarding human and social development. UN Member States committed themselves in particular to "strongly support fair globalisation and resolve to make the goals of full and productive employment and decent work for all, including for women and young people, a central objective of our national and international policies as well as our national development strategies, including poverty reduction strategies, as part of our efforts to achieve the MDGs. (EMPL)"

### **5. The framework of co-operation with Malaysia**

The EC-Malaysia dialogue on co-operation is now conducted at the level of Senior Officials, who meet annually with the venue alternating between the EU and Malaysia. The first Senior Officials Meeting took place in May 2005 in Kuala Lumpur.

**Malaysia at a glance**

The status of the country as to the likely achievement of the Millennium Development Goals at a glance

In October 2006, *United Nations Economic and Social Commission for Asia and the Pacific UNESCAP*, the *United Nations Development Programme UNDP* and the *Asian Development Bank ADP* have issued a report “Millennium Development Goals: Progress in Asia and the Pacific 2006”. This report is the latest update on the progress towards MDGs in Asia and the Pacific. It highlights the region's achievements and exposes issues on which much work remains to be done. The report looks in a more holistic way at overall country progress by assessing absolute MDG indicators in addition to MDG targets.

The report classifies the progress made by each country into 4 categories

- *Early achiever* — Has already met the target
- ▲ *On track* — Expected to hit the target by 2015
- *Off track – Slow* — Expected to hit the target, but after 2015
- ▼ *Off track – Regressing* — Slipping backwards, or stagnating

Goal	1	2	3	4	6	7															
	\$1/day poverty	Underweight children	Primary enrolment	Reaching grade 5	Primary completion rate	Gender primary	Gender secondary	Gender tertiary	Under-5 mortality	Infant mortality	HIV prevalence	TBC prevalence	TBC death rate	Forest cover	Protected area	CO <sub>2</sub> emissions	ODP/CFC consumption	Water urban	Water rural	Sanitation urban	Sanitation rural
Malaysia	●	●	▼	●	▼	●	●	●	●	●	▼	●	●	●	▼	●	▼	●	●	●	▼

<b>Land area</b> <sup>7</sup> 329,749 sq km	<b>Population</b> <sup>2</sup> 26.84 mio (May 2006)	<b>Population density</b> <sup>8</sup> 81 per sq km
<b>Share of urban population (2005)</b> <sup>2</sup> : 63%		
<b>Average annual population change (2000-05)</b> <sup>2</sup> : 2.6%		

### Political, economic and social situation

Malaysia is a geographically, ethnically and religiously diverse country. 65% of the population is constituted by Malays, followed by the Chinese with 25% and the Indians with 8%. The country is largely Muslim, with important Buddhist, Hindu and Christian communities. Since independence in 1957, Malaysia has been ruled by successive coalition governments headed by the principal Malay party, the United Malays National Organisation. Economically, Malaysia has experienced rapid industrialization and is now considered an upper middle income country. Concomitantly to its overall economic success, the country's incidence of poverty has declined markedly, from 50% in 1970 to 5.7% in 2004. The government aims at transforming Malaysia into a developed country by 2020. This status should be reached by appropriate economic policies, all the while preserving political stability and social cohesion.

### Selected economic indicators<sup>1,8</sup>

Indicator	2000	2001	2002	2003	2004	2005
Real GDP growth (%)	8.3	0.3	4.1	5.3	7.1	5.3
Nominal GNP (bio EUR)	89.5	90.7	93.7	86.5	89.5	105
Per capita income (EUR)	3,800	3,780	3,820	3,450	3,500	4,000
Unemployment (%)	3.1	3.6	3.5	3.6	3.5	3.5
Inflation (CPI, %)	1.6	1.4	1.8	1.2	1.4	3.0
Exports (% of GNP)	119.4	108.3	106.6	106.8	113.2	113.5
Imports (% of GNP)	94.2	90.8	85.1	80.6	88.6	86.8
Public sector balance (% of GDP)	0.7	-0.3	-0.7	-1.2	-0.3	1.4

### Selected social indicators

Indicator	2000	2001	2002	2003	2004	2005
Adult literacy rate over 15y (%) <sup>4</sup>	n.a.	n.a.	88.7	n.a.	n.a.	n.a.
Primary education enrolment (%) <sup>3</sup>	97	97	98	98.5	n.a.	n.a.
Lower secondary education enrolment (%) <sup>3</sup>	85	85	83	84	n.a.	n.a.
Tertiary education enrolment (%) <sup>6</sup>	27	27	29	n.a.	n.a.	n.a.
Life expectancy at birth (years) <sup>3</sup>	72.5	72.7	72.8	73.0	n.a.	n.a.
Underweight children <5 (%) <sup>3</sup>	14	12.4	12	n.a.	n.a.	n.a.
Infant mortality rate (per 1,000 live births) <sup>2</sup>	6.8	n.a.	6.2	6.3	5.9	5.1
Maternal mortality rate (per 100,000 live births) <sup>2</sup>	n.a.	n.a.	30	30	30	n.a.

Sources of data: (1)Bank Negara, (2)Department of Statistics Malaysia, (3)UNDP Malaysia MDG Report 2005, (4)UN Human Development Report 2004, (5)Worldbank, (6)UNESCO, (7)UNEP, (8)own calculation

## **EC cooperation during the CSP 2000-2006 period.**

2.1. The total amount considered in the 2002-2006 CSP was 5.6 M€, with a first allocation under the NIP 2002-2004 of 3.5 M€ and a second allocation under the NIP 2005-2006 of 2,1 M€.

Turning to implementation, the NIP 2002-4 was to be implemented fully through a new instrument, the Small Projects Facility. However, due to the extent and nature of Malaysia's concerns or objections to the standard EC Financing Agreement, the Commission decided in November 2004 to withdraw the SPF. The amount was de-committed at the end of December 2004. The successor NIP, for the period 2005-6, has operated differently: the full amount available was committed to the "Malaysia Window" under the global Erasmus Mundus programme.

2.2. In addition to the CSP (which covers only bilateral cooperation), during 2002-2006 there has been increased cooperation through regional, Asia-wide or even global programmes:

### Malaysia's Access To Asia-wide or ASEAN-wide Co-Operation Programmes:

- **Asia-wide programmes:**
  - Asia-Link: 10 projects
  - Asia-Invest: 4 projects
  - Asia IT&C: 8 projects
  - Asia Pro-Eco: 3 projects
  - Asia Urbs: 2 projects
  
- **Other co-operation programmes where Malaysia is or will be a partner:**
  - ECAP II: EC ASEAN Intellectual Property Rights Co-operation Programme, Phase 2
  - EAEF (EC-ASEAN Energy Facility Programme): 4 projects
  - ASEM TEIN2: Trans Eurasia Information Network, Phase 2
  - COGEN3: 4 projects
  - AUNP EU-ASEAN University Network Programme: 5 projects
  - ASIA Trust Fund
  - EU-Asia Civil Aviation Project (1999/2000-2006)

### Malaysia's Access to other EC Cooperation Mechanisms:

- 6<sup>th</sup> Framework Programme: 6 projects
- 5<sup>th</sup> Framework Programme: 7 projects
- Tropical Forests Programme: 5 projects
- Gender Equality: 1 project
- EIDH (European Initiative for Democracy and Human rights Programme): 2 projects

**EC-Malaysia Cooperation**  
**Activities launched during the period 2000-2006**  
(as of June 2005)

<b>PROJECTS UNDER EC ASIA-WIDE PROGRAMMES INVOLVING MALAYSIAN INSTITUTIONS</b>						
<b>EC Programme</b>	<b>Project Title:</b>	<b>CRIS Number:</b>	<b>Applicant:</b>	<b>EC Contribution:</b>	<b>Malaysian institution involved:</b>	<b>Other Asian countries involved:</b>
Asia Invest	Asia Invest ALLIANCE, South East Asian Chamber Academy	71774	Eurochambres (Belgium)	190.995 €	Federation of Malaysian Manufacturers	None
Asia Invest	“Asia-Interprise” Machinery: Italy, Thailand and Malaysia	84662	Lombardy Foreign Trade Centre, Italy	127.972,05 €	Federation of Malaysian Manufacturers, Malaysia	Thailand
Asia Invest	Asia-INTERPRISE, Advancing EU-Malaysian SME Partnership in Environmental Technology Solutions (ADSENTS)	71857	The Malaysian Water Association, Malaysia	115.414,21 €	NQS Sdn Bhd, AMB Exhibitions Sdn Bhd	None
Asia Invest	EU-Asia Equipment Manufacturing Alliance 2005	100861	Mid Yorkshire Chamber of Commerce and Industry Limited (MYCCI)	132.032 €	Federation of Malaysian Manufacturers (FMM)	China, India
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 (CETEC)	India
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 IT&C	eGovernance Enhancement via Knowledge Management (EG2KM)	Under preparation	Multimedia Technology Enhancement Operations Sdn Bhd, Malaysia	400.000 €	Multimedia Technology Enhancement Operations Sdn Bhd	None
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 Hamburd-Habsburg 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 (DCCD)	CN/ASIA-LINK/005 84893	University of Bremen, Institute of Technology and Education (Germany)	298.893,42 €	Faculty of Education, Universiti Kebangsaan	China
Asia-Link	Development of a core curriculum in European Integration Studies	84641	College of Europe (Belgium)	299.535 €	School of Social Sciences, Universiti Sains Malaysia	Thailand

Asia-Link	IMAMIS (International Master of Applied Mathematics and Information Sciences)	093927	Universite de Nice Sophia Antipolis, France	296.250 €	'Centre of Quality Management & Research & Innovation, Open university Malaysia	Philippines, Vietnam
Asia-Link	CREATE - Customer Relations in Europe and Asia Towards Enterpreneurs	Under preparation	INHOLLAND University, Netherlands	296.250 €	Centre of Quality Management & Research & Innovation, Open university Malaysia	None
Asia-Link	Problem oriented project based learning in environmental management & technology	Under preparation	Institute of Biological Sciences, University Malaya	300.000 €	None	None
Asia-Link	'EU-ASEAN credit transfer system. Contribution towards an EU-ASEAN credit transfer system leading to implementation of students' mobility and joint award degree programs in engineering education	Under preparation	University of Duisburg Essen, Germany	280.573 €	Centre for Research Management, University Kebangsaan Malaysia	None

Asia-Link	Transportation research links between EU and Asia for sustainable development	Under preparation	'Royal Institute of Technology, Sweden	-	University Technology MARA, Malaysia	Indonesia
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	EU-Perak Urbanisation Programme: "Achieving Innovation and Best Practices in Urban Management"	78748	Perak State Government, Malaysia	500.000 €	-	-
Asia Urbs	Preventing Corruption in Public Contracting: Capacity Building and Networking for Civil Society and Local Governments in Asia	095031	Transparency International e.V., Germany	329.647,42 €	Transparency International Malaysia	Pakistan, Indonesia

**PROJECTS UNDER EC ASEAN-WIDE PROGRAMMES INVOLVING MALAYSIAN INSTITUTIONS**

<b>EC Programme</b>	<b>Project Title:</b>	<b>CRIS Number:</b>	<b>Applicant:</b>	<b>EC Contribution:</b>	<b>Malaysian institution involved:</b>	<b>Other Asian countries involved:</b>
ECAPII	EU-ASEAN Intellectual Property Rights Co-operation Programme	ALA/96/2 5	European Patent Office	5.000.000 €	Minister of Domestic Trade and Consumer Affairs, Malaysia	ASEAN
EAEF	Implementation of the Clean Development Mechanism CDM in the ASEAN Energy Sector; Exchanging experience and regional institutional capacity building	-	Yayasan Pelangi Indonesia (PELANGI)	199.631 €	Pusat Tenaga Malaysia	Thailand, Philippines, Singapore, Indonesia
EAEF	Institutionalisation of Green	-	Pusat Tenaga	99.890 €	Pusat Tenaga	Indonesia,

	IPP Network in the ASEAN Region		Malaysia		Malaysia	Thailand, Philippines
EAEF	Increasing Market Awareness for Building Integrated Photovoltaics in Malaysia	-	Projektgesellschaft Solare Energiesysteme mbH	98.265 €	'Pusat Tenaga Malaysia & Universiti Kebangsaan Malaysia	Indonesia
EAEF	The PTM Zero Energy Office Building	-	Pusat Tenaga Malaysia	487.252 €	Pusat Tenaga Malaysia	Indonesia
ASEM TEIN2	TEIN 2 (Trans Eurasia Information Network 2)	5629 / ASIA/AID CO/2003/5629	DANTE	10.000.000 €	NO financing agreement but Commission decision	ASEM developing countries
COGEN3	'Palm Oil Mill at Sungei Dingin, Kedah (MY 01 - GUTHRIE)	ALA/97/0464	Asian Institute of Technology (AIT), Thailand	292.965 €	Kumpulan Guthrie Bhd (KGB)	None
COGEN3	'Titi Serong Edar Cogeneration Plant (MY 02 - KELANG BERAS)	ALA/97/0464	Asian Institute of Technology (AIT), Thailand	246.900 €	Titi Serong Edar Sdn Bhd	None
COGEN3	'TSH Kunak 14 MW Biomass Power Plant (MY 10 - TSH)	ALA/97/0464	Asian Institute of Technology (AIT), Thailand	400.000 €	TSH Bio-Energy Sdn Bhd	None
COGEN3	'6.0MWe Palm Oil Mill Solid Residues Fuelled SREP Grid Connected Cogeneration Power Plant - Pantai Remis (MY 08 - BUMI POWER)	ALA/97/0464	Asian Institute of Technology (AIT), Thailand	398.625 €	Bumibiopower (Pantai Remis) Sdn Bhd (BBP)	None
AUNP	Expanding Expertise Network for generating and sharing knowledge related to Spatial Planning and Decision Support (ENSPADS)	65202	International Institute for Geo-Information Science and Earth Observation (ITC), NL	200.000 €	'International Islamic University	Philippines
AUNP	UNCOFIN Project	65212	University of Alicante, ES	173.000 €	'University Kebangsaan Malaysia,	Thailand, Philippines, Vietnam ,

					University Sains Malaysia	Indonwesis
AUNP	South-East Asia: Mastering Environmental Research with Geodetic Space Techniques	75422	Delft University of Technology, NL	199.388 €	'University Technology Malaysia	Thailand, Indonesia
AUNP	Water based cities: Urban Quality Development & Management	74073	Aalborg University, Department of Environmental Engineering, DK	200.000 €	'University Kebangsaan Malaysia	Thailand
AUNP	ASEAN-EU lemlife: a collaborative international training programme in law, ethics & management in the life sciences	74958	Chulakongkorn University, TH	199.515,62 €	University Sains Malaysia	Thailand, Philippines
ASIA TRUST FUND	-	-	-	-	-	-

**PROJECTS UNDER RESEARCH AND EC THEMATIC BUDGET LINES INVOLVING MALAYSIAN INSTITUTIONS**

<b>EC Programme</b>	<b>Project Title:</b>	<b>CRIS Number:</b>	<b>Applicant:</b>	<b>EC Contribution:</b>	<b>Malaysian institution involved:</b>	<b>Other Asian countries involved:</b>
FP5	Hazard Analysis Of Antimicrobial Resistance Associated With Asian Aquacultural Environments	ICA4-CT-2001-10028	Institute of Aquaculture, University of Stirling, UK	899.981 €	Faculty of Veterinary Medicine, University Putra Malaysia	Thailand, Vietnam
FP5	Improving the Utilisation and Quality of Low-Value Fish by Processing	ICA4-CT-2001-10032	School of Biomedical and Life Sciences, University of Surrey, UK	1.000.000 €	Faculty of Applied Sciences, University Teknologi Mara	Indonesia
FP5	Construction and exploitation of high density DNA marker and physical maps in the perennial tropical oil crops	CA4-CT-2001-10066	Institute fuer Zuechtungsforschung (Erwin Bauer Institut) Max-	901.311 €	Plan Science and Biotechnology Unit,	Indonesia

	coconut and oil palm: from biotechnology towards marker-assisted breeding		Planck-Gesellschaft zur Foerderung der Wissenschaften E.V., DE		Malaysian Palm Oil Board	
FP5	Diagnosis of infection and morbidity in lymphatic filariasis: development of field applicable tools	ICA4-CT-2001-10081	Leiden University Medical Center, Department of Parasitology, NL	899.928 €	Department of Microbiology and Parasitology School of Medical Sciences, University Sains Malaysia	Indonesia
FP5	Bamboo Thematic Network	ICA4-CT-2001-10089	Biotechnology, Oprins Plant N.V., BE	470.000 €	Timber Research Laboratory Natural Resource Division; Division Wood, Paper and Coating Technology School of Industrial Technology, University Sains Malaysia	Philippines
FP5	Strategies for implementing sustainable management of peat lands in borneo	ICA4-CT-2001-10098	Alterra B.V., NL	959.792 €	University Malaysia Sarawak; Malaysian Agricultural Research and Development	Indonesia



					Institute; School of Biological Sciences, University Sains Malaysia	
FP5	Development of oral fixed-dose artesunate-based combinations for the treatment of uncomplicated malaria	ICA4-CT-2001-10046	World Health Organisation, CH	1.163.698 €	'Centre for Drug Research, University Sains Malaysia	Thailand
FP6	IST Gapfill	-	Sigma Consultants, France	724.600 €	MIMOS Berhad	Thailand, Singapore, Taiwan
FP6	'Ecosystems, Societies, Consilience, Precautionary principle: Development of an assessment method of the societal cost for best fishing practices & efficient public policies	3711	Centre for Economics and Management of Aquatic Resources	6.886.066 €	World Fish Centre, Malaysia	Vietnam, China, Thailand
FP6	'Innovative decision making for sustainable water management in developing countries	510905	Institute for Water Provisions, Water Ecology and Waste Management; University of Natural resources and Applied Life Sciences, Vienna	1.911.876 €	Institute of Environmental and Water Resource Management, Universiti Teknologi Malaysia	Indonesia
FP6	'Restoration of tropical peatland to promote sustainable use of renewable natural resources	510931	Alterra BV	1.490.000 €	University Malaysia Sarawak	Indonesia, Vietnam
FP6	FLOSSWorld -- Free Libre and Open Source Software - Worldwide Impact Study	15722	Universiteit Maastricht (Netherlands)	663.652 € (contribution to MIMOS:	MINOS Berhad	China, India

				32.988 €)		
FP6	ENGAGE	15915	European Research and Project Office (Germany)	675.639 € (contribution to USM: 52.260 €)	Universiti Sains Malaysia	Philippines, Thailand, Indonesia
Tropical Forests Programme	Small Grants Programme for Operations to Promote Tropical Forests	ASI/B7-6201/1B/99-0158	United Nations Development Programme (UNDP)	15.132.500 €	UNDP - Malaysia	Thailand, Philippines, Pakistan, Vietnam, Sri Lanka, Indonesia, Malaysia, Cambodia, Lao PDR
Gender Equality	Building Greater Democratic Process and Citizens' Participation through Advocacy, Education and Reforms and Enhancing the Monitoring of the Commitments of the Malaysian Government	'Contract being signed (Budget line B7-6220)	Women's Development Collective (WDC), Malaysia	627.660 €	All Women's Action Society (AWAM), Women's Centre for Change (WCC) - Malaysia	-
EIDH	Community Centres for the Empowerment of Indian Women in Malaysia	B7-701/2002/RX258	Friedrich Naumann Foundation, Germany	982.706,64 €	Education and Research Association for Consumers (ERA) - Malaysia	-
EIDH	Protecting and Promoting Freedom of Expression and Freedom of Information in the ASEAN Region	B7-701/2001/0219	Article 19, UK	412.975,2 €	SUARAM (Suara Rakyat Malaysia)	Cambodia, East Timor, Indonesia, Philippines, Thailand and Malaysia

## **Malaysia's Environmental Profile.**

### **1. State of the Environment**

Like all countries, Malaysia has had to grapple with environmental degradation issues. Notably, as a consequence of the rapid urbanization and industrial growth during 80's Malaysia has seen an increase in air and water pollution just as the biodiversity in certain areas has declined due to neglect of the natural environment.

Malaysia is a country that has been recognized as one of the twelve mega biologically diverse countries in the world. The total land area is about 33 million hectares of which 19.5 million hectares (or 59%) of the total land area are under forest cover. Out of the 19.5 million hectares, 14.3 million hectares are gazetted as Permanent Reserve Forests (PRF) or Forest Reserves (Sabah and Sarawak) and are managed under the Forestry Department of each state. The forest reserves are managed with the objective of maintaining the forest ecosystem in perpetuity, while allowing for the use of the forest products and services. Within these areas, there are classifications for different categories of use, such as for timber production, water catchments, soil protection, recreation, research, and wildlife protection. In addition to these areas, Malaysia has also gazetted a total of about 3.3 million hectares as protected areas, under the network of Wildlife Sanctuaries, National Parks, State Parks, and Wildlife Reserves scattered throughout the country. However, the rapid expansion of oil palm cultivation is cause for concerns, representing a threat to biodiversity and forest conservation efforts. The government will need to devise appropriate policies and strategies to ensure the sustainability of these activities (ENVR)

Malaysia depends heavily on fossil fuels for its energy supply and the share of renewable energy in the overall supply is very limited. As Malaysia moves inexorably towards developed nation status, energy requirements are certain to increase. The country is expected to become a net oil importer around 2010 (gas and coal are already being imported) and will therefore require substantial financial resources to develop additional generation, transmission, and distribution capacity. Even if the development of renewable energy is given specific priority in the Malaysia's Energy plan (2001-10), the promotion and implementation of renewable energy is still a capital issue. The Malaysian Government has encouraged in the framework of the "Eight Malaysian Plan" the utilization of renewable energy in power generation with a target of 5% of total electricity generation by 2005 and 10% by 2010.

### **2. Policies and Institutions**

The Department of Environment was established in 1974 to provide overall supervision of the Malaysian environment. A national system of monitoring stations for air and water quality was established in the late 1970s.

Malaysia recognizes that environmental sustainability is necessary to achieve and sustain economic growth, poverty eradication, and social development. Achieving sustainability requires systematic effort to avoid undesirable environmental impacts and enhance ecosystem management. The principles of sustainable development have progressively been integrated into national development plans and policy making. These include sector-specific policies,

legislation, and approval to proceed on the basis of rigorous environmental impact assessments for major projects. Malaysia's National Policy on the Environment (formulated and approved in 2002) therefore integrates the three elements of sustainable development: economic, social and cultural development and environmental conservation. The policy aims at continued economic, social and cultural progress and enhancement of the quality of life of Malaysians through environmentally sound and sustainable development. It is based on eight (8) inter-related and mutually supporting principles set to harmonise economic development goals with environmental imperatives:

- Stewardship of the Environment
- Conservation of Nature's Vitality and Diversity
- Continuous Improvement in the Quality of the Environment
- Sustainable Use of Natural Resources
- Integrated Decision-Making
- Role of the Private Sector
- Commitment and Accountability
- Active Participation in the International Community

Malaysia's national policy on sustainable development is based on a balanced approach whereby environment and development complement each other. The principles of sustainable development were introduced in the Third Malaysia Plan (1976–80) and have been reiterated in subsequent development plans. The Eighth Malaysia Plan (2001–5) states that “emphasis will be placed on addressing environmental and resource issues in an integrated and holistic manner”. Hence, national development and sector strategies should in principle address environmental protection and management issues. National frameworks, such as strategies for sustainable development, guide policies for natural resource management in light of the country's specific resources and concerns.

In keeping abreast with the country's rapid economic development and to meet with the nation's aspiration for an improved quality of life, the National Policy on the Environment serves as an important guide to all stakeholders to ensure that the environment is clean, safe, healthy and productive.

Malaysia is also an active participant in reviewing environmental issues at the regional and international level and has signed various international agreements<sup>9</sup>.

### **3. Environment in the main sectors,**

The main environmental issues identified in Malaysia are:

**Biodiversity and Tropical forestry:** Malaysia is one of the world's few mega-biodiversity areas. In Malaysia forestry comes under the jurisdiction of the respective state governments which determine allocations of public forest harvesting rights and management priorities. The challenge continues to be to ensure that national policies are implemented uniformly at state level. State Forestry Departments will need to adopt strategies of sustainable forest resource management which are innovative and imaginative through enhanced human resource development, and consequently treat the environment as an integral part of management in

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<sup>9</sup> *The first of these international conventions was the Convention of International Trade in Endangered Species of Wild Flora and Fauna (CITES), which was signed in 1977. This was followed by the United Nations Convention on the Law of the Sea (UNCLOS) in 1982 and the Convention on Biological Diversity (CBD) in 1992. In 1987, Malaysia signed the Montreal Protocol, which commits the nation to phasing out ODS. In 1993, it signed the United Nations Framework Convention on Climate Change (UNFCCC) and the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal. In 1994, Malaysia signed the International Tropical Timber Agreement (ITTA) and the Ramsar Convention on Wetlands of International Importance Especially as Waterfowl Habitat. The latest environment-related agreement Malaysia was involved in is the ratification of the Cartagena Protocol on Biosafety in 2003*

order to ensure maximum economic and social benefits are derived from managing forest resources based on a set of internationally agreed criteria and indicators.

**Air and Water Pollution:** Emissions from vehicles, industries, and open burning activities continue at a relatively high level (also the periodic episodes of haze due to the persistent occurrence of forest fires exacerbate the air pollution situation). More rigorous enforcement of existing legislation is therefore required together with the adoption of appropriate legislation to address this issue.

Even though Malaysia is endowed with abundant water resources, the continued emphasis on industrialization programmes is translating into the rapid increase in water usage and effluents from manufacturing industries. This should be minimized, especially by exercising greater control over the pollution from SMEs. Access to uncontaminated water is also becoming a critical issue and reducing pollution from household sewage would provide a major improvement in the quality of the country's rivers.

**Toxic chemicals:** In practice the balance between environmental concerns and economic interests seem hard to strike. Special attention must therefore be given to an environmentally sound management of toxic chemicals and to the enhancement of chemical safety with particular reference to banned and severely restricted chemicals..

**Food Safety:** The implementation of more demanding food and safety standards and procedures is expanding as a matter of policy. Malaysia is actively seeking international cooperation to seek domestic compliance with international food safety standards and procedures, as well as animal health, especially in view of the recent emergence of the avian flu and possible pandemic.

#### **4. Analysis of aid**

Asia Pro Eco II is a regional programme designed to build on the achievements of environmental projects supported by the Asia Urbs and the Asia Pro Eco programmes. Asia Pro Eco II aims to co-finance projects in the field of the Urban Environment. The objective of the programme is to draw the EU and Asia closer together through institutional and operational partnerships and networks to tackle major issues on protection and remediation of the urban environment. The programme aims to promote the sharing of innovative technologies, best practises, policies, measures and capacity building which can improve the quality of life and environmental conditions of urban populations in Asia. There are presently 3 on-going projects involving Malaysian partners<sup>10</sup>.

EU-Asia Urbs Programme Phase II aims to encourage local governments to join forces, share experience and knowledge, and effect a project in conjunction with civil society organisations. This open partnership approach brings a greater chance of involving the local communities in improving their urban environment, contributes to the sustainability of the activities, and improves understanding between people and organisations at a local as well as an international level. The programme's ultimate goals are to provide capacity building for local government, to involve civil society in decision-making, and to encourage a sustainable approach to urban management - environmentally, socially, and economically. Under the Asia Urbs there is one ongoing project focusing on sustainable urban management.

The regional forest programme aims at supporting developing countries in their efforts to integrate the environment dimension into their development process. The objective is to

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<sup>10</sup> e.g. Transfer and adaptation of EU perspectives, methodologies and know-how to Malaysia in the field of Eco Tourism (World Wide Fund for Nature Malaysia (WWF) and Malaysia Nature Society

support the conservation and sustainable management of tropical forest and other forests in these countries. The themes addressed by the forest programme are: Forest and Government; Small-scale and community-based forest enterprises; Wood and energy; Sustainable use of forest biodiversity, Forests in economic planning and, Poverty reduction strategies. There are presently 5 ongoing projects involving Malaysian partners.<sup>11</sup>

## 5. Conclusions and recommendations.

The national environmental policy in Malaysia should in general terms continue to give greater emphasis to the following objectives:

- maintenance of a clean and healthy environment and of environmental quality relative to the needs of the growing population;
- minimization of the impact, on the environment, of the growing population and human activities related to mineral exploration, deforestation, agriculture, urbanization, tourism and the development of other resources;
- balancing of (a) the goals for socio-economic development, and (b) the need to bring the benefits of development to a wider spectrum of the population against the maintenance of sound environmental conditions;
- monitoring of the impact of development on the environment could be strengthened to ensure that the benefits of development are not negated by the costs of environmental change.
- placing of greater emphasis on prevention through conservation rather than on curative measures, *inter alia* by preserving the country's unique and diverse cultural and natural heritage;
- incorporation in a consequent way of an environmental dimension into project planning and implementation, *inter alia* by determining the implication of the proposed projects and the costs of the required environmental mitigation measures through EIAs;
- promotion of greater cooperation and increased coordination between the relevant federal and State authorities as well as between the member governments of the Association of South East Asian Nations (ASEAN).
- reviewing the National Water Policy to promote integrated development, equitable allocation of resources, a uniform regulatory framework and a set of water standards, harmonized water tariffs, greater cost recovery, and overall environmental integrity;
- implementation of measures to strengthen coordination and optimize the use of available resources to ensure sustainable development. While the legislation and regulations are in place for moving towards sustainable development, the institutional, human, and financial resources to enforce these measures act as constraints. This is particularly evident where, for example, national level legislation has to be implemented by state agencies.
- Effective transfer of appropriate energy technologies would enable Malaysia to harness unique domestic renewable energy sources, improve energy efficiency, increase self-sufficiency, and later, export these energy technologies.

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<sup>11</sup> e.g. Small Grants Programme for Operations to Promote Tropical Forests (UNDP); Forest and Trade Networks for legal and sustainable forest management in Africa and Asia (WWF); Timber Trade Action Plan for Good Governance in Tropical Forestry: Regional Process for Forest law enforcement and Governance (WB).

## Donor Matrix - EU Member States

Country	Type of support
<b>Denmark</b>	<p>Malaysian/Danish Cooperation on Environment and Sustainable Development is now in the last phase 2003-2006.</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>In 2006, a budget of 30 Million DK is allocated for Biodiversity Conservation.</p> <p>A new phase of the private sector programme 2005-2007 has been approved with a budget frame of 24 Million DK for development of new commercial partnerships</p>
<b>Finland</b>	<p>Funds granted by the Embassy of Finland for local cooperation in Malaysia since 1999, 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, € 150.000; 2006, € 150.000</p>
<b>France</b>	<p>Fields of intervention: cultural co-operation, Higher education, scientific co-operation, Administrative cooperation and audiovisual cooperation.</p> <p>Amount for 2005: € 648,000.</p>
<b>Germany</b>	<p>In the field of cultural co-operation, the amount for 2004 was around € 600.000.</p> <p>In the field of technical co-operation, the allocated amount for 2004 was around € 2million. This amount was distributed among four projects in the following two sectors:</p> <p><u>Environment</u> (1 project forest management, 1 project air pollution control, 1 project; school of international tropical forestry at Univ. Malaysia Sabah);</p> <p><u>Education</u> (vocational training). An additional Fund for small scale projects was set up with € 10.000 for 2004 to support projects on poverty alleviation/basic needs/education.</p>
<b>Italy</b>	<p>The Italian Government Scholarship Program is offered to Malaysian citizens every year e.g. Italian language courses, University courses, Masters, PhD.</p> <p>Funds yearly allocated by the Italian Government for the Scholarship; for 2005-2006: € 60.000.</p> <p>Scholarships granted by the Program started in the academic year 1999/2000. 1999-2003: 62 scholarships; 2003-2004: 15 scholarships; 2004-2005 14 scholarships; 2005-2006 28 scholarships.</p> <p>Cooperation in the field of Counter terrorism includes seminars, and training programmes.</p>
<b>Spain</b>	<p>Cooperation through the Spanish Agency for International Cooperation in 2003: Scholarships: € 80.000; Seminars for professionals and experts: € 112.000.</p> <p>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>
<b>UK</b>	<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 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>

**Donor Matrix - Other donors**

<b>Country / Institution</b>	<b>Type of support</b>
<b>Japan</b>	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.
<b>Australia</b>	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.
<b>Canada</b>	Malaysia has graduated from CIDA. Canada provides a very limited number of higher education scholarships.
<b>USA</b>	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 Defence Articles (EDA), the Foreign Assistance Act, and the Non-proliferation, Anti-terrorism, De-mining, and Related Programs (NADR) funds.
<b>EIB</b>	No activity because Malaysia has not signed the bilateral agreement with the EIB.
<b>WB</b>	No loans outstanding.
<b>Asian Development Bank</b>	ADB projects, whether public or private, must satisfy the criterion of poverty alleviation in order to qualify for ADB financing. Thus for most purposes, Malaysia is too affluent to borrow from ADB for Malaysia-specific projects. However, Malaysia benefits from Regional (not Malaysia-specific) Cooperation Technical Assistance program (such as an ASEAN-wide telecom network or similar regional project). Cumulative ADB lending to Malaysia as of 31 December 2004 was about US\$2 billion.