

Chapter XII

Trade

CHAPTER XII

Trade

I. INTRODUCTION

Trade, comprising wholesale and retail trade¹ and external trade, continued to play an important role in the growth and development of the economy during the Fourth Malaysia Plan period. External trade grew faster than the average annual growth rate for the Gross Domestic Product (GDP) despite the slowdown in world economy. Domestic demand, however, continued to sustain the growth of wholesale and retail trade, which recorded a higher average annual growth rate compared with the overall growth rate for the GDP during the period 1981-85.

During the Fifth Malaysia Plan period, the trade sector will play a more active role in the generation of output, income, employment, and foreign exchange earnings. In order to overcome the increasingly difficult period ahead, the Government will continue to provide the necessary support for the growth of the trade sector. It will encourage greater self-reliance and involvement of the private sector in both the external and domestic components of trade in order to upgrade their efficiency, competitiveness, and consolidate their position. On the export front, the Government will continue in its efforts to seek greater access to international markets for Malaysian products.

II. PROGRESS, 1981-85

During the period 1981-85, wholesale and retail trade was more buoyant than external trade. The resilience of wholesale and retail trade was supported, in general, by the sustained growth in consumer demand, particularly for consumer durables as well as the economic activities in the construction and public sectors. With respect to external trade, gross exports of goods recorded a higher average annual growth rate than that of gross imports. The performance of gross exports of goods, in general, was affected by weak external demand and low prices, particularly for primary commodities. The overall domestic demand for imports was weak during the period, except for consumption and investment goods, especially during the period 1981-82.

¹ Includes hotels and restaurants.

In external trade, complementary trading methods were employed, particularly by the Government, to expand exports as well as to conserve foreign exchange and improve the trade balance of the country. Large trading houses were incorporated in order to increase the effectiveness of marketing exports. In wholesale and retail trade, there was an increase in the number of supermarkets, large departmental stores, and fast-food outlets that operate on the basis of joint ventures, franchise schemes, and chain-store systems.

Wholesale and retail trade

Characteristics and trends. During the Fourth Plan period, wholesale and retail trade expanded at an average rate of 7.0 per cent per annum. This was higher than the Fourth Plan target of 6.2 per cent. By the end of 1985, the contribution of wholesale and retail trade to GDP increased from \$5,383 million or 12.0 per cent in 1980 to \$7,551 million or 12.7 per cent. Employment in wholesale and retail trade grew at an average rate of 4.6 per cent per annum, from 676,200 in 1980 to 846,300 in 1985, and the contribution of this subsector to total employment expanded from 14.0 per cent to 15.5 per cent, respectively.

Wholesale establishments, as at 1980², constituted 16.6 per cent of the total number of wholesale and retail establishments, but contributed 70.7 per cent of sales turnover. The retail trade, however, accounted for 64.4 per cent of total employment generated by the subsector.

In the wholesale trade, based on a total of 39 types of businesses, petrol sellers accounted for 12.5 per cent of total wholesale sales turnover. This was followed by distributors of building materials and hardware, which accounted for 12.0 per cent of total wholesale sales turnover. Wholesalers involved in food distribution, comprising meat and poultry, fish, fruits and vegetables, confectionary, cakes, rice and other grains, sugar and other foods, constituted the largest subgroup with 20.2 per cent of total wholesale sales turnover. In the case of retail trade, food business dominated in terms of number of establishments, employment, and sales turnover. Retail outlets selling food constituted 68.1 per cent of the number of establishments, 55.8 per cent of employment, and 32.9 per cent of sales turnover.

The performance of wholesale and retail trade was sustained by the growth of domestic activities, particularly the construction and property development industries, as shown in the high volume of sales turnover of wholesalers in building materials and hardware. On the retail trade side, in terms of sales turnover, the relatively sizeable share of retail establishments selling consumer durables, like motor vehicles and electrical goods, reflected the increasing affluence of consumers and their changing tastes and lifestyles, particularly in

² Source: Department of Statistics, Malaysia, *Survey of Wholesale and Retail Trade in Peninsular Malaysia, 1980*, Volume II.

urban areas. The significant performance of the retail establishments selling these products *vis-a-vis* the food and beverages subgroup was consistent with the changing consumption pattern, that is, a higher proportion of consumer expenditure was spent on non-food than on food items.

This change in the consumption-expenditure pattern of Malaysians, which was noticeable by the end of the 1970s, continued and became more evident during the Fourth Plan period. Consequently, retail establishments have responded to these changes. This was reflected in the growth and development of the supermarkets, departmental stores, and fast-food outlets. These new establishments were mainly joint ventures or franchised businesses, which brought about capital expansion, and technical and managerial improvements to the retail trade.

Financial accessibility. Outstanding loans extended by the banking system for general commerce increased from \$5,217 million as at the end of 1980 to \$10,134 million as at the end of November, 1985. In terms of share to total credit from the banking system, however, it decline from 19.8 per cent at the end of 1980 to 15.5 per cent at the end of 1985.

The small traders were able to have access to credit at favourable interest rates under the lending guidelines for the commercial banks and finance companies. The Credit Guarantee Corporation continued to guarantee bank loans extended to small-scale enterprises under its Special Loan Scheme and General Guarantee Scheme. At the end of 1985, outstanding loans guaranteed by the Corporation totalled \$852 million compared with \$341 million at the end of 1980.

Support facilities for Bumiputera participation. The Government continued to provide support and assistance for the growth of wholesale and retail trade, especially for the promotion of Bumiputera participation. Assistance to Bumiputera traders was implemented through various trust agencies for purposes of ensuring credit facilities, supply of business premises, and training and entrepreneurial development.

During the period 1981-85, for purposes of providing business premises for the small traders, the State Economic Development Corporations (SEDCs), the Urban Development Authority (UDA), and the Council of Trust for Indigenous People (MARA) constructed a total of 2,100 units of business premises, including shopping and office complexes, and bazaars and stalls. SEDCs were particularly active in the construction of shophouses in the rural areas, while UDA concentrated its activities in the urban areas.

The National Corporation (PERNAS), the Federal Agricultural Marketing Authority (FAMA), the Food Industries of Malaysia (FIMA), and *Perbadanan Niaga FELDA* were particularly supportive in wholesale and retail trade activities. PERNAS, through its subsidiaries, PERNAS *Edar* and PERNAS Trading, was particularly effective in its role as a major distributor in the wholesale and retail trade, with total sales turnover of \$1,154 million during the period. The wholesale and retail trade activities of PERNAS *Edar* were mainly related to consumer goods, while PERNAS Trading was involved in wholesaling of intermediate goods like building materials, chemicals, and fertilisers, and acting as agent for several types of equipment. PERNAS *Edar* was particularly active in helping small retailers establish their businesses. By 1985, the number of Bumiputera traders registered with PERNAS *Edar* increased to 5,400 from 3,900 in 1980. PERNAS *Kedai Jimat*, a chain-store, had 300 stores operating mainly in the suburban areas throughout Peninsular Malaysia since its inception in 1984.

FAMA concentrated on the marketing of agricultural produce, specifically vegetables and fruits, through its farmers markets set up throughout Peninsular Malaysia. The activities of FIMA, which included investments in supermarkets, were, however, more evident in the urban areas. The Malaysian Transnational Trading Corporation (MATTRA), a subsidiary of FIMA, recorded a total sales turnover of \$162 million since its inception in 1983. *Perbadanan Niaga FELDA* continued to expand its network distribution to FELDA settlers and by 1985, a total of 250 units of FELDA-operated business stores were in operation.

The Government recognized the need to develop and upgrade entrepreneurial skills to ensure the growth of small enterprises. Efforts towards this end were particularly reflected in the training activities of MARA and the National Productivity Centre (NPC). A total of 122,500 entrepreneurs received training from MARA and NPC in various aspects related to business finance and management. In addition, MARA provided 28,600 Bumiputera with consultancy services on project identification, preparation, and financing. PERNAS, through its Extension Service Unit, assisted 5,300 Bumiputera in the development of their entrepreneurial skills.

External trade

Growth of exports and imports. Within the external sector, there was a slower growth in the demand for traditional export commodities. The growth rate of gross exports of goods on f.o.b. basis at 6.2 per cent per annum during the Fourth Plan period was lower than the target of 8.5 per cent. The contribution of gross exports to Gross National Product (GNP), therefore, declined from 54.6 per cent in 1980 to 52.3 per cent in 1985.

For the first two years of the Fourth Plan period, imports grew rapidly and in 1982 gross imports of goods exceeded exports. The accelerated growth of imports was mainly due to increases in imports of capital goods by the public sector. The situation was reversed for the last three years of the Fourth Plan period as a result of the efforts of the Government to contain its spending, particularly on investments in capital projects. With an average annual growth rate of 5.6 per cent for gross imports of goods on c.i.f. basis, the trade balance position improved, particularly for the period 1984-85.

Trade with Singapore. Malaysia still exported substantially to and through Singapore. Exports to Singapore increased from \$5,385 million or 19.1 per cent of total exports in 1980 to \$6,772 million or 19.4 per cent in 1985.³ Imports from Singapore also recorded an increase from \$2,753 million or 11.7 per cent to \$4,776 million or 15.8 per cent of total imports during the same period. In 1985, about 25 per cent of total crude petroleum exports, 29 per cent of processed palm oil and palm kernel oil, and 14 per cent of sawn timber were exported to the Republic. A large proportion of these exports was, however, re-exported to other destinations.

Marketing approaches for exports. In line with the need to promote exports of local products, seven *sogoshosha* were incorporated during the Fourth Plan period. These *sogoshosha* were involved in an extensive and diversified range of activities, such as export-import, offshore trading, construction and subcontracting, domestic and overseas investment in production and processing facilities, and in resource development. These activities were undertaken basically to generate business opportunities in new market areas.

Counter trade activities were introduced during the Fourth Plan period as a supplementary trading method to improve export performance. The public sector was particularly active in counter trade activities since 1983. By the end of 1985, a total of 23 counter trade agreements, valued at \$408 million, was signed. These agreements constituted 45.8 per cent of the tendered value for various Government projects and contracts. In addition, counter trade negotiations for five Government procurements, with a total value of \$1,020 million, had been held. The value, type of products, and percentage of counter trade obligations for these procurements, however, have not been finalised. There were also 41 Government tenders that had been tendered out for which counter trade conditions were imposed. The total value of these tenders was \$2,448 million. With these counter trade arrangements, Malaysia was able to expand and diversify its markets.

Trading companies in the private sector, notably the *sogoshosha*, were also involved in counter trade activities. The private sector, in general, had to date concluded several counter trade agreements involving \$32 million worth of imported goods and \$351 million worth of exports of local goods.

³ As at November, 1985.

Support facilities for exports. The Government continued to provide the support for the promotion of Malaysian exports to both established and new markets. Under its Export Promotion Programme, 32 trade missions, and 35 trade exhibitions and trade fairs were organized by the Government in the Middle East, Australia, Europe, the United States, Scandinavia, China, and the South Pacific Islands during the Fourth Plan period. A total of 552 local manufacturers and exporters, representing various industries, participated. These promotional arrangements enabled the Malaysian manufacturers and exporters to appraise the market conditions and requirements of various countries, while permitting overseas buyers to have a better understanding of the range and type of goods Malaysia has to offer. In addition, the Malaysian Export Trade Centre (MEXPO) in Kuala Lumpur provided assistance to Malaysian exporters in the promotion of their products. This centre provided exporters the opportunity to display their goods at its premise, as a means of promoting local manufactures to overseas buyers, visiting trade missions, and industrialists.

Despite the increasing importance of the export credit refinancing (ECR) scheme, which provided pre and post-shipment refinancing credit to exporters, the use of the ECR facility continued to be small. In 1985, the amount of refinancing of manufactured exports under the ECR scheme totalled \$1,729 million. This represented about 10 per cent of total manufactured exports or about 15 per cent of eligible manufactured exports.

The services of the Malaysia Export Credit Insurance Berhad (MECIB) were also available for exporters to insure against export risks. At the end of 1985, a total of 106 policies with a face value of \$443 million was in force. Of the total exports valued at \$120 million declared for coverage in 1985, 42.0 per cent represented exports to Eastern Europe, 20.8 per cent to Western Europe, 13.8 per cent to the Middle East, and the balance to other countries. In terms of the composition of products, 58.4 per cent comprised inedible crude materials except fuel, 13.5 per cent miscellaneous manufactured articles, 12.1 per cent food, and the remainder, a variety of other products.

III. PROSPECTS, 1986-90

During the Fifth Plan period, wholesale and retail trade will play a more important role in the growth of the economy. Its contribution to employment is expected to be relatively higher than the other sectors. Wholesale and retail trade is expected to absorb an increasingly large number of the unemployed through the generation of self-employment in the distributive trades since small business requires less capital. Wholesale and retail trade will play an important role in changing consumer tastes and habits through its marketing and promotional strategies. Consumers will be encouraged to purchase locally produced goods which will help stimulate the growth of local industries, thereby contributing both to foreign exchange savings and earnings.

While efforts will be undertaken to expand the share of local goods in the domestic market, overseas markets will continue to be an important source of foreign exchange earnings. In 1985, gross merchandise exports and imports accounted for 52.3 per cent and 42.2 per cent of GNP, respectively. In view of the intense competition from other developing countries as well as increased protective barriers in the traditional markets, exporters will need to increase their efforts in order to penetrate new and non-traditional areas through an expansion of their network system and the adoption of more aggressive marketing strategies.

During the Fifth Plan period, further measures will be undertaken to develop an efficient domestic distributive system which will enable the wholesale and retail trade to play a more dynamic role in the economy. Existing measures will be intensified and new measures will be introduced to ensure that external trade will play its expected role in the generation of output, income, foreign exchange as well as an increase in the production of manufactures and agricultural produce.

Wholesale and retail trade

Modernization of the distributive trades. Growing popularity of supermarkets, large departmental stores, chain-stores, and fast-food outlets has brought about structural changes in the distributive trades in the urban areas. The modernization of the distributive trades, particularly retail trade, came about as a result of the change in consumer tastes and preferences. The change in consumer shopping habits and preferences is expected to provide for the further growth of these establishments in the urban areas. The traditional small businesses will be encouraged to adopt more modern business methods so that they will be able to continue to contribute towards the development of a modern and efficient distributive system in the country. They will be encouraged to upgrade their operations through local and foreign joint ventures or franchises, form co-operatives, establish chain-stores or integrate vertically with trading houses. These efforts will increase the efficiency, productivity, and cost-effectiveness of the distributive system. Training programmes on the management of modern businesses for small businessmen will be intensified to enable them to meet the emerging challenges.

The *Kedai Jimat*, the *Perbadanan Niaga FELDA*, and other rural co-operatives will continue to serve and make further inroads in the suburban and rural areas through an expansion of their network of retail outlets. More retail outlets are expected to join the co-operative system and the *Kedai Jimat* chain to reap the benefits of economies of scale, standardized financial management system, and other advantages that will accrue from this arrangement. It is anticipated that more than 1,000 retail outlets will operate under the *Kedai Jimat* chain franchise by 1990 compared with 300 outlets in 1985.

In the case of agricultural products, efforts will continue to be made to improve the marketing and distribution system. More farmers markets and auction centres will be established to provide outlets for small farmers to market their agricultural products. Other programmes include the construction and management of additional fishing complexes equipped with handling, processing, and marketing facilities by the Fisheries Development Authority of Malaysia (LKIM), the setting up of milk depots as well as milk collecting centres by the Department of Veterinary Services, and the expansion, relocation, and establishment of additional wholesale and dry markets.

Expansion of share in the domestic market. There is potential for local products in the domestic market. Local manufacturers should seek to expand their shares in the domestic market by producing high quality goods at competitive prices. The 'Buy Malaysian' campaign, initiated in early 1985, will be continued in order to increase further the awareness in domestic consumers of local products. Further measures that instil a sense of loyalty and national pride among domestic consumers for local goods will be undertaken.

The Product Excellence Award, launched by the Government with the co-operation of the private sector to give due recognition to manufacturing companies which have achieved a high standard in the quality of their manufactured goods, will be continued to spur producers and manufacturers to strive for excellence. The manufacturers will be encouraged to submit their products for tests by the Standard and Industrial Research Institute of Malaysia (SIRIM) to obtain the hallmark of quality.

The main support for increasing domestic consumption of local goods, however, will have to come from the private sector. The manufacturing sector will need to strive for price competitiveness without sacrificing quality in order to justify the expected increase in public confidence. Greater involvement by the private sector, in the form of closer co-operation and joint efforts on promotional campaigns between retailers and local manufacturers, will be encouraged.

Improving trading practices. Efforts will continue to be made to improve trading practices in order to foster the growth and development of domestic insurance and shipping industries, which in turn will reduce the deficit in the services account. Measures will be taken to encourage traders to use more local insurance and shipping services. While the Government will continue to provide fiscal incentives to effect this improvement, the local insurance and shipping industries will be encouraged to improve their services and facilities. The insurance companies will be encouraged to increase their capacities and capabilities to take on marine cargo risks, while the shipping companies, their haulage capacities and shipping services. Steps will be taken to increase the awareness of exporters on the opportunities and benefits of exporting on c.i.f. and importing on f.o.b. basis through seminars and forums. Efforts will also be intensified to encourage exporters to use the

Malaysian Freight Booking Centre (FBC) especially to curtail freight outflow. FBC, other than encouraging exports under c.i.f. terms, will also strengthen co-operation among shippers in the Malaysian National Shippers Council with respect to space booking and consolidation of cargo.

Administrative improvements. In order to facilitate the expansion of wholesale and retail trade, more attention will be focussed on removing the administrative constraints affecting the distributive system. The removal of these constraints will help liberalize and improve the business environment.

With the economic slowdown which is expected to continue particularly during the first two years of the Plan period, an increasing number of the unemployed will seek self-employment in the retail business. Small trading businesses which permit easy entry, will therefore become particularly important in the absorption of the unemployed. In addition, the unique features of hawkers centers, night markets, and farmers markets will be exploited for the benefit of the domestic tourism industry. Towards this end, the Government will identify more locations for the establishment of these small trading businesses as well as relax licensing conditions for hawking.

External trade

Marketing approaches for exports. Malaysia will continue to depend to a large extent on primary commodities. The expansion of their market shares in consumer nations through the adoption of complementary and supplementary trading methods to existing trade practices, including counter trade, will be given emphasis. In the case of semi-manufactured and manufactured goods, counter trade will also be used to penetrate closed markets. The Government will continue to expand counter trade activities to enable Malaysia to diversify away from traditional markets as well as improve the balance of trade position and save foreign exchange. Counter trade negotiations will, therefore, be directed, among other countries, towards Eastern Europe and those countries with foreign exchange problems.

In line with the emphasis placed on the role of general trading companies or *sogoshosha* in spearheading the export drive of the country, these companies will be used as the main arm for promoting Malaysian goods and services overseas. Efforts will be made to increase the effectiveness of *sogoshosha* in the promotion of exports, particularly manufactured goods. Foreign participation in domestic trading houses or the affiliation of local *sogoshosha* with foreign *sogoshosha* will be encouraged. This will enable domestic trading houses to benefit from their numerous international links and trading experiences.

The Government will conduct negotiations on a bilateral, regional, and multilateral basis for the reduction and removal of tariff and non-tariff barriers encountered by Malaysian exporters, through active involvement in international fora, such as the United Nations Conference on Trade and Development (UNCTAD), the General Agreement on Tariffs and Trade (GATT), and the Multilateral Trade Negotiations (MTN). Malaysia will participate in the new round of MTN, and stress the need for a fulfillment of the 1982 GATT work programme, particularly for tropical products, tariff escalations, textile and clothing, agriculture, services, and safeguards.

The Government will continue to participate, on a regular basis, in dialogues between ASEAN and ASEAN dialogue partners, namely, the European Economic Community (EEC), the United States of America, Japan, Canada, Australia, and New Zealand, in order to bring about greater market access for Malaysian exports through reduction in tariffs. The Government will also endeavour to increase market access to the other ASEAN countries through constant consultations and making improvements to the ASEAN Preferential Trading Arrangements (PTA) scheme.

Support facilities for exports. The Government will continue to provide the necessary market information and other supportive assistance to Malaysian exporters so that their sales abroad will be enhanced. In addition to servicing trade enquiries, such information will include reports on trade opportunities and market surveys, changes in trade regulations and trade policies overseas as well as matters relating to the entry and sale of Malaysian goods. In this regard, the Malaysian trade commissioners will continue to provide the necessary market information and other supportive assistance. Simultaneously, the Trade Commissioners Service will be strengthened and given the necessary support in order to be more effective in promoting and marketing Malaysian goods.

MEXPO, in close liaison with the trade commissioners abroad, will continue to provide Malaysian exporters with up-to-date market information to help them gain access into the world market. The storage and dissemination of information in MEXPO are in the process of being computerized for the convenience of Malaysian exporters.

While the Government will continue to disseminate trade information to exporters, efforts will be intensified to increase the frequency of trade publications in order to keep exporters informed of market opportunities overseas. In co-operation with the private sector, the Government will continue to organize trade fairs and missions and in-store promotions for the benefit of Malaysian exporters seeking markets overseas.

The services of MECIB will continue to be made available for exporters as a safeguard against export risks so that Malaysian exporters can venture into overseas markets with greater confidence, security, and competitiveness. Beginning 1986, exporters will receive double tax deduction allowances on premiums paid for export credit insurance as an incentive for exporters to diversify export markets to non-traditional areas.

Under the first phase of a major revamp of the ECR scheme which came into effect in January, 1986, revisions made include a broader product coverage and higher limit on the amount of refinancing. In addition, as a measure to facilitate the administrative process, commercial banks will now vet the applications for ECR facilities while the Government will monitor the approvals. When the second phase of the review is completed, the amended ECR scheme will ensure greater access to credit for exporters, including supplies of inputs of exports. It will also have a wider range of exports eligible for refinancing, longer tenure of credit, and a broader pre-shipment facility. When fully implemented, the new ECR facility is expected to further assist local exporters in their efforts to market their products abroad through the provision of additional credit at the production level.

Intensifying public-private sector consultation in export promotion. The Government will continue to provide the forum for enhancing private-public sector co-operation in the field of export promotion. Towards this end, the Government has launched the Export Promotion Council, with representation from the relevant government agencies and the private sector, to plan and formulate strategies for promoting exports, approve and endorse export promotion programmes, and identify problems faced by Malaysian exporters as well as suggest remedial measures.

In order to achieve better co-ordination between Government departments and agencies in the field of trade, the Government, through the Trade Co-ordination Committee, will strive to simplify export procedures. In this respect, the Government will continue to have dialogues and discussions with trade associations and industry groups to further promote co-operation with the private sector.

IV. ALLOCATION

The development allocation and estimated expenditure during the period 1981-85 and the allocation for the period 1986-90 for trade are as shown in Table 12-1.

V. CONCLUSION

With changing tastes and shopping habits of domestic consumers, together with increasing protectionism in the international environment, the trade sector will face increasing demands and difficulties during the Fifth Plan period.

Potentials for the trade sector, however, exist in view of the continuing support by the Government for the development of an efficient and cost-effective domestic distributive system as well as commitment for an export expansion programme. The private sector is expected to be more self-reliant and fully involved in developing and utilizing new export strategies to spur the growth of Malaysian exports.

TABLE 12-1
MALAYSIA: PUBLIC DEVELOPMENT EXPENDITURE FOR TRADE, 1981-90
(\$ million)

<i>Agency</i>	<i>Fourth Plan allocation, 1981-85</i>	<i>Estimated expenditure, 1981-85</i>	<i>Fifth Plan¹ allocation, 1986-90</i>
UDA	726.36	726.29	610.44
MARA	270.01	265.68	292.84
SEDCs	173.59	173.59	235.07
NPC	19.24	19.24	17.92
FIMA	36.80	36.80	31.80
Petty traders	29.90	25.70	40.00
PERNAS	2.00	2.00	4.00
Ministry of Trade and Industry	1.64	1.64	14.69
Total	1,259.54	1,250.94	1,246.76

Note: ¹ Under the Fifth Plan, the public sector has been redefined to include the non-financial public enterprises (NFPEs) which previously were treated as belonging to the private sector.