Japan is Malaysia's most important trading partner with approximately 20% of the overall trade. The United States and Singapore rank a close second and third, with respectively 17% and 16.5% of Malaysia's global trade.

Investment in Malaysia has been healthy, representing $5.1 billion in 1989. Of this total, $3.7 billion (72.5%) originated from foreign sources. Japan with $1.5 billion and Taiwan with $0.84 billion were the two most important foreign investors in Malaysia in 1989, accounting for close to two thirds of all foreign investment in Malaysia during that year. The U.S. and Singapore were third and fourth with combined investment of $625 million.

The Business Environment

Four structural factors have contributed to Malaysia's impressive economic growth and prosperity. The first is Malaysia's solid infrastructure and stable government. The second is a strong pool of labour which combines low wages with a well-educated population with basic English skills. Thirdly, the population is evenly distributed in several growth centres which are relatively free of the burdens of urban migration known to many other Asian centres. Finally, the Malaysian government has implemented successful policies designed to diversify development away from commodities to the manufacturing sector.

Joint ventures with local partners are encouraged by the government. Under the New Economic Policy foreign partners are welcomed if they provide necessary technology. However, they are expected to assist in the transfer of the expertise associated with the technology to their Malaysian counterparts. Restrictions to foreign ownership apply according to the export mandate of a particular venture. If the percentage of likely exports is high then the amount of permitted foreign ownership will be high as well.

Malaysia has concluded Investment Guarantees with a number of countries, including Canada, to illustrate its commitment to increased foreign investment. The agreement provides protection against nationalization or expropriation and allows for the free transfer of profits and other capital. Malaysia has also developed a range of tax incentives to attract both foreign and local investment. There is no distinction made between foreign and local investment capital. These incentives include various tax breaks and cover such aspects as pioneer status, accelerated depreciation, reinvestment allowances, and research and development expenses.

A domestic customs tariff is used and duties may be specific or *ad valorem*. Duties are often used to protect new and fledgling industries. However, if goods are being imported into Malaysia as raw materials for future exports, a full surtax and import duty exemption will apply. Free trade zones have also been created to encourage the establishment of export oriented manufacturing. In order to be eligible to manufacture in a free trade zone, a company must be planning to export at least 80% of all goods.