

*Evaluation of the European Commission's  
Co-operation with Malaysia*

Final Report

Volume 1

July 2009

*Evaluation for the European Commission*







Development  
Researchers'  
Network

Italy



Aide à la Décision  
Economique  
Belgium



PARTICIP GmbH  
Germany

d.i.e

Deutsches Institut für  
Entwicklungspolitik



German Development  
Institute

Deutsches Institut für  
Entwicklungspolitik  
Germany



Overseas Development  
Institute  
United Kingdom



European Institute for Asian  
Studies  
Belgium



ICEI Instituto Complutense  
de Estudios Internacionales  
Istituto Complutense de  
Estudios Internacionales  
Spain

This evaluation was commissioned by:

**the Evaluation Unit common to:**

EuropeAid Co-operation Office,  
Directorate-General for Development and  
Directorate-General for External Relations

The evaluation was carried out by Particip GmbH within a consortium led by DRN. The external evaluation team was composed of Max Hennion (team leader), Jörn Dosch, Steven Ney, Florence Burban, René Madrid, Christopher Veit, Marcel Goeke. Particip GmbH was the evaluation contract manager.

*The evaluation was managed by the joint evaluation unit who also chaired the reference group composed by members of the EC services (EuropeAid, DG Dev, DG Relex), the EC Delegations to Malaysia and the Malaysian Embassy in Brussels..*

*Full reports of the evaluation can be obtained from the evaluation unit website:  
[http://ec.europa.eu/europeaid/how/evaluation/evaluation\\_reports/index\\_en.htm](http://ec.europa.eu/europeaid/how/evaluation/evaluation_reports/index_en.htm)*

***The opinions expressed in this document represent the authors' points of view, which are not necessarily shared by the European Commission or by the authorities of the countries concerned.***



# **Evaluation of European Commission's Cooperation with Malaysia**

## **Country Level Evaluation**

### **Final Report**

The report consists of 2 volumes:

**Volume I: FINAL report**

**Volume II: Annexes**

#### **VOLUME I: FINAL REPORT**

- 1. Introduction**
- 2. Evaluation process and its limits**
- 3. Background**
- 4. Findings**
- 5. Conclusions**
- 6. Recommendations**

#### **VOLUME II: ANNEXES**

- 1. LIST OF PEOPLE MET**
- 2. LIST OF DOCUMENTS CONSULTED**
- 3. INFORMATION MATRIX**
- 4. METHODOLOGY**



## EXECUTIVE SUMMARY

### Objectives of the evaluation

The main objectives of this evaluation are: (i) to provide an overall independent and accountable assessment of the European Commission's cooperation relations with Malaysia during the 1997-2007 period, (ii) to identify lessons learnt from past cooperation in order to enhance the implementation of the current strategy and the preparation of future strategies.

During the period 1997-2007, EC commitments in terms of bilateral co-operation amounted to approximately € 6.7 million, and disbursements totalled to € 6.05 million. An amount of € 3.5 million was decommitted in 2004.

### Country context

Unlike most other states in Southeast Asia, Malaysia has experienced a long period of political stability and regime continuity. The Malaysian government is guided by an overarching goal coined in the term "Vision 2020", which was promulgated in 1991. It aims at transforming Malaysia into a developed country by 2020. The strategy calls for appropriate economic policies, political stability and continuity, social cohesion and continued vigilance to preserve peace and solidarity among the country's different ethnic and religious groups.

At the time of independence in 1957, the economy relied heavily on rubber and tin, and more than half of the population was in poverty. It has since been transformed into a broad-based and diversified economy. Per capita income has increased by 26 times, and the incidence of poverty has been reduced to less than 6%.

Malaysia experienced economic turmoil as a result of the 1997-98 Asian financial crisis, but was less affected than Indonesia, Thailand and South Korea. Its economy contracted but recovered soon after, in part because of steps taken by the government to stabilise the economy and in major part because multinationals, largely unaffected by the crisis, played a major role in the economy, especially in the export of electronics. This sector cushioned the contraction and aided in the recovery.

Since the launch of Vision 2020, Malaysia has made significant progress towards achieving industrialized status, underpinned by strong export-led growth, low inflation and the deepening of its financial markets. Malaysia's total GDP in 2006 was the 37<sup>th</sup> largest in the world, ranked slightly above Chile, the Czech Republic and Singapore. Driven mainly by domestic demand, the economy expanded by 6.3% in 2007, above the 5.8% average recorded in 2002–2006. According to the Heritage Index of Economic Freedom 2008, Malaysia's economy is 64.5% free, which makes it the world's 51st freest economy.

The knowledge-based economy is to provide the platform to sustain a rapid rate of economic growth and enhance international competitiveness to achieve Vision 2020. Higher education is one of the highest ranked priorities in this regard.

On governance issues, Transparency International ranks Malaysia 43<sup>rd</sup> in the world (out of 179) - together with South Korea – and the second least corrupt state in ASEAN after Singapore (in 4<sup>th</sup> position). Malaysia achieves high scores on government effectiveness.

### Methodology

The evaluation methodology follows the approach recommended by the EC, which starts with the reconstruction of the intervention logic to identify prioritised cooperation objectives and intended effects. This reconstructed intervention logic is presented in the form of a logical diagram of intended effects. Derived from that diagram, Evaluation Questions were proposed, comprising judgement criteria, each of which are assessed based on quantitative and qualitative indicators.

Among the evaluation tools applied the examination of some 200 documents, interviews with over 20 persons, 2 focus groups, augmented by a detailed review of 30 projects in focal and non-focal sectors. The field mission (8<sup>th</sup> to 24<sup>th</sup> October) allowed to fulfil all methodological commitments made, with the support and cooperation of the EC Delegation.

## Overall assessment

The EC's response strategy improved over time, with a qualitative step taken in 2003, when the CSP narrowed the scope of the EC projects and focused co-operation on trade issues. The trade focus turned out to be limited to trade agreements and commercial conflict management, which overall had a positive impact. EC support to higher education established strong academic networks between Malaysia and European institutions, but did not succeed in promoting the EU as a place to study. Direct and measurable impacts of EC biodiversity and cogeneration programmes have been modest. In most of the sectors constitutive of its strategic response, the EC did not find a way to establish policy dialogue. Its limited resources did not allow an extensive mix of instrument and achieving synergies remained an elusive goal. EU Member States faced similar constraints, leaving little room for coordination or a gap-filling approach.

## Findings

While the quantitative scope of the EC cooperation programme in the field of **Trade and Economy** has been very small since 2003 (cooperation prior to the 2002-2006 CSP was marginal), its impact has been positive because trade negotiations contributed to the general strengthening and maturing of political and economic relations between the EC and Malaysia.

Based on regional programmes, the EC interventions in **higher education** established strong academic networks among leading Malaysian and EU faculties. Bilateral funds were fully allocated to the global Erasmus Mundus programme for Malaysian students. This programme increased understanding and awareness of the diversity of the EU and interest in the EU as an interesting place to study, but the small number of students involved (80) did not allow for further diffusion of the impact. Overall, this sector of EC support did not bring significant return.

The impacts of the EC's interventions in the field of **environment** have predominantly been of an indirect and foundational nature. The interventions were targeting policy dialogue through capacity development with extremely limited bilateral and regional resources. Direct and measurable environmental impacts of EC programmes have been modest as they faced institutional contingencies. Given these constraints, EC policy interventions in Malaysia in the field of environmental policy have, on the whole, been able to both pursue the EC's environmental objectives as well as to address national Malaysian environmental concerns.

There is no strong evidence of an EC contribution to **enhanced governance** in Malaysia relating to cooperation programmes. These programmes were extremely limited in scope and did not allow the EC to build working relations with the GoM on these issues. NGOs (mobilised through thematic programmes) were also not in a position to contribute to any type of dialogue with the authorities. The limitations are fully related to the GoM strong reluctance to question the overall situation of gender, governance and human rights established a decade ago and backed by a powerful legal framework.

The EC's **strategic response** was relatively vague, without a clear backbone, but still related to the needs of the country and government priorities, even if in a formal way. The absence of bilateral instruments and coordination made it very difficult to establish thematic or vertical synergies to cope with the evolving context. None of the EC interventions was focused on policy formulation, which was not in demand by the Malaysian authorities unless it was related to trade negotiations. The presence of Delegation staff helped to establish a good working relationship with the GoM over time but not in a direct manner.

The financial volumes mobilised under the CSPs were too limited to allow for a **strategic mix of various instruments**, approaches or financing modalities. On the other hand, the stance of the government on external aid was another limiting factor for the EC to develop a diversified strategy, and this was even more far reaching in terms of instruments, as the standard EC financing agreement procedure was not accepted by the government. The EC therefore relied only on generic, regional level

instruments for its interventions in Malaysia during the evaluation period, as they do not require any financial agreement to be implemented.

**Coordination** with MS took place with the EC as a pro-active player (exchange of information on matters of mutual concern). This interaction remained using an informal approach to a certain extent, which is appropriate considering the small number of projects implemented by the EC and MS in Malaysia. The EC Delegation took a leading role in resolving trade disturbances in negotiations with the Malaysian government. No joint implementation of MS/EC cooperation projects was considered. The same applied to relations with IFIs which were requested to be phased out by GoM.

Given the small volume of the cooperation programme, it is unlikely that it had any measurable impact on the development of the overall economic relationship between Malaysia and the EU within the overall process of **integration into the world economy**. However, with regards to individual sectors, mainly cooperation on energy, the EC approach resulted in important value added to the partnership.

## Conclusions

The three main conclusions are the following:

1. The EC did not succeed in achieving a strategic response through Regional programmes in Malaysia. Limited bilateral resources were not used to complement RIP projects as the Small Projects Facility (initial focal sector) was not agreed upon by the Malaysian government. With this dead-end, EC co-operation was forced to a widespread and piecemeal gathering of small and disconnected projects without an impact apart from that on a local level, nor visibility beyond directly involved stakeholders (with the exception of trade issues).
2. With disbursements of €4 million over the 2000-2006 period, EC bilateral co-operation could not enjoy any significant weight in policy dialogue and in bringing about some changes in major issues concerning Malaysia's governance agenda, particularly in terms of Human Rights, where international concerns remain. Ways were found however, notably by establishing an EC Delegation in Kuala Lumpur, to re-build a working relationship.
3. Even if EC co-operation goals were only partly achieved, all projects were efficiently implemented due to the call of proposals procedures inherent in regional programmes, the good level of capacity of Malaysia shareholders and externalization of manpower demanding programmes to international organizations.

## Main Recommendations

The recommendations have been drawn from the conclusions and encompass strategy, implementation and cooperation sectors. These recommendations have been prioritised and grouped into clusters.

Three recommendations in particular are of special significance for further support to Malaysia:

1. However limited, bilateral resources should be the core of the strategic response and the EC Delegation should have more of a say on regional and thematic projects, in order to reinforce the consistency with the overall EC country strategy. This is precluding impact and visibility of EC assistance.
2. In the evolving context of Malaysia, policy dialogue can be re-assigned as one major EC interventions' goal, if focused on the major mutual concern which is trade regulations and more specifically anticipating non-tariff barriers in accessing the EU market. Along this line, the growing concern of line ministries of benefiting from targeted high level technical assistance from EU experts should be addressed. The EU governance and human rights agenda should be kept as one major entry of the CCIs.
3. Benchmarking right from the CSP is a prerequisite for carrying on with CCIs' focused projects, as their actual impact on beneficiaries and government policies needs to be documented.



## **TABLE OF CONTENTS**

<b>1</b>	<b>Introduction .....</b>	<b>1</b>
<b>2</b>	<b>Evaluation process and its limits.....</b>	<b>2</b>
<b>3</b>	<b>Background.....</b>	<b>3</b>
3.1	EC CO-OPERATION CONTEXT .....	3
3.2	SOCIAL SECTORS .....	8
3.3	MAJOR CROSS-CUTTING ISSUES.....	10
3.4	EC STRATEGIC RESPONSE.....	12
3.5	OTHER ASSISTANCES AND COORDINATION.....	16
<b>4</b>	<b>Findings .....</b>	<b>18</b>
4.1	EQ1 - TO WHAT EXTENT HAVE THE COMMISSION'S INTERVENTIONS CONTRIBUTED TO IMPROVE TRADE AND ECONOMIC PARTNERSHIP WITH MALAYSIA WHILE IMPROVING EC VISIBILITY? .....	18
4.2	EQ2 - TO WHAT EXTENT HAVE THE EUROPEAN COMMISSION'S INTERVENTIONS IN THE SECTOR OF HIGHER EDUCATION CONTRIBUTED TO INCREASE MUTUAL UNDERSTANDING AND AWARENESS?.....	22
4.3	EQ3 - TO WHAT EXTENT WERE THE EC PROGRAMMES IN THE COUNTRY CONSISTENT WITH THE GLOBAL OBJECTIVES OF EC RESPONSE TO GLOBAL CHALLENGES FACED BY ASEAN, PARTICULARLY ENVIRONMENT ISSUES?.....	23
4.4	EQ4 - TO WHAT EXTENT HAS EC MAINSTREAMING OF GENDER, GOVERNANCE AND HUMAN RIGHTS INTO ITS COOPERATION PROGRAMMES RESULTED IN ENHANCED GOVERNANCE IN THE COUNTRY?.....	26
4.5	EQ5 - TO WHAT EXTENT HAS THE EC ASSESSED AND CONSIDERED (I) THE GOVERNMENT'S PRIORITIES, (II) THE NEEDS OF THE COUNTRY AND, (III) THE EVOLVING CONTEXT IN PROGRAMMING ITS STRATEGIC RESPONSE, INCLUDING THE FOLLOW-UP OF THE IMPLEMENTATION STRATEGY? .....	27
4.6	EQ6 - TO WHAT EXTENT WAS THE EC MIX OF INSTRUMENTS (REGIONAL AND THEMATIC BUDGET LINES), APPROACHES (FIDUCIARY FUNDS, PROJECT APPROACH, MACRO-LEVEL PROGRAMMES, SWAP), FINANCING MODALITIES (SPECIFIC PROCEDURES, BUDGET SUPPORT, JOINT FUNDING) AND/OR CHANNELS OF DISBURSEMENT (GOVERNMENT, PRIVATE SECTOR, NSAs, MULTILATERAL ORGANISATIONS) APPROPRIATE TO THE NATIONAL CONTEXT AND EU STRATEGIC POLICY AIMS?.....	29
4.7	EQ7 - TO WHAT EXTENT HAS THE EC COORDINATED AND COOPERATED WITH EU MEMBER STATES AND IFIs INTENDING TO IMPROVE THE COMPLEMENTARITY OF THEIR INTERVENTIONS? .....	30
4.8	EQ8 - TO WHAT EXTENT DID THE EC APPROACH RESULT IN PROGRESS TOWARDS A BALANCED ECONOMIC PARTNERSHIP BETWEEN MALAYSIA AND EU WITHIN THE OVERALL PROCESS OF INTEGRATION INTO THE WORLD ECONOMY THAT WOULD NOT HAVE OCCURRED ABSENT EC CO-OPERATION PROGRAMMES?.....	32
<b>5</b>	<b>Conclusions.....</b>	<b>33</b>
5.1	GLOBAL.....	33
5.2	SPECIFIC .....	33
<b>6</b>	<b>Recommendations .....</b>	<b>35</b>
6.1	GLOBAL.....	35
6.2	SPECIFIC .....	35

## ACRONYMS

ADB	Asian Development Bank
AFT	Asia Trust Fund
AI	Amnesty International
ASEAN	Association of Southeast Asian Countries
AUNP	ASEAN-EU University Network Programme
BIMP-EAGA	Sub-regional cooperation schemes East ASEAN Growth Area
bn	billion
CARD	Human Rights Instruments on torture, cruel and inhuman treatment
CCF	Country Co-operation Framework
CCI	Cross-cutting issue
CERD	Human Rights Instrument on racial discrimination
CRIS	Common Relx Information System
CSO	Civil Society Organization
CSP	Country Strategy Paper
DCI	Development Cooperation Instrument
DfID	Department for International Development
DG	Directorate General of the EC
EAEF	Energy manager accreditation scheme for the ASEAN region
EBIC	European Business Information Center
EC	European Commission
ECHO	EC Humanitarian Aid Department
EDA	Excess Defence Articles
EIB	European Investment Bank
EPU	Economic Planning Unit
EPU	The Economic Planning Unit
EQ	Evaluation Question
EU	European Union
FDI	Foreign Direct Investment
FLEGT	EU's Forest Law Enforcement, Governance and Trade
FLEGT	Timber Trade Regulation
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GSP	EU General System of Preferences
GTZ	Germany's Agency for Technical Cooperation
HDI	Human Development Index
HR	Human Rights
ICCPR	Human Rights Instruments on civil and political rights
ICESCR	Human Rights Instruments on social and cultural rights
ICI	Industrialised Countries Instrument
ICOMP	International Council on Management of Population Programmes
IFIs	International financial institutions
IMET	International Military Education and Training
IMF	International Monetary Fund
IMT-GT	Indonesia-Malaysia-Thailand Growth Triangle
ISA	Internal Security Act
ITC	International Trade Centre
JC	Judgement Criteria
JICA	Japan International Cooperation Agency
KDI	Knowledge-Based Economy Development Index
KEMP	Knowledge Economy Master Plan
MDG	Millennium Development Goal
MIC	Middle Income Country

MNS	Malaysia Nature Society
MS	Member States
MTB	Non Tariff Barriers
MTEF	Medium -Term Expenditure Framework
NADR	Non-proliferation, Anti-terrorism, De-mining, and Related Programmes
NDP	National Development Policy
NEP	New Economy Policy
NGO	Non-governmental Organisation
NIP	National Indicative Program
NIP	National Indicative Programme
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OPP3	Third Outline Perspective Plan
PCA	Partnership and Cooperation Agreement
PCT	Patent Cooperation Treaty
RG	Reference Group
RIP	Regional Indicative Programme
RSP	Regional Strategy Programme
RTD	Research & Technology Development
SFP	Small Facility Project
SIDA	Swedish International Development Cooperation Agency
SME	Small and Medium Enterprises
SPF	Small Projects Facility
SWOT	Strengths, Weaknesses, Opportunities, Threats
TA	Technical Assistance
TIFA	Trade and Investment Framework Agreement
ToR	Terms of Reference
UMESP	University of Malaysia European Studies programme
UMNO	United Malays National Organisation
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	The United Nations Children's Fund
USAID	US Agency for International Development
USD	United States Dollar
VPA	Voluntary Partnership Agreement
WB	World Bank
WHO	World Health Organisation
WTO	World Trade Organisation
WWF	World Wide Fund for Nature Malaysia



## 1 INTRODUCTION

The evaluation of the Commission's co-operation with Malaysia is part of the 2007 evaluation programme as approved by External Relations and Development Commissioners and aiming at ensuring accountability for the management of the allocated funds as well as the promotion of a lesson-learning culture throughout the organisation.

In the context of the programmes of the so-called Relex Family of Directorates-General<sup>1</sup> and of greater concentration of external co-operation and increasing emphasis on result-oriented approaches, particular attention needs to be paid to the provision of the reliable evaluation of impact.

The scope of the evaluation is the Commission's co-operation strategies and their implementation for the period 1997-2007.

The evaluation process assessed:

- the relevance, coherence and complementarity of the Commission's co-operation strategies for the period 1997-2007;
- the consistency between programming and implementation for the same period;
- the implementation of the Commission's co-operation, focusing on effectiveness and efficiency for the period 1997-2007 and on intended effects for the period under the programming cycle 2007-2013.

Based on the purpose of the evaluation to identify relevant lessons and to produce recommendations for the current programme, the process was focused on the following areas of cooperation: (1) economy and trade; (2) higher education and research; (3) environment; (4) gender and human rights.

The complete cooperation framework with Malaysia was taken into consideration encompassing the main agreements and other official commitments between the EU and Malaysia.

This evaluation was undertaken in close coordination and synergy with the three other ongoing evaluations of EC cooperation with 1) ASEAN; 2) Thailand and 3) the Lao PDR. The evaluation of EC cooperation with Malaysia also covered certain aspects of EC cooperation with ASEAN as defined jointly with the team undertaking the latter evaluation. The evaluation was intended, in particular, to assess possible similarities and draw common lessons with the evaluation of EC-Thailand cooperation. This objective was out of the reach of the evaluators, as the Thailand field mission was postponed to-date, on request by the EC Delegation in Bangkok, and by the Joint Evaluation Unit, due to security concerns (October).

---

<sup>1</sup> Directorates General of External Relations, (RELEX), Development (DEV), Enlargement (ELARG), Trade (TRADE) and the EuropeAid Co-operation Office (AIDCO)

## 2 EVALUATION PROCESS AND ITS LIMITS

The evaluation followed a detailed methodological design, based on the evaluation guidelines set forth by the Joint Evaluation Unit. The evaluation process was divided into three phases, each of which entailed the implementation of a number of pertinent methodological steps, and culminated in a synthesis report.

The Final Report at hand provides a synthetic answer to the 8 evaluation questions (EQs) and related conclusions and recommendations. The logical path followed to answer the EQs was proposed at the earliest stage of the process (inception report) and agreed upon, after several rounds of revision, by the Reference Group. It is detailed in the information matrix (judgement criteria and related indicators) presented in the Annex. This causal path was followed as closely as possible, during both the documentary phase and the field phase, where it was used as a guide for interviews and focus groups. The EQs are as follow:

Evaluation Questions	
1	To what extent have the Commission's interventions contributed to improved trade and economic partnership with the country?
2	To what extent have the Commission's interventions in the sector of higher education contributed to increase mutual understanding and awareness?
3	To what extent were the EC programmes in the country consistent with the global objectives of EC response to global challenges faced by ASEAN, particularly environment issues?
4	To what extent has EC mainstreaming of gender, governance and human rights into its cooperation programmes resulted in enhanced governance in the country?
5	To what extent did the EC assessed and considered (i) the government's priorities, (ii) the needs of the country and, (iii) the evolving context in programming its strategic response, including the follow-up of the implementation strategy?
6	To what extent did the combination of instruments, approaches, financing modalities and/or channels of disbursement used by the EC contributed to achieve EC aid objectives?
7	To what extent has the EC coordinated and cooperated with EU Member states and IFIs intending to improve the complementarity of their interventions?
8	To what extent did the EC approach result in progress toward a balanced economic partnership between Malaysia and the EU that would not have occurred absent EC co-operation programmes?

The following table presents the coverage of each evaluation criteria by the selected evaluation questions.

*Table 1 Cross-table of EQs and evaluation criteria and key issues*

MALAYSIA	Evaluation questions							
	1	2	3	4	5	6	7	8
<b>DAC Evaluation criteria</b>								
Relevance								
Effectiveness								
Efficiency								
Impact								
Sustainability								
<b>EC Evaluation criteria</b>								
Coherence								
EC added value								
<b>EC Evaluation key issues</b>								
3Cs								
Cross-cutting issues								
EC visibility								

The documentary phase covered an extensive analysis of the documents found and made available to the evaluators. Those documents comprise EC programming, bilateral and regional documents, and reporting on EC projects and programmes (policy documents, implementation and evaluation reports, mid-term reviews, ROM reports). Documents on policy context and socioeconomic data and analysis were looked for through the Internet, as well as other potential ODA providers' reports. In the case of Malaysia, EC documents were initially rather sketchy and monitoring outcome particularly rare. The situation improved over time with the release of regional programme evaluations and the undertaking of a monitoring mission. By the end of the evaluated period, the level of documentation became the one that is usually encountered on country-level EC cooperation. Interviews with Desk officers in Brussels and an exploratory mission of the team leader to Kuala Lumpur were particularly helpful at this stage. They provided valuable background information on the EQs, and helped to identify and at times already fill gaps in the data available up to this point. They have also been useful in identifying contacts for further interviews during the field phase.

The draft desk report was approved as it was by the Reference Group (RG), allowing for the next phase, the field mission and later the synthesis phase, to begin.

Prior to the field visit, the evaluators presented a detailed methodology to the RG, identifying hypothesis to be checked, a list of projects to analyse in particular, respondents to meet, methodological tools to be employed by type of respondent and EQ. This framework (see Annex below) was agreed upon by the RG as a sound basis for the next phase.

The field mission (8<sup>th</sup> to 24<sup>th</sup> October) allowed to fulfil all methodological commitments made, with the support and cooperation of the EC Delegation and the logistical support of the team's national expert. In all, more than 20 interviews were conducted and 2 focus groups organized (F. Burban (10), J. Dosch (7, 1 focus group on trade), S. Ney (13, 1 focus group on environment & forestry) - covering the initial list of projects and beyond. The only interview that failed to be organized was with the EPU, at the Prime Minister's Office, and this is a limitation of the analysis as that level of decision-making is the most sensitive one for the programming process of EC assistance.

The two focus groups were intending to cover environment/forestry programmes and trade, respectively. The focus group on trade failed to reach its objectives as major players did not turn up at the last moment. The focus group on environment, organized in Sarawak, gathered all major stakeholders on pertinent forestry issues and involved a debate on timber trade regulation (FLEGT), as promoted by the EC.

### **3 BACKGROUND**

#### **3.1 EC co-operation context**

Unlike most other states in Southeast Asia Malaysia has experienced a long period of political stability and regime continuity. At the same time Malaysian politics are underpinned by the ethnic diversity of the country. Malaysia has been ruled by successive coalition governments headed by the principal Malay party, the United Malays National Organisation (UMNO). After the anti-Chinese riots of 1969, the alliance that had ruled since independence in 1957 was replaced by a broader-based coalition, the National Front (Barisan National, BN) consisting of the Malay party, the main Chinese party and the main Indian party. The BN government introduced new policies of positive discrimination to the benefit of ethnic Malay (the Bumiputra): the New Economic Policy (NEP), succeeded by the National Development Policy (NDP) after 1990, with the aim of reducing racial tensions by improving the economic welfare of the Bumiputra and their share in national wealth.

The Malaysian government is guided by an overarching goal of "Vision 2020", which was promulgated in 1991. It aims at transforming Malaysia into a developed country by 2020. The

strategy calls for appropriate economic policies, political stability and continuity, social cohesion and continued vigilance to preserve peace and solidarity among the country's different ethnic and religious groups<sup>2</sup>.

Malaysia experienced economic turmoil as a result of the 1997-98 Asian financial crisis, but was less affected than Indonesia, Thailand and South Korea. Its economy contracted but recovered soon after, in part because of steps taken by the government to stabilise the economy and in major part because multinationals, largely unaffected by the crisis, played a major role in the economy, especially in the export of electronics. This sector cushioned the contraction and aided in the recovery.

In October 2003 Abdullah Ahmad Badawi succeeded Mahathir Mohammad who had served as Prime Minister for 22 years. In the March 2008 general elections, the BN coalition failed to win two-third of the seats in Parliament for the first time since 1969, the most significant victory for Malaysian opposition parties since independence.

### ***3.1.1 Economy***

At the time of independence in 1957, the economy relied heavily on rubber and tin and more than half of the population was in poverty. It has since been transformed into a broad-based and diversified economy, per capita income has increased 26 times and the incidence of poverty has been reduced to less than 6.0%.<sup>3</sup>

In 1991, the government declared that it was the objective of the nation to become a developed nation in its own mould by 2020. It envisions Malaysia, considered a middle-income country, achieving an industrialised and a fully developed nation status by sustaining growth at 7 per cent per annum and initiating structural changes in the economy as well as within the manufacturing sectors. Specific objectives include accelerated industrial restructuring, technological upgrading, human resource development, and industrial linking. The key to the attainment of a fully developed nation is overcoming nine strategic challenges, including the challenge of establishing a united Malaysian nation with a sense of common and shared destiny.<sup>4</sup>

Since the launch of Vision 2020, Malaysia has made significant progress towards achieving industrialised status, underpinned by strong export-led growth, low inflation and the deepening of its financial markets. Malaysia's total GDP in 2006 was the 37<sup>th</sup> largest in the world, ranked slightly above Chile, the Czech Republic and Singapore.<sup>5</sup> The country's rank for PPP GDP was 33rd - at about the same level as Austria and Sweden.<sup>6</sup> Driven mainly by domestic demand, the economy expanded by 6.3% in 2007, above the 5.8% average recorded in 2002–2006.

According to the Heritage Index of Economic Freedom 2008, Malaysia's economy is 64.5% free, which makes it the world's 51st freest economy. Malaysia is ranked 8th freest out of 30 countries in the Asia–Pacific region, and its overall score is higher than the regional average.<sup>7</sup>

### ***3.1.2 Trade***

Following in the footsteps of Japan and the four “Asian tigers”, Malaysia has adopted an export-led growth strategy. As a comparatively small country whose exploitation of natural resources is

---

<sup>2</sup>EC, The EU's Relations with Malaysia, [http://ec.europa.eu/external\\_relations/malaysia/intro/index.htm](http://ec.europa.eu/external_relations/malaysia/intro/index.htm)

<sup>3</sup> IMF Press Release No. 35, Statement by the Hon. Tan Sri Nor Mohamed Yakcop Governor of the Fund and the Bank for Malaysia at the Joint Annual Discussion, Washington D.C., 22 October 2007, <http://www.imf.org/external/am/2007/speeches/pr35e.pdf>

<sup>4</sup> Economic Planning Unit, Prime Minister's Department Malaysia, <http://www.epu.jpm.my/New%20Folder/development%20policies/cont%20key%20policies/vision.htm>

<sup>5</sup> World Bank, Total GDP 2006, <http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP.pdf>

<sup>6</sup> World Bank, PPP GDP 2006, [http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP\\_PPP.pdf](http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP_PPP.pdf)

<sup>7</sup> Heritage Foundation, Heritage Index of Economic Freedom 2008, Malaysia, <http://www.heritage.org/index/country.cfm?id=Malaysia>

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 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 44% of total merchandise exports in 2007.<sup>8</sup> However, in 2007 real exports and imports each grew by only about 4%, the weakest performance for several years, largely reflecting decreasing global demand for electrical products, and net exports did not make a significant contribution to GDP growth.<sup>9</sup>

Malaysia's weighted average tariff rate was 4.4 % in 2005. Liberalisation has progressed, but import restrictions, high service market access barriers, high tariffs, import and export taxes, non-automatic import licensing for import-sensitive industries, non-transparent regulations and standards, non-transparent government procurement, export subsidies, and weak protection of intellectual property rights still add to the cost of trade.

Due to existing structural barriers to market integration and foreign investment, Malaysia has achieved only a mid-position among the world's most globalised countries. It ranks 23<sup>rd</sup> (out of 72) in the Globalization Index 2007, which uses economic integration, personal contact, technology (internet access for example), and political engagement (membership in international organisations) as measures. Singapore tops the index.<sup>10</sup>

Malaysia is the EU's second most important trading partner in ASEAN, after Singapore. In 2005, the EU was Malaysia's third largest export destination and fifth largest source of imports. Malaysia recorded a trade surplus with 19 of the 25 EU Member States EU exports to Malaysia valued in 2005 € 9.2 billion whereas EU imports from Malaysia valued € 15.6 billion thus with balance of € 6.4 billion in Malaysia's favour.<sup>11</sup> As for overall trade the EU climbed from being Malaysia's fourth important partner in 1999 to the second position (after intra-ASEAN trade and ahead of the US) in early 2008.<sup>12</sup>

No bilateral preferential trade arrangements exist between Malaysia and the EU but under the new Generalised System of Preferences (GSP), in force since 1 January 2006, the share of Malaysia's merchandise exports to the EU eligible for preferential treatment rose from 16% to 81%. Over 70% of Malaysia's exports to the EU now enter duty-free.<sup>13</sup>

In 2006 the EC approached Malaysia to enter into a partnership and cooperation agreement (PCA) that will include measures to boost trade and investment. Talks were subsequently launched but have not yet resulted in a signed agreement. PCAs or equivalent agreements are being concluded with a variety of other ASEAN states.

---

<sup>8</sup> Malaysia – European Community Strategy Paper for the Period 2007-2013, p. 2 (figures updated)

<sup>9</sup> ADB, Asian Development Outlook 2008, <http://www.adb.org/Documents/Books/ADO/2008/MAL.pdf>; World Bank, East Asia Update April 2008, Country Brief Malaysia, [http://siteresources.worldbank.org/INTEAPHALFYEARLYUPDATE/Resources/550192-1207007015255/MY\\_update\\_apr08.pdf](http://siteresources.worldbank.org/INTEAPHALFYEARLYUPDATE/Resources/550192-1207007015255/MY_update_apr08.pdf)

<sup>10</sup> [http://www.foreignpolicy.com/story/cms.php?story\\_id=3995](http://www.foreignpolicy.com/story/cms.php?story_id=3995)

<sup>11</sup> EC, Press Release, IP/06/1336, Commissioner Ferrero-Waldner to visit Malaysia on 9<sup>th</sup> October, 6 October 2006.

<sup>12</sup> Ministry of International Trade and Industry Malaysia.

<sup>13</sup> EC, Press Release, IP/06/1336, Commissioner Ferrero-Waldner to visit Malaysia on 9<sup>th</sup> October, 6 October 2006.

Table 2: EU-27 Trade with ASEAN members, million Euro

	EU27 exports to:		EU27 imports from:		EU27 balance	
	2000	2006	2000	2006	2000	2006
<b>Total</b>	41 856	49 395	75 386	78 887	-33 530	-29 491
<b>Singapore</b>	15 800	19 893	17 390	19 332	-1 590	560
<b>Malaysia</b>	8 526	10 319	18 326	17 921	-9 800	-7 602
<b>Thailand</b>	6 628	7 340	13 545	14 748	-6 917	-7 408
<b>Indonesia</b>	4 551	5 063	11 547	12 270	-6 996	-7 207
<b>Philippines</b>	4 509	3 971	9 201	6 499	-4 693	-2 528
<b>Vietnam</b>	1 291	2 383	4 290	6 884	-3 000	-4 501
<b>Cambodia</b>	117	138	361	665	-245	-527
<b>Myanmar</b>	118	81	413	306	-295	-225
<b>Brunei</b>	273	179	174	114	98	65
<b>Laos</b>	45	28	139	147	-94	-119

Source: Eurostat

Malaysia's economic growth is inextricably linked to external factors. The export-oriented manufacturing industries are heavily dependent on imported parts and technologies. Consequently, the conduct of Malaysian foreign policy has been directed at fostering an external environment that is conducive to the country's national economic interest. As a founding member of ASEAN, Malaysia has been one of the most active proponents of economic integration in the Asia Pacific. The East Asian Summit, the possible regional economic bloc in the making, has its roots in Mahathir's then highly controversial 1990 idea of an East Asian Economic Group under Japanese leadership. Malaysia is set to benefit greatly from the ASEAN-Japan Comprehensive Economic Partnership Agreement, which was signed in November 2007, and the China-ASEAN Free Trade Area (to be fully implemented by 2010 for the six original ASEAN members and by 2015 for the other four). Malaysia's relations with China continued to strengthen during 2007, with two-way trade increasing at about 20% year-on-year. Malaysia has signed a trade and investment framework agreement (TIFA) with the U.S. and is currently negotiating a FTA with Washington.

### 3.1.3 *Investment*

The federal government is investing heavily in three regions in peninsular Malaysia with the aim of spurring growth and reducing regional income disparities. Under the Ninth Plan, US\$16.4 billion is allocated for the regions and an additional US\$2.7 billion is to be sourced from the private sector. Significant public funding is planned until 2025 and tax concessions are offered to investors. The Iskander Development Region in the south was launched in November 2006. Taking advantage of proximity to Singapore, the idea is to establish a logistics and services centre for trade, develop electrical product manufacturing, and build tourist facilities. The region has introduced incentives including tax breaks and liberalised rules on use of foreign labour and capital. It received investment commitments totalling US\$2.3 billion in the first 10 months of 2007. The North Corridor Economic Region was launched in July 2007. Its focus is on development of commercial-scale farming and food processing. It also aims to take advantage of proximity to Thailand and Indonesia to become a processing, logistics, and trade centre. The East Coast Economic Region, the least developed of the three, was launched in October 2007. It involves development of a deep-sea fishing port, aquaculture, palm-oil processing (tapping the region's palm oil plantations), and petrochemicals. One challenge is to execute these large projects simultaneously. Another is to secure the cooperation of the private sector, government-linked companies, local communities, and the state governments.<sup>14</sup>

<sup>14</sup> ADB, Asian Development Bank & Malaysia. 2007 Factsheet, [http://www.adb.org/Documents/Fact\\_Sheets/MAL.pdf](http://www.adb.org/Documents/Fact_Sheets/MAL.pdf)

The Kearney's FDI Confidence Index 2007 rated Malaysia 16th among the 25 top destinations for FDI. Asian investors ranked the country ninth. In 2006, Japan and the Netherlands were the main investor countries, with the Asian region as a whole accounting for close to half of the total investment. The electronics sector has been a principal recipient of flows (40% in 2006). One attraction for electronics manufacturers is the availability of quality manpower at costs 40% lower than in Singapore and Hong Kong. Under the Third Industrial Master Plan, released in 2006, electronics and other key sectors such as petrochemicals, pharmaceuticals, transport machinery and wood-based products are targeted for further development and promotion. In the past, foreign investment in certain sectors has been limited or subject to affirmative action rules requiring 30% Bumiputra ownership. These regulations are gradually being eased in the face of rising competition in the region. Rules pertaining to foreign ownership of manufacturing have been flexible since 2003.<sup>15</sup> However, foreign investors still face such restrictions as limited voting shares, prior approval as well as mandatory hiring and preferential public procurement of ethnic Malays. However, the formation of PEMUDAH in 2007 – a taskforce to address bureaucracy in business-government dealings - has help to facilitate business dealing between foreign investors and Malaysian Government.<sup>16</sup>

The EU has been the biggest foreign investor in the Malaysian manufacturing and related services sector in the period 2000-05, accounting for over a quarter of the total value of approved projects with foreign. During this period, investments from EU were mainly in transport equipment, electrical and electronic (E&E) products; food manufacturing; textiles & textile products and chemicals & chemical products.<sup>17</sup>

### ***3.1.4 Poverty***

Malaysia's poverty rate has declined dramatically over the past three and a half decades. About half of Malaysian households lived below the poverty line in 1970, falling to 16.5% in 1990 and to just 3.7% in 2007. The MDG target, to reduce the proportion of the population living below the poverty line by 50%, between 1990 and 2015, was already achieved in 1999 when the poverty rate declined to 7.5%. Both the speed and the magnitude of the decline were well ahead of the MDG target.<sup>18</sup> Malaysia's poverty has been a predominantly rural phenomenon. In 1970, 49.3% of Malaysian households were below the poverty line. The number of poor rural households as a percentage of the total number of households was 44 per cent, the remaining 5.3% being urban. The HDI value for Malaysia was 0.811 in 2007, which gives the country a rank of 63<sup>rd</sup> out of 177 countries.<sup>19</sup> With recent data updates in progress in poverty reduction, Malaysia ranking is expected to improve.

---

<sup>15</sup> New Concerns in an Uncertain World. The 2007 A.T. Kearney Foreign Direct Investment Confidence Index, <http://www.atkearney.com/main.taf?p=5,4,1,130>

<sup>16</sup> Heritage Foundation, Heritage Index of Economic Freedom 2008, Malaysia, <http://www.heritage.org/index/country.cfm?id=Malaysia>

<sup>17</sup> EC, Press Release, IP/06/1336, Commissioner Ferrero-Waldner to visit Malaysia on 9<sup>th</sup> October, 6 October 2006 and Malaysian government sources.

<sup>18</sup> Economic Planning Unit, Prime Minister's Department Malaysia/United Nations Country Team Malaysia, Malaysia - Achieving the Millennium Development Goals. Successes and Challenges, Kuala Lumpur, 2005, <http://www.undp.org.my/uploads/files/MDG1.pdf>

<sup>19</sup> UNDP, Human Development Report, 2007/2008.

## 3.2 Social sectors

### 3.2.1 *Health Care*

The major provider and funding body of health services is the Ministry of Health. Overall, primary health care is well developed. The national priority now is to establish primary health care facilities in underserved areas in both urban and rural areas. Since the late 1990s, basic health care, provided by static health facilities, is available to and accessible (within 5 km) for more than 93% of the population in Peninsular Malaysia, 76% in Sabah and 61% in Sarawak. Health and medical care are decentralised to the regions, states and districts to increase efficiency. In 2007, there were 3041 primary health care clinics and 136 public hospitals under the Ministry of Health. Whereas 14,298 doctors were working in public hospitals, 9,440 doctors were working in the private sector (private hospitals accounted for only 22.6% of the total hospital beds in the country). During the past two decades, the role of the private sector in the provision of health care has been increasing. There is also an increasing trend of private health care expenditure, including out-of-pocket payments.

Challenges for Malaysia's health sector include rising health care costs; changing diseases patterns; the inadequate integration of public and private health services; and inadequate human resources for health because of changing demographics and the emigration of skilled workers, i.e. brain drain.<sup>20</sup>

### 3.2.2 *Education and R&D*

Upgrading the national education system and broadening educational opportunities have been a central part of the government's strategy to foster national unity and support economic growth. It has also been a strategy to help reduce poverty and expand opportunities and choices for both girls and boys. Government efforts have been supported at the family level by parents who have perceived education as an opportunity for providing upward mobility and a better life for their children. The government's commitment to education, as a prime contributor to national development, is evidenced by the continuous and large capital investments in educational infrastructure and supported by substantial recurrent expenditures in the period since 1970. Educational expenditure averaged some 17 per cent of total public expenditure, and 5 per cent of GDP over the period 1970–2000.<sup>21</sup> In 2005 the government spent one-fourth of public funds on education, the highest percentage of all Asian states, according to Human Development Report 2007 Data.

Yet, as the Malaysia-EC CSP 2007-2013 points out, "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."<sup>22</sup> This is particularly the case with regard to the higher education sector which is "still in a state of flux, and new reforms are required to smoothen the running of the system and to address new developments and challenges"<sup>23</sup> A key issue in recent years has been the argument in favour of more autonomy for the universities - the university's power to govern and make decision on its own affairs without external interference.

A recent World Bank study provides a good overview of the challenges that Malaysia's higher education system faces.

---

<sup>20</sup> WHO, Country Cooperation Strategy Malaysia, [http://www.who.int/countryfocus/cooperation\\_strategy/ccsbrief\\_mys\\_en.pdf](http://www.who.int/countryfocus/cooperation_strategy/ccsbrief_mys_en.pdf)

<sup>21</sup> Economic Planning Unit, Prime Minister's Department Malaysia/United Nations Country Team Malaysia, Malaysia - Achieving the Millennium Development Goals. Successes and Challenges, Kuala Lumpur, 2005, <http://www.undp.org.my/uploads/files/MDG2.pdf>, p. 66.

<sup>22</sup> Malaysia-EC Strategy Paper 2007-2013, p. 5.

<sup>23</sup> Morshidi Sirat, Malaysia, in Asia-Pacific Programme of Educational Innovation for Development, United Nations Educational, Scientific and Cultural Organization. UNESCO, Higher Education in Southeast Asia, Bangkok: UNESCO Bangkok, 2006, p. 104.

Table 3: Challenges of Malaysia's higher education sector

Access	<ul style="list-style-type: none"> <li>Limited space in admission may limit the chances for the most qualified students to enter HEIs based on their choice.</li> </ul>
Equity	<ul style="list-style-type: none"> <li>Participation of women in higher education needs to be increased.</li> <li>There is no common entrance examination.</li> <li>Recruitment and promotion practices for the faculty do not favor all equitably.</li> </ul>
Quality	<ul style="list-style-type: none"> <li>There is a need to increase the number of faculty with highest credentials.</li> <li>More senior researchers and academics need to be involved in teaching.</li> <li>An oversight body to examine the performance of the QA bodies is necessary.</li> </ul>
Relevance	<ul style="list-style-type: none"> <li>The unemployment of young graduates is considerably high (over 12%).</li> <li>There is a weak linkage between higher education and industry.</li> </ul>
Financing	<ul style="list-style-type: none"> <li>Funding for research needs to be increased.</li> <li>There is misconception that all private HEIs are well-funded. Some need financial support through direct public funding instead of incentives.</li> <li>The level of repayment for the student loan is low.</li> </ul>
Governance/ Management	<ul style="list-style-type: none"> <li>HEIs have weaker governance under insufficient autonomy and accountability mechanisms. The government has the authority to appoint professors and researchers, allocate students to HEIs, and fix teachers' salary scale.</li> <li>There are no managerial incentives without any performance-based budget allocation mechanism.</li> <li>Public and private HEIs operate under different regulatory and financial rules without a unified higher education system.</li> </ul>

Source : World Bank, Country Summary of Higher Education,  
[http://siteresources.worldbank.org/EDUCATION/Resources/278200-1121703274255/1439264-1193249163062/Malaysia\\_CountrySummary.pdf](http://siteresources.worldbank.org/EDUCATION/Resources/278200-1121703274255/1439264-1193249163062/Malaysia_CountrySummary.pdf)

The knowledge-based economy is to provide the platform to sustain a rapid rate of economic growth and enhance international competitiveness to achieve Vision 2020. The major development thrusts for the knowledge-based economy are set out in the Third Outline Perspective Plan (OPP3) as follows: In addition, the Knowledge-based Economy Master Plan (KEMP) launched in 2002 contains 136 recommendations encompassing human resource development, infrastructure, incentives, science and technology development, reorientation of the private and public sectors as well as addressing the digital divide.<sup>24</sup>

The government is also monitoring the progress towards a knowledge-based economy on the basis of the Knowledge-Based Economy Development Index (KDI). The KDI makes an assessment of the state of computer infrastructure, infostructure, education and training as well as R&D and technology. It compares Malaysia's position relative to 22 countries which are mainly developed and Malaysia remains in 17th position.<sup>25</sup> In the period 2000-2005 public spending on R&D accounted for 0.69% of GDP, the second highest figure in ASEAN by a significant margin but far less than Singapore's 2.25%.

<sup>24</sup> Economic Planning Unite, Prime Minister's Department Malaysia, The Third Outline Perspective Plan, 2001-2010, [http://www.epu.jpm.my/New%20Folder/development%20plan/3rd%20outline\(b\).htm](http://www.epu.jpm.my/New%20Folder/development%20plan/3rd%20outline(b).htm)

<sup>25</sup> [http://www.epu.jpm.my/New%20Folder/development%20plan/opp3/cont\\_chap5.pdf](http://www.epu.jpm.my/New%20Folder/development%20plan/opp3/cont_chap5.pdf), chart 5.1

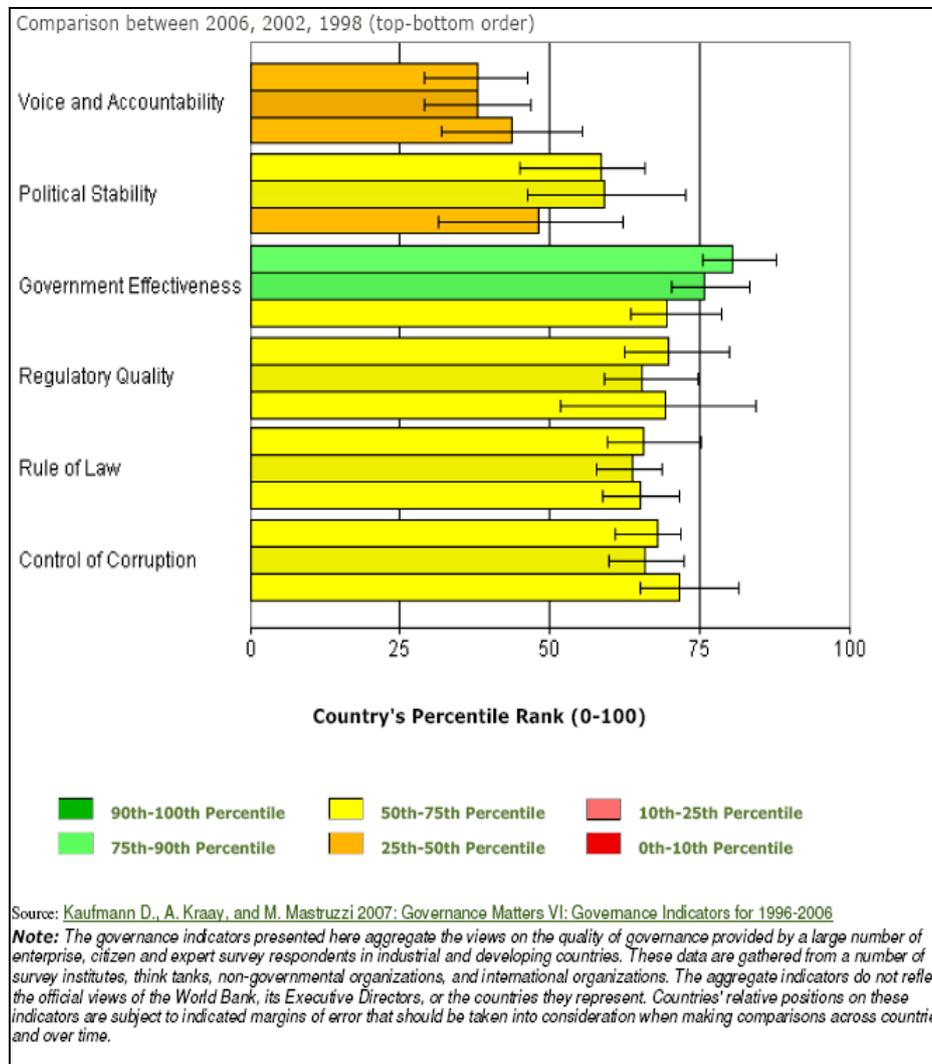
### 3.3 Major cross-cutting issues

#### 3.3.1 Governance

Both within Malaysia (in non-UMNO circles, that is) and among external observers, the outcomes of the March 2008 elections and resulting increasing political competition have been widely interpreted as a healthy development, indicating a path towards a more democratic polity. However, Malaysia's challenge is not a fundamental reform of the political system, but to increase both the effectiveness and efficiency of existing institutions and the transparency of policy-making. In this regard, efforts to curb corruption have bore fruit. Transparency International ranks Malaysia 43<sup>rd</sup> in the world (out of 179) - together with South Korea – and the second least corrupt state in ASEAN after Singapore (in 4<sup>th</sup> position).<sup>26</sup>

Malaysia achieves high scores on government effectiveness, according to the World Bank's Survey on global governance. Political stability has also improved between 1998 and 2006. No significant changes have taken place with regard to other governance indicators.<sup>27</sup>

Figure 1 :Governance Indicators Malaysia (World Bank Survey)



<sup>26</sup> [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi/2007](http://www.transparency.org/policy_research/surveys_indices/cpi/2007)

<sup>27</sup> World Bank, *Governance Matters*, Worldwide governance indicators, 1996-2007, [http://info.worldbank.org/governance/wgi2007/sc\\_chart.asp#](http://info.worldbank.org/governance/wgi2007/sc_chart.asp#)

### ***3.3.2 Security and Human Rights***

Human rights concerns are nothing new in Malaysia. The respected analyst Johan Saravanamuttu even concludes, "*Malaysia's human rights practice, by way of national laws and legal instruments, has steadily slid downhill since independence in 1957.*"<sup>28</sup> Malaysia has yet to ratify the three most significant human rights instruments on civil and political rights pertaining to civil and political rights (ICCPR), economic, social and cultural rights (ICESCR), racial discrimination (CERD) and torture, cruel and inhuman treatment (CAT).

The governments' most powerful authoritarian weapon is the Internal Security Act (ISA). It had been adopted in 1960 immediately following the lifting of emergency declared by the British in 1948 to fight the communist insurgency. Under the ISA the Minister of Home Affairs has the power to detain without trial anyone considered to be likely to act "in any manner prejudicial to the security of Malaysia". Several thousand people were detained under the act although most were eventually released. In the 1960s, the government justified the introduction of the ISA as being necessary for the continuing fight against communist insurgency; but later the main stress was placed on the preservation of inter-communal harmony. In practice, however, the ISA has also been used to block political challenges and intimidate critics. Time and again, the ISA has come under criticism from academics, the public and even government officials, to no avail however. The cautious debate has not resulted in any substantive changes to the law. To the contrary, the ISA seems to have gained new legitimacy as a means to detain suspected members of Al Qaida and the terror network's alleged allies in Southeast Asia.

### ***3.3.3 Environment***

At the environmental level, the government is committed to five objectives:

1. Ensure the balance in management of the natural resources and environment towards a sustainable development
2. Ensure that the service delivery system related to natural resources and environment is efficient and effective.
3. Ensure that the implementation of development projects is efficient and effective
4. Establish the training, research and development (R&D) as an innovative exploration catalyst in natural resources management and environmental conservation.
5. Ensure a clean, safe, healthy, productive and unpolluted environment.<sup>29</sup>

The Bertelsmann Transformation project comments, "*Environmental concerns have grown in recent years among citizens, lawmakers and the government. However, the overriding objective of the government is economic growth; environmental lobbies have never won a major battle against a key development project. One example is the Bakun hydroelectric dam project; despite overwhelming objections from international and Malaysian environmental NGOs, the government is adamant about seeing this project through. The Bakun dam project envisages the creation of a lake about the size of Singapore*"<sup>30</sup> In Malaysia as in most other Southeast Asian countries environmental concerns are overshadowed by economic interests.

In January 2007 the EC and Malaysia initiated formal negotiations of a Voluntary Partnership Agreement (VPA) under the EU's Forest Law Enforcement, Governance and Trade (FLEGT) programme. VPAs aim to ensure that only legally harvested timber will be imported from Malaysia into the EU. It was the first time that the EU entered into negotiations on a formal agreement with any country based on a criteria of "sustainability, legality and traceability" involving the timber trade.

---

<sup>28</sup> Report on Human Rights in Malaysia, prepared by Prof Johan Saravanamuttu, 2006, <http://www.aliran.com/oldsite/hr/js1.html>

<sup>29</sup> Ministry of Natural Resources and Environment, Vision, [http://www.nre.gov.my/English\\_Version/objektif.htm](http://www.nre.gov.my/English_Version/objektif.htm)

<sup>30</sup> Bertelsmann Transformation Index, Country Study Malaysia, <http://www.bertelsmann-transformation-index.de/128.0.html>

### 3.4 EC strategic response

EU-Malaysia relations took place under the framework of the EU-ASEAN relations and the ASEM process. The EC's interventions fell under the 1980 EU-ASEAN co-operation Agreement<sup>31</sup>. Its emphasis was on commercial, economic and development co-operation. Commercial co-operation aimed at granting a reciprocal most-favoured treatment and overcoming trade barriers. Economic co-operation encouraged closer linkages through investment and technological progress. EC development cooperation objectives were to contribute to economic resilience and social well-being.

The scope of the EC's co-operation widened with the working document of April 2000 on the ASEM process (see above), encompassing major topics such as regional and global security, trade and investment, socioeconomic issues and regional macro-economic co-operation, consumers dialogue between regions, and educational exchanges.

The "Europe and Asia: a strategic framework for enhanced partnerships"<sup>32</sup> Communication introduced a new strategic framework from 2001 onwards.

Trade co-operation went one step further in 2001 with the introduction of a revised Generalised System of Preference (GSP)<sup>33</sup> covering the 2002-2004 period.

In the early years of the period covered by this evaluation, the EC-Malaysia cooperation programme could be characterized as a traditional development assistance programme. The evaluation team's research has yielded unfortunately little documentation on the period 1996-2001. The only presentation available is a section on past EC co-operation in the 2002-2006 CSP, which is fairly limited in scope and detail.

The ASEAN-ASEM framework was applied in programming the 2002-2006 CSP, with the major concern that the high level of Malaysia's economic and social development implied that EC co-operation focused on economy. Aid-related instruments were to be mobilized only in exceptional circumstances, which did not arise. The promulgation of the first CSP for Malaysia in 2002 was a milestone in terms of shifting the focus from providing assistance to building a comprehensive partnership, in which each party has an equal interest.

Bilateral relations between the EC and Malaysia are strongly influenced by regional processes, such as the EU-ASEAN institutional framework and ASEM dialogue process to the extent that they "*are not sustained by a well-established institutional framework, neither at political nor at technical level*"<sup>34</sup>. This is compounded by the proactive stand of Malaysia among regional institutions. Therefore, "*most of the EC activities in Malaysia had a regional, rather than bilateral, character*"<sup>35</sup>.

From the OCDE-DAC ODA database and corroborated by CRIS data, the cumulative amount of EC (bilateral) disbursements from 1997 to 2007, at current exchange rates, is € 6.05 million, with commitments totalling € 6.7 million<sup>36</sup>.

---

<sup>31</sup> Council Regulation 1440/80 of 30 May 1980, OJ L 144, 10.06.1980

<sup>32</sup> COM (2001) 469 final, 'Europe and Asia: a strategic framework for enhanced partnerships', 4 September 2001.

<sup>33</sup> Council Regulation No 2501/2001 of 10 December 2001 applying a scheme of generalized tariff preferences for the period from 1 January 2002 to 31 December 2004

<sup>34</sup> CSP 200262006, p.5

<sup>35</sup> Ibid, p.13

<sup>36</sup> At an average exchange rate of USD 1 to € 1.3.

	EC grants		EU members	EC/EU
	Commitments	Disbursements	Disbursements	%
1996	0,15	0,39	16,42	0,02
1997	1,23	0,38	14,90	0,03
1998	0,03	0,97	16,28	0,06
1999	-	1,32	16,77	0,08
2000	0,25	0,15	14,32	0,01
2001	-	0,28	12,14	0,02
2002	0,02	0,29	13,56	0,02
2003	3,15	0,11	13,81	0,01
2004	-	0,02	17,37	0,00
2005	2,01	1,19	16,81	0,07
2006	-	1,05	16,70	0,06
2007	0,01	0,29	16,22	0,02
<b>Total</b>	<b>6,85</b>	<b>6,44</b>	<b>185,29</b>	0,03

Source: DAC Database Online

Comparatively, EU member States' grants during the same period totalled € 185.29 million.

Those figures don't take into account funding of regional programmes dedicated to Malaysia but still provide evidence that the EC, from the Malaysian Government's point of view, is hardly a major player. Due to circumstances discussed further below, a € 3.5 million project, the Small Projects Facility, was decommitted in 2004.

### ***3.4.1 Intervention logic before 2002***

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

The two driving factors of EC co-operation with Malaysia were the advanced level of economic and social development of the country and the scarcity of financial resources available for bilateral programming.

The level of development of Malaysia and the self-sufficiency model of public policies chosen by the government, made public funding available for major investment or capacity building programmes for economic restructuring and trade promotion. Comparatively, the low level of EC funds did not allow for a significant impact of EC programmes at sector level. While it did not have a great effect on regional programming, this issue was very influential in determining the specifics of bilateral co-operation. Resources were directed towards two small-scale, manageable projects: establishing the European Business Information Centre (EBIC) and the University of Malaysia European Studies programme (UMESP).

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

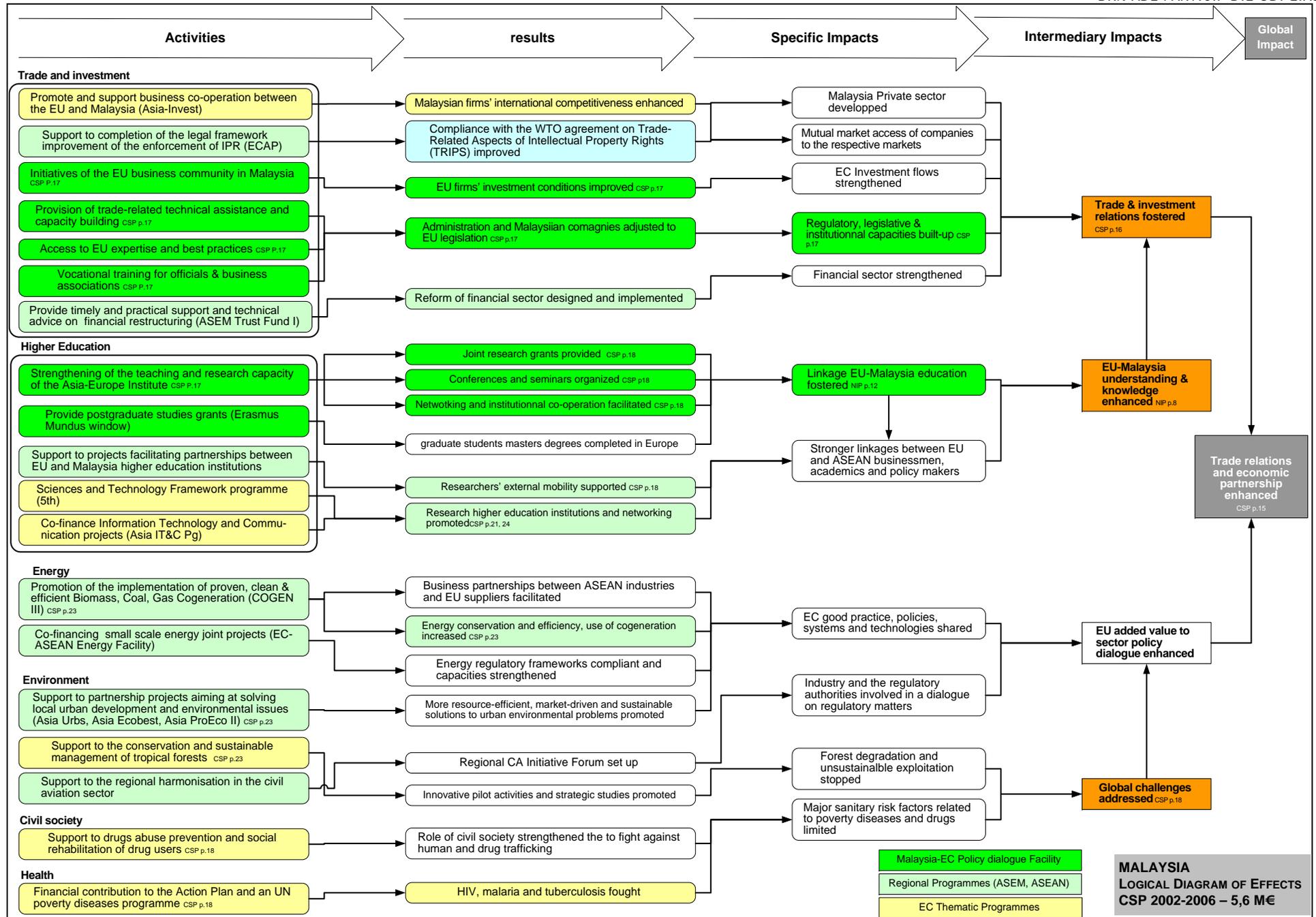
The UMESP was launched in 1999. The programme promotes various activities, including assistance in creating a core curriculum on EU affairs and the establishment of a specialised documentation centre. The programme also covers the organization of seminars and workshops, and publications to develop greater awareness of the European Union among Malaysia's policy-makers, business community and media. This support eventually created the Asia-Europe Institute within the University of Malaysia.

The ASEM Trust Fund I was established in 1999 to support Asian countries recovering from the 1997 financial crisis as a multi-donor facility. It began operations in the summer of 1998 and concluded in December 2002. The Trust Fund allocated €1.7 million to Malaysia (4 projects; Assistance to the Malaysian central bank, Guiding Health Policy Decisions through Health Care Demand Analysis, Enhancing Industrial and Export Competitiveness, Strengthening Institutional Capacity in Labour Market Policies), making it one of the major EC interventions in the country. The Trust Fund implementation was left to the World Bank, without a clear linkage to the EC strategy for Malaysia.

Another ASEM initiative significant in EC-Malaysia co-operation was the Trade Facilitation Action Plan, which has been a catalyst of progress on the discussion of trade facilitation issues.

In 2001, 15 ASEAN projects were on-going or about to be implemented in Malaysia within the general framework of those regional programmes (education, environment, standards, energy, drugs and rehabilitation). One thematic programme, the RTD Framework programme mobilized several Malaysian institutions. Asia-Invest, a 5-years programme of 45 M€ started in 1998, supported Malaysian companies through organization of inter-enterprise events, cross-border SMEs co-operation and the promotion of EU technology.

A schematic representation of the intervention logic that can be reconstructed from those various initiatives, in absence of a programmatic document, through a diagram of effects, is as follows. Some links are taken from the CSP 2002-2006, which involved itself in a continuum with the former period.



### 3.5 Other assistances and coordination

Owing to Malaysia's impressive economic progress, most donors<sup>37</sup> have phased out development cooperation (in a traditional sense) with Malaysia.

#### 3.5.1 *Member States*

**Germany** has phased out development cooperation in a narrow sense. Under Technical Cooperation, the last commitments were made in 1999, bringing total German commitments to Malaysia up to then to some EUR 200 million. Financial Cooperation with Malaysia, which up till 1972 totalled EUR 34.3 million, was terminated in the early 1970s.

**Sweden:** SIDA provides support (on a small scale), primarily concessionary credits, contract financed technical cooperation, international training programmes and/or non-governmental organisation to Malaysia. SIDA is also extensively involved in regional cooperation, mainly in the areas of democratic governance, environment and research. Funds for Malaysia-related programmes totalled SEK 3.8 million in 2006.

#### 3.5.2 *Other bilaterals*

**Australia:** Malaysia has graduated from Australian ODA flows. Australia provides increasing assistance in the field of military cooperation and Counter Terrorism. This assistance is paid from the budgets of Defence and Law enforcement.

**Canada** Malaysia has graduated from CIDA. Canada provides a very limited number of higher education scholarships.

**Japan:** 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. In 2006, Japan's aid to Malaysia amounted to a total of US\$ 210.75 million, mainly for technical cooperation (US\$ 183.32 million), including projects for capacity building on social welfare programmes for the Disabled and development of human Resource for Small and Medium Industries<sup>38</sup>

**USA:** Malaysia has graduated from US ODA flows. USAID does not operate in Malaysia but provided a small amount (US\$50,000) through the U.S. Embassy in Kuala Lumpur to the Malaysian Red Crescent Society to support emergency relief efforts, including the local purchase of relief supplies and related logistical support, and the return and initial recovery of flood-affected populations. 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.

#### 3.5.3 *IFIs*

**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. Furthermore, following the Asian crisis in the late 1990s, Malaysia largely eschewed borrowing from multilateral assistance sources. No new ADB loans have been approved since 1998. ADB has not prepared an operational strategy for Malaysia since July 1997. However, ADB has provided specific technical assistance, in cooperation with the UNDP, to the Malaysian Ministry of Finance to strengthen the capacity to design and project the impact of the Government's budget (Support of Improved Economic Modelling, January 2006). Malaysia

---

<sup>37</sup> The following information is based on ADB, <http://www.adb.org/malaysia/default.asp>, Malaysia-EC Strategy Paper 2007-2013; German Foreign Office, <http://www.auswaertiges-amt.de/diplo/en/Laenderinformationen/01-Laender/Malaysia.html#t5>; JICA, Annual Report 2007, o. 124 (table 4-12), <http://www.jica.go.jp/english/resources/publications/annual/2007/index.html>; USAID, [http://www.usaid.gov/our\\_work/humanitarian\\_assistance/disaster\\_assistance/countries/malaysia/template/index.html](http://www.usaid.gov/our_work/humanitarian_assistance/disaster_assistance/countries/malaysia/template/index.html); SIDA, [http://www.sida.se/sida/jsp/sida.jsp?d=143&language=en\\_US](http://www.sida.se/sida/jsp/sida.jsp?d=143&language=en_US)

<sup>38</sup> JICA, Annual Report 2007, o. 124 (table 4-12), <http://www.jica.go.jp/english/resources/publications/annual/2007/index.html>

also benefits from Regional (not Malaysia-specific) Cooperation Technical Assistance program (such as an ASEAN-wide telecom network or similar regional project). Malaysia's Ninth Plan explicitly embraces regional cooperation and emphasizes multilateral partnerships, such as the sub-regional cooperation schemes East ASEAN Growth Area (BIMP-EAGA) and Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT). ADB cooperates closely with other development organisation partners, such as Germany's Agency for Technical Cooperation (GTZ). Related to this general work, ADB seeks to cooperate more closely with ASEAN, which is considering the area defined by BIMP-EAGA for pilot-testing of ASEAN agreements, such as those that set standards of trade and transit regulation. ADB cooperates extensively with civil society organizations in Malaysia to strengthen the effectiveness, quality, and sustainability of the services it provides. For example, ADB maintains a regular dialogue with the Malaysia-based International Council on Management of Population Programmes (ICOMP).

**World Bank:** No loans outstanding.

#### ***3.5.4 Donor co-ordination in Malaysia***

Development Planning in Malaysia began in 1950 with the publication of the Draft Development Plan of Malaya. The Economic Planning Unit (EPU) of the Prime Minister's Department coordinates the aid programs of various aid agencies. Malaysia has no aid group or consortium to coordinate external aid activities. Malaysia's bilateral and multilateral partners coordinate their programmes through formal and informal contacts with EPU, the World Bank, ADB and other agencies.

## 4 FINDINGS

This section presents the assessment for all EQs. For more information on raw information on the various judgement criteria for all EQs and further information required at indicator's level, please refer to Annex 3, the evaluation matrix.

### 4.1 EQ1 - To what extent have the Commission's interventions contributed to improve trade and economic partnership with Malaysia while improving EC visibility?

*SME development and trade were a major concern of EC cooperation. A partnership was agreed upon on technical terms, but disagreement of the GoM on EC standard financing agreements persisted. This situation impeded the implementation of a fiduciary fund on bilateral resources (SPF) intending to support the adjustment of SMEs towards new EU rules on access to its markets. While the quantitative scope of the EC cooperation programme has been very small since 2003 (cooperation prior to the 2002-2006 CSP was marginal), its impact has been positive because trade negotiations contributed to the general strengthening and maturing of political and economic relations between the EC and Malaysia.*

**Table 4: Overview of main EC-funded interventions in the trade and economy sector 1997-2007**

Programme	Project	Malaysian stakeholders involved	EC Contribution	Evaluation
ASEM Trust Fund	Financial Sector Strengthening; Enhancing Industrial and Export Competitiveness; Strengthening Institutional Capacity in Labour Market Policies	Malaysian government; Malaysian central bank	Total disbursement: 2,185,675 US\$ (EC contribution not known; Only 8.5% percent of total grant funds were utilised)	World Bank, Asian Financial Crisis Response Fund 1, Completion Report, Washington DC. 2003
Asia Invest	Asia Invest ALLIANCE, South East Asian Chamber Academy	Federation of Malaysian Manufacturers	190,995 €	
Asia Invest	Asia-INTERPRISE, Advancing EU-Malaysian SME Partnership in Environmental Technology Solutions (ADSENTS)	The Malaysian Water Association, Malaysia, NQS Sdn Bhd, AMB Exhibitions Sdn Bhd	115.414 €	
Asia Invest	"Asia-Enterprise" Machinery: Italy, Thailand and Malaysia	Federation of Malaysian Manufacturers, Malaysia	127,972 €	MR-20398.01 – 21/03/06
Asia Invest	EU-Asia Equipment Manufacturing Alliance 2005	Federation of Malaysian Manufacturers, Malaysia	132.032 €	
Asia IT&C	EAPSTRA (EurAsian Network for Product Lifecycle Support & Training)	Universiti Teknologi Malaysia	298,012 €	
Asia Pro Eco	Transfer and adaptation of the EU perspectives, methodologies, and know-how to Malaysia in the field of Eco-Tourism	EU-Malaysia Chamber of Commerce and Industry, Kuala Lumpur/World Wide Fund for Nature Malaysia (WWF Malaysia)/ Malaysia Nature Society (MNS)	495.571 €	MR-20288.01 – 29/04/05

<i>Programme</i>	<i>Project</i>	<i>Malaysian stakeholders involved</i>	<i>EC Contribution</i>	<i>Evaluation</i>
ECAP II	EU-ASEAN Intellectual Property Rights Co-operation Programme	Minister of Domestic Trade and Consumer Affairs, Malaysia	5,000,000 €	Final Evaluation of EC-ASEAN Intellectual Property Rights Co-operation Programme (ECAPII), Contract Number no 2008/157-270, Draft Final Report, 2 September 2008)
Asia Trust Fund	Support to Malaysian Enterprises on Compliance with Green Procurement Policies and Guidelines in the EU	SIRIM	185,500 €	Support to Malaysian Enterprises on Compliance with Green Procurement Policies and Guidelines in the EU. A project under the Asia Trust Fund, Final Report, Project No: MAL/A1/01A, June, 2007
Asia Pro Eco	Sustainable Production and Consumption as the Long-Term Solution to Reduce Urban Environmental Degradation - Developing a Reference Framework for Electrical and Electronic Products	SIRIM, Penang state government	338,400 €	Currently being evaluated
Asia Invest	European-Malaysian Alliance and Capacity Building of Malaysian Intermediary Institutions in European Management Information Systems (MIS) to enhance corporate social responsibility in export-oriented Malaysian SMEs (EMIT-CSR)	Malaysia Multimedia University (MMU)	198,702 € (up to July 2008, project is ongoing)	MR 106601.01 - 25/07/2008

In the second half of the 1990s the EC and Malaysia interacted mainly through regional and inter-regional programmes, such as ASEM and the EU-ASEAN dialogue. Explicit initiatives directed at the improvement and strengthening of bilateral relations were rare and gained only slowly momentum. An important first step was the establishment of a European Business Information Centre in Kuala Lumpur Business centre to promote two-way trade in July 1996. However, 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. The most visible indicator is the quantitative increase in both the number of new identified projects (a dozen) and the overall financial volume (2002-2007 NIPs disbursement). The only notable pre-2003 interventions were three small national components of the ASEM Trust Fund I. For political reasons Malaysia only utilised a small portion (8.5% of available grants). In qualitative terms the presence of the Delegation has facilitated a regular dialogue with government agencies and other stakeholders. Various Malaysian stakeholders have sought advice from the Delegation on matters of the EC's regional programmes and funding opportunities. Based on information gathered from interviews, it is likely that the direct contact between the Delegation and Malaysian stakeholders has contributed to the increase to the relative growth of Malaysia's participation in regional programmes.

The presence of the Delegation also improved the visibility of the EC in Malaysia. Malaysian stakeholders who have already established contact with the Delegation highly appreciate close relationships with the EC. However, not all Malaysian government agencies – even line ministries such as MITI have a clear idea about the role of the EC Delegation. Given the main focus on regional programmes and the fact that the (small) Delegation in Malaysia was only established in 2003 the relevance of the EU as trade partner and investor is not matched by an equivalent visibility of the EU in Malaysia (JC 1.5). The dialogue between the Malaysian government and the EC has different contexts and locations: Consultations were in many cases also taken in the context of ASEM, of EU-ASEAN or of meetings of the Malaysian Ambassador with his counterparts in the EC. Many important decisions concerning trade were taken in the context of ASEAN meetings with dialogue partners<sup>39</sup>. Others, like GPS or trade regulations, were taken by EC head-quarters in Brussels or were a consequence of commitments made during WTO discussions.

However, the Delegation played a decisive role in resolving recent (small) disturbances in trade relations. While tariff and non tariff barriers (NTB) did not constrain EU-Malaysia trade relations during most of the assessment period, some NTB issues surfaced in 2007 and 2008 (import restrictions on wine, cheese and chicken from the EU). These issues could be resolved mainly as the result of effective coordination among the EC Delegation in KL, the Embassies of the affected Member States and other stakeholders, such as the EU-Malaysian and bilateral Chambers of Commerce and Industry and successful negotiations with the Malaysian government and line ministries in which the EC took the lead (JC 1.2). Since 2000, economic cooperation has suffered from concerns or objections on the Malaysian side. The NIP 2002-2004 was to be implemented fully through a new instrument, the Small Projects Facility (SPF). SPF was designed to focus on the provision of technical assistance and capacity building to help Malaysia in implementing its WTO commitments, specifically in key areas agreed at Doha, support to help the Malaysian administration and companies to adapt to developments in EC legislation, and the promotion of EC investment and market access in Malaysia. The programme also aimed to contribute to a wider presence of Malaysian economic operators in the EU and a greater understanding of the EU's monetary Union (NIP 2005-2006, p.4). However, due to the extent and nature of Malaysia's concerns or objections to the standard and non-negotiable EC Financing Agreement, the Commission decided in November 2004 to withdraw the SPF (I 1.5.2). The amount was de-committed at the end of December 2004. The country envelope was used for national components of regional projects (Erasmus Mundus) and other projects without FA. The successor NIP, for the period 2005-06, has operated differently: the full amount available was committed to the "Malaysia Window" under the global Erasmus Mundus programme (CSP 2007-2013, p. 20).

It is not clear whether and to what extent the EC Delegation and the Malaysian government had been in contact before the government made its decision on SPF and the AFT and whether all channels of communications had been used. However, according to the 2005 Strategic and Programming Mission, "*the Delegation has close contacts with most ministries and a direct access to them. Working relations are open in many fields with technical ministries and the initiatives taken build on a clear knowledge and understanding of national policies and approaches. In some circumstances, such as for the delivery of the Small Project Facility, it has been impossible to reach an agreement that would have enabled disbursement of project funds.*" (Sema Belgium, Final Report, Strategic Review and Programming Mission For Country Strategies Cluster 6, Part 1, Malaysia, 5 April 2005, p.18).

In 2005, the EU was the fifth most important source of imports for Malaysia with a share of 9.5%, and its third most important export market with a share of 13.2% (Eurostat). Between 1996 and 2007 overall trade between EU and Malaysia increased by 73.3% from € 16.9 bn to €29.29bn (I.1.1.1 and 1.1.2). It is interesting to note that the EU-Malaysia trade volume was almost identical

---

<sup>39</sup> Sema Belgium, Final Report, Strategic Review and Programming Mission, For Country Strategies Cluster 6, Part 1, Malaysia, 5 April 2005, p. 18

to EU-Thailand trade in 1996 but that the former has grown much faster than the latter despite the absence of a noteworthy bilateral cooperation for most of the assessment period in the case of Malaysia. At the same time, due to its very small financial volume and small number of projects, it is unlikely that the official cooperation programme has had any measurable effect on trade relations with Malaysia. The development of trade relations has primarily been subject to other dynamics, including the implementation of the new GSP regime, that are outside the scope of this evaluation (JC 1.1).

However, evidence was found in the respective monitoring and evaluation reports (stakeholder interviews confirmed these findings) that the small Malaysia components of regional EC-ASEAN/Asia programmes (particularly ECAP II, Asia Pro and ATF) were efficiently and effectively implemented and helped Malaysian government agencies and the private sector to adopt to EU standards. For example, Malaysian IP officials valued ECAP II as a decisive contribution to the modernisation of Malaysia legal IP framework in line with international standards (JC 1.2). Although it was not possible for the evaluation team to interview project beneficiaries directly, in-depth interviews with senior personnel at the Malaysian implementing agency SIMRIN strongly suggested that two small projects under AsiaPro Eco and the ATF enabled the participating export-oriented SME to respond to the green procurement policies in the EU and thus become more competitive in trade relations with the EU (JC 1.3).

Foreign direct investment flows from the EU to Malaysia increased over the assessment period but had been subject to significant annual fluctuations (JC 1.4). In 1997 EU FDI flows into Malaysia amounted to € 648 million; in 2006 EU FDI totalled €1692 million - 2.6 times more than in 1997 (Eurostat). The EU represented the largest source of funds in the manufacturing and related services sector in the period 2000-05, accounting for 26% of the total value of approved projects (CSP 2007-2013, p. 2-3). In the current decade Malaysia has been the most profitable East Asian destination for EU FDI (Eurostat, European Union foreign direct investment yearbook 2007, Data 2001-2005, Brussels 2007, p. 76). At the same time the share of European FDI (net applications) in Malaysia's GDP roughly doubled from 0.46% in 2000 to 0.95 % in 2007...

Interviews conducted with European stakeholders, particularly MS embassies and the EU-Malaysia Chamber of Commerce and Industry, suggest a high level of satisfaction of European enterprises with EC support for private sector initiatives and generally trade and investment facilitation. However, it also became clear that for firms from the large member states, the first (and often only) point of call are the respective national/bilateral chambers of commerce and industry such as the German and the French chambers (I 1.4.1). While administrative hurdles and delays on the Malaysian side in the process of FDI approval were quoted as the most common obstacle to economic by European stakeholders, Malaysian stakeholders identified awareness of, and compliance with, EC regulations as the biggest challenge in trade relations (I 1.3.2).

Overall, it can be concluded that while the quantitative scope of the cooperation programme has been very small since 2003 (cooperation prior to the 2002-2006 CSP was marginal), its impact has nevertheless been positive because project activities contributed to the general strengthening and maturing of political and economic relations between the EC and Malaysia. However, it is empirically impossible to identify and 'measure' the specific impact of the cooperation programme relative to the value that GSP and the evolution of trade regimes in general and also diplomacy added to EC-Malaysia relations. The most visible and most significant (in terms of disbursement and impact) of all trade-related EC projects in Malaysia has been ECAP II which was designed to increase the level of legal certainty and, thereby, to facilitate trade between the EU and ASEAN. The Malaysia component of ECAP II covered some 25 activities over a two year period (start date March 2005). Malaysian IP officials valued ECAP II as a decisive contribution to the modernisation of Malaysia's legal IP framework in line with international standards. In 2006 Malaysia signed the Patent Cooperation Treaty (PCT) and in June 2007 a Malaysian IP Court was established. The number of granted/approved patent applications has increased continuously from a total of 1.492

in 2000 to 6.983 in 2007. While it seems difficult to attribute these significant advances to ECAP, there is indication – mainly based on stakeholder interviews - that ECAP II played an important part (JC 1.2).

#### **4.2 EQ2 - To what extent have the European Commission's interventions in the sector of higher education contributed to increase mutual understanding and awareness?**

*Based on regional programmes, the EC interventions in higher education established strong academic networks among leading Malaysian and EU faculties. Bilateral funds were fully allocated to the global Erasmus Mundus programme for Malaysian students. This programme increased understanding and awareness of the diversity of the EU and interest in the EU as an interesting place to study, but the small number of students involved (80) did not allow for further diffusion of the impact. Overall, this sector of EC support did not bring significant return.*

Overall, the interventions of the EC in Malaysia's HE policy domain have been successful in that they have more or less achieved what they set out to do in a narrow sense. This means that the different RTD and HE programmes sponsored by the EC have created effective institutional and organisational structures that enable cooperation and collaboration on a wide range of S&T and HE policy issues.

European policy interventions in Higher Education have been successful in forging institutional links between HEIs and, to a lesser extent, HE policy-makers of the two regions. These links have been forged primarily through programmes enabling individual mobility of students and faculty (most prominently Erasmus Mundus), as well as programmes enabling institutional collaboration on curriculum development (mostly AsiaLink) and research (mostly the Framework Programmes). Despite a wide diversity in programmes and target audiences, the forging of institutional and interpersonal links have yielded the most tangible results. The mobility programmes, particularly the Erasmus Mundus Programme, have succeeded in enabling some 80 Malaysian students and 13 faculties to experience of studying and working in the European HE landscape. The collaborative programmes provided Malaysian researchers and HEIs with access to the European research area. However, the penetration of these projects into the Malaysian HE landscape is limited by the small number of projects on the one hand and, on the other, by the absence of effective coordination between different European programmes for RTD and HE collaboration.

In terms of intercultural understanding, the results are more equivocal. It would seem as if mobility programmes (particularly Erasmus Mundus) and, to a lesser extent, collaborative policies (such as AsiaLink and the Framework Programmes) have brought about some institutional and individual learning. Evidence from both desk and field research suggests that for students, faculty, administrators and policy-makers that actively participate in projects, the experiences are valuable lessons in intercultural contact and learning. The Erasmus Mundus Programme in particular provides a formative social, cultural and, not least, educational experience that is highly appreciated by participants and administrators. What is more, fieldwork suggests that Erasmus Mundus exchanges generate in participants durable professional as well as emotional bond to Europe. The collaborative programmes for research or curriculum development, in turn, have generated effective interdisciplinary, transcultural and international working environments that have profited all participants. In particular, Malaysian participants in collaborative projects pointed to the lessons in proposal-writing and project management participation in these types of projects entails.

Yet, the limited scope and low level of visibility of these programmes in Malaysia has meant that a sharpened awareness about Europe has not spread far beyond the actors immediately involved with these programmes. In terms of tangible institutional outputs, such as European studies programmes and institutes, the interventions of the European Commission have yet to make a measurable mark. Part of the reason is the small numbers of people directly and indirectly

benefiting from the programmes. Another reason is likely to be that European programmes have a low visibility and lack institutional integration in the Malaysian HE landscape.

Evidence suggests that EC interventions in the HE sector did not lead to discernible direct effects on economic cooperation. Interviews with policy actors in Malaysia revealed that more cooperation in key economic sectors is required. The projects funded by the diverse RTD and HE programmes of the EU have been directed mostly at environmental and sustainable development issues. In this field, however, collaborative research projects have created robust and problem-oriented research outputs (see Annex III, EQ 2, JC 2.1, I 2.1.2). The fieldwork uncovered particularly strong institutional linkages in the field of environmental management, sustainable development and waste management.

Thus, there is reason to believe that the EC's HE and RTD interventions have, as yet, not managed to sharpen mutual awareness and understanding much beyond the community of actors involved in cooperative research and mobility programmes. The nature and dimensions of current HE policy instruments applied in Malaysia mean that EC interventions are likely to bear fruit in the long-run, if at all. Given that a massive expansion of existing programmes and instruments is unlikely, future HE policy will need to find ways of amplifying the existing benefits of regional and ASEAN-level HE programmes at national level.

#### **4.3 EQ3 - To what extent were the EC programmes in the country consistent with the global objectives of EC response to global challenges faced by ASEAN, particularly environment issues?**

*The impacts of the EC's environmental interventions have predominantly been of an indirect and foundational nature. The interventions were targeting policy dialogue through capacity development with extremely limited bilateral and regional resources. Direct and measurable environmental impacts of EC programmes have been modest as they faced institutional contingencies. Given these constraints, EC policy interventions in Malaysia in the field of environmental policy have, on the whole, been able to both pursue the EC's environmental objectives as well as to address national Malaysian environmental concerns.*

The EC's environmental policy interventions in Malaysia are broadly consistent with global environmental objectives. Essentially, European policy actors have pursued global environmental policy goals in Malaysia in the face of institutional contingencies that have both enabled and constrained policy-making:

(i) A well-developed Malaysian environmental policy agenda that frames key environmental challenges, specifically global climate change, in terms of sustained economic development. For Malaysian policy-makers, environmental policy in general, and climate change policy in particular, needs to be congruent to the imperatives of economic growth and development. This state of affairs has both facilitated and hindered European environmental interventions. On the one hand, Malaysia's mature institutional landscape provides the organisational capacities for effective environmental policy-making. On the other hand, this has also meant that EC policy actors have had to adapt EC global environmental goals to Malaysian needs and priorities. This process has been particularly pronounced in the climate change issue where interventions have concentrated almost exclusively on the energy sector (see Annex III, EC 3, JC 3.1, I 3.1.2).

(ii) A growing policy concern for global environmental threats, specifically climate change. This concern has been articulated in terms of policy, institutions and practical policy activity. Nonetheless, global challenges are framed and perceived in terms of the need for economic development. Key Malaysian policy documents, such as the 9<sup>th</sup> Malaysia Plan as well as Malaysian policy-makers define climate change as a problem of energy efficiency technological development.

This has helped EC interventions in the environmental policy domain since Malaysian policy actors have welcomed EC environmental programmes (see Annex III, JC 3.2, I 3.2.1).

(iii) Significant problems and difficulties in implementing the well-developed Malaysian environmental policy agenda. In conjunction with the well-developed institutional policy landscape in the environmental domain, this has meant that EC policy initiatives have also been exposed to the organisational problems and bottlenecks that have caused the implementation gap (see Annex III, EC 3, JC 3.3, I 3.3.1);

(iv) The lack of bilateral policy instruments in Malaysia as well as the absence of coordination between regional and national levels.

Given these constraints, EC policy interventions in the Malaysian environmental policy domains have, on the whole, been able to pursue the European Commission's environmental objectives while addressing national Malaysian environmental concerns.

The strategic and programming documents as well as the actual projects funded in Malaysia attempt to square the EC's global environmental agenda with the environmental priorities of Malaysian policy actors. In particular, the strategies focus on and revolve around the perceived imbalance between rapid economic growth and environmental sustainability. For example, the CSP 2002-2006 argues that "*...the economic crisis has resulted in an aggravation of the problems in the management of natural resources, such as those related to water availability and distribution, depletion of forests, destructive logging practices, increases in industrial emissions, and unsustainable tourism practices*" (see Annex II, EQ 3, JC 3.1., I 3.1.1 and I 3.1.2).

Accordingly, the balance of the ECs environmental interventions in Malaysia addressed national policy priorities and environmental challenges where they dovetailed with EU regional and global objectives. The projects and programmes sponsored by the EC have pursued the Commission's environmental objectives by directly addressing two broad environmental themes: the sustainable management of natural resources as well as energy efficiency and renewable energy. It is through these channels that the projects and programmes could address underlying global environmental issues of concern to the Commission, specifically biodiversity and global climate change, by addressing the overriding concern for economic development that drives the Malaysian policy agenda.

The goals of the European Commission's environmental interventions in Malaysia take into account that, despite growing concern for climate change in Malaysia, this concern is articulated in terms of energy efficiency and energy security. Here, the Commission has relied on demand-driven regional programmes to fund environmental policy interventions in Malaysia. Since most of the projects emerged from existing networks of environmental policy actors and researchers, the themes and thrusts of the projects have, on the whole, reflected perceived needs and priorities closely. For example, projects funded under the auspices of Asia Pro Eco, Asia Link and the FWP's focused on waste management as well as management of fragile resources (such as peatland in Sarawak). Moreover, Malaysian projects the energy technology programmes COGEN III and the EAEF revolved around renewable resources (see Annex III, EQ 3, JC 3.1, I. 3.1.2 and JC 3.2., particularly I 3.2.2). In the absence of coordination at the national level, the regional programmes have provided little scope for directing environmental interventions. This is set against the backdrop of an increasing Malaysian concern in global environmental issues, most prominently climate change. The Malaysian government has addressed climate change in stated policy (i.e. the Ninth Malaysia Plan), at institutional level (by instituting the climate change council and climate change committee) as well as with practical policy activity (in the form of about 30 CDM projects) (see Annex III, EQ 3, JC 3.1, JC 3.2, I 3.2.2).

Despite a well-defined and well-developed environmental policy agenda, evidence from the desk research and fieldwork suggests that there are significant implementation gaps in Malaysian environmental policy. The environmental policy agenda is fragmented across different policy domains and levels of governance, policy actors at national level. Malaysian policy-makers do not have adequate tools for monitoring and enforcing environmental policy. This, policy actors at national and ASEAN level contend, is compounded by both a somewhat unclear designation of environmental tasks at ministerial level as well as a generally low level of environmental awareness in the Malaysian population (see Annex III, EQ 3, JC 3.3, I 3.3.1). In general, European environmental policy interventions addressed these implementation issues by developing institutional tools (e.g. timber certification standards or CDM criteria), individual capabilities (e.g. waste management training modules or sustainable peatland management courses) and energy technology solutions (e.g. the ZEO or cogeneration demonstration plants).

For this reason, the balance of EC policy interventions in the environmental domain leans heavily towards implementation support. In particular, all projects and programmes aimed at building institutional capacities as well as developing individual capabilities and skills. While certain projects were aimed directly at capacity building (i.e. the CDM project or the community forestry programmes), others approached implementation issues more obliquely (timber certification or research into peatland management). In this way, the projects sought to develop the tools and methods (practices, organisations and technologies) to facilitate the implementation of environmental policy in Malaysia.

Horizontal and vertical dialogue processes are not tightly integrated. Horizontal and thematic dialogue processes in specific policy communities are linked to regional activities through the reliance on regional policy instruments (such as Asia ProEco, the EAEEF, etc.). However, the integration and coordination of these thematic dialogue processes at national level has been conspicuous in its absence. For this reason, synergies between regional, national and thematic levels have not been fully exploited.

Much of the work' in terms of programming and funding of environmental projects is left to the programmes at regional level. The exception is the forestry sector (e.g. community capacity-building and timber certification) where projects were based on bilateral cooperation between the European Commission and Malaysia. While respondents in the fieldwork phase stressed the suitability and effectiveness of these policy instruments, they also pointed to gaps between the national and regional level. The relative absence of this national-level coordination has not only precluded the exploitation of synergies between national and regional levels, it has also encumbered project management in Malaysia. Although project beneficiaries were generally satisfied with the administration and management of the projects, many also report difficulties. These range from relative minor problems (such as late payment of funds) over significant issues (arguments about labour rates) to serious problems (loss of 40% of promised funds).

The impacts of the EC's environmental policy interventions have predominantly been of an indirect and foundational nature. Direct and measurable environmental impacts of EC policy interventions in the reporting period have been modest. Although specific data for Malaysia on indicators such as CO<sub>2</sub> emissions cut or carbon sinks increased is not readily available, past assessments of the COGEN III and EAEEF are sobering. Where concrete estimates of impact are available, the real impacts have been modest both in terms of the environment (240,000 tons/year of CO<sub>2</sub> emissions saved for the COGEN projects) as well as in terms of socio-economic and business interests (e.g., several million Euro of business created in EAEEF).

For this reasons, the EU programmes in the field of energy have contributed to the dimensions of environmental sustainability obliquely. Evidence suggests that the bulk of benefits are to be found not in physical measures such as pollution abated or areas protected, but in the less tangible

organisational, institutional and ideational impacts. In practice, this means that the programmes have promoted sustainable economic development by providing the institutional infrastructure (including both organisational and human resource capacities) as well as promoting a receptive ideational climate for exploring sustainable economic growth. For example, the Timber Certification process has put in place an institutional mechanism that is becoming an effective vehicle for EU –Malaysia negotiation on sustainable timber trade (see Annex III, EQ 3, JC 3.1). Similarly, evidence from the desk and field research suggests that the COGEN III and EAEF programmes were successful in terms of capacity building, institutional strengthening, and the formation of networks. In this sense, then, the environmental interventions of the EC have built a foundation for future cooperation.

#### **4.4 EQ4 - To what extent has EC mainstreaming of gender, governance and human rights into its cooperation programmes resulted in enhanced governance in the country?**

*There is no strong evidence of an EC contribution to enhanced governance in Malaysia relating to cooperation programmes. These programmes were extremely limited in scope and did not allow the EC to build working relations with the GoM on these issues. NGOs (mobilised through thematic programmes) were also not in a position to contribute to any type of dialogue with the authorities. The limitations are fully related to the GoM strong reluctance to question the overall situation of gender, governance and human rights established a decade ago and backed by a powerful legal framework.*

The EC has made promising steps at policy and operational level to promote Gender, Governance and Human Rights (HR) in Malaysia. One may recognise an increasing trend towards involving Civil Society Organizations (CSOs) through thematic and horizontal instruments (CSP 2002-2006, p.13). Those indirectly tackle Governance components and Gender. Nevertheless, there is no clear view on:

- (i) Strategic EC support to Gender, Governance, HR (the mainstreaming of cross-cutting issues (CCIs) is still broad and general). There is a big gap between policy formulation and project implementation. EC projects and programmes do not include any initial assessment of the situation on CCIs; neither do they include, at the formulation stage, any information on how to measure the progresses CCIs. No evidence reveals whether CCI projects implemented through budget lines are integrated into the main sectors of cooperation, namely trade and education. There is no strategic link between programmes, and they seem to operate in a stand-alone fashion. No synergies can be identified which could boost impacts in gender and governance. As a consequence, the integration of CCIs in projects and programmes do not offer significant information to adjust EC policies accordingly. For several key sectors, it is actually difficult to measure any progress on CCIs at local level.
- (ii) Civil society participation in decision making processes and dialogue with authorities (the two relevant projects do not assess how civil society can influence public authorities).
- (iii) How to ensure a systematic stocktaking of good practices and lessons learnt (There is no substantial assessment of CCIs in various CSPs and NIPs (the question is to “*address those issues set out in the CSP as cross-cutting issues (e.g. some JHA issues such as migration, the trafficking of human beings, drugs, money laundering) and covered under other fora and co-operation instruments.*” But nothing is elaborated in this regards).
- (iv) The specific monitoring and evaluation of qualitative outcomes concerning CCIs (programming documents, projects do not reveal any specific data or baseline studies).

Governance: There clearly is alignment by the EC to the concept of Governance as understood and delimited by Malaysian authorities. The CCI refers to bringing a “social dimension into

globalisation” and the introduction of Governance into the trade program is understood to take place through strengthening corporate Governance as well as introducing WB indicators. Nonetheless it is important to remember that the official EC concepts embrace a holistic view of Governance which tackles many sectors (see communications on Governance as well as the EC thematic evaluation on Good Governance) which are not tackling at all in EC cooperation. The Governance concept is never linked with the concepts on the Rule of law and administration (legal and justice aspect). For instance, Governance is integrated in Trade, but there is no reference to a judicial or legal component. In the evidence collected, there is no clear information on how those political commitments are foreseen to be respected. There is a lack of contextual analysis (no data on Indian women for example), a lack of a contextual analysis on the identity and role of relevant actors (civil society, administration etc...), a lack of measurable indicators on Governance programmes in Trade, education, and other CCI projects.

The project “Support to NGO activities in the fight against drug abuse” is the only one directly addressing CCIs. Unfortunately, no detailed information on it was available in the documentation obtained and analysed so far. The Malaysian situation being roughly similar to others faced by the EC, the Thematic Evaluation of the EC support to Good Governance (June 2006) concluded that “*The limits between power structures and civil society, private sector federations and CSOs, or Parliamentary groups and civil society, not to mention religious institutions, is not always well conceptualised.*” There is no evidence of a positive influence of EC projects on the functioning of institutions designed to promote good governance (i.e. justice, legal system) and to change political culture in Malaysia. It is also important to underline that it is difficult for EC to contribute to changes in the realm of CCIs, through available instruments on CCIs, which allow mainly for short term projects, as the governance concept can be only considered in a long term perspective.

The EC position is clear on Human Rights (HR) when it comes to international treaties. Nevertheless, nothing is really done to influence the respect of international law on HR within National authorities in Malaysia. It is fair to recognise that working with civil society, particularly on governance and HR matters, opens up huge capacity challenges for the EC (as for other donors). But there is no evidence that the EIDHR, as well as dedicated projects have had an influence on Malaysian authorities.

There is a growing recognition by Malaysian authorities that Gender is a key issue in poverty reduction, and this was supported by the EC. A combination of horizontal and thematic instruments used to engage Gender, HR and Governance issue is however lacking (all dedicated projects are funded through budget lines). The EC's active involvement with civil society in gender processes is obviously a fairly recent development. Nevertheless, different instruments used by the EC to strengthen gender recognition do not provide any evidence that there is a real dialogue on Gender issues between civil society organisations and Malaysian authorities. For instance, the Indian women project was not based on a participatory approach. Up until this point, there is no evidence of follow-up by the authorities.

#### **4.5 EQ5 - To what extent has the EC assessed and considered (i) the government's priorities, (ii) the needs of the country and, (iii) the evolving context in programming its strategic response, including the follow-up of the implementation strategy?**

*The EC's strategic response was relatively vague, without a clear backbone, but still related to the needs of the country and government priorities, even if in a formal way. The absence of bilateral instruments and coordination made it very difficult to establish thematic or vertical synergies to cope with the evolving context. None of the EC interventions was focused on policy formulation, which was not in demand by the Malaysian authorities unless it was related to hard trade negotiations. The presence of Delegation staff helped to establish a good working relationship with the GoM over time but not in a direct manner.*

The fundamentals for policy dialogue were missing during the reviewed period as the Malaysian government was reluctant to adopt such an approach. EC interventions were obviously too limited to bring the government to change its overall policy towards ODA. This lack of comprehensive policy dialogue and the bottom-up approach of regional programmes restricted the scope for coherence of the objectives of the programmes in terms of reflecting the views and priorities of the country. However, the presence of the Delegation since 2003, has helped to establish useful and collaborative working relations and to bring programme objectives and the Malaysia government's priorities closer together (I 5.1.1). None of the EC interventions was focused on policy formulation, which was not in demand by the Malaysian authorities. Other projects could be related to policy implementation in the sense that they were mostly pointing out ground for improvement. On the other hand, none of them was of a size that could demonstrate EC views on policy implementation (I 5.1.2). The evaluators gathered, from government services met, various hints on a changing demand from the previous requirement of full autonomy in designing and implementing sector policy. Openness towards technical assistance was clearly expressed in the HE, trade, and environment sectors.

Considering the amount provided for cooperation programmes, policy dialogue was not in view. The objective was more for EC initiatives to be accepted by the national authorities than to push a specific view on national policy matters. CSPs fit with mentioned national needs, and particularly the SPF, which was considered but eventually dropped. The EC's means were not sufficient to independently produce information and analyses. Needs were therefore identified based on national authorities' own analyses. The logical framework of EC strategy is relatively vague, without a clear backbone, but still related to national needs (I 5.2.1). The absence of bilateral instruments and coordination made it very difficult for policy actors to recognise and act on thematic or vertical synergies. Malaysian authorities, during all the period under review, were reluctant on any kind of external influence. From the documents and list of projects, it is difficult to find many matters for policy dialogue. The presence of Delegation staff in KL helped creating a working relationship with the authorities (I 5.2.2).

EC interventions in Malaysia were mainly monitored through regional level evaluations where the Malaysian case was not necessarily extensively analysed. The way bilateral resources were used did not allow for much specific monitoring. The 2008 ROM mission filled the information gap. EC policy interventions relied on demand-driven, regional policy instruments. Despite (limited) access to monitoring and evaluation reports, reliance on regional programmes and absence of national coordination meant that the EC had to rely on existing networks to pick up emerging issues. During the period under review, no major change in instruments or mix of instruments was implemented. Due to the lack of national coordination and the absence of suitable bi-lateral policy instruments, the Commission could not react adequately to specific developments in sector policies at national level. For this reason, the mix and direction of instruments changed little during the reporting period (I 5.3.3). Difficulties to implement EC programmes in the early phases of the covered period and to set-up the core project for the latest CSP did not allow a change in the EC strategy to adjust to emerging policy issues. The focus on Erasmus Mundus in the 2<sup>nd</sup> NIP is shared with Thailand and other ASEAN countries and cannot be seen as a pro-active move related to Malaysian issues (I 5.3.1).

Relationships between the EC and the government, as far as projects under bilateral cooperation are concerned, were not that structured that they can be seen as joint programming. They definitely improved over times, particularly since the Delegation was set in place (I 5.4.1). No sector and policy dialogue took place with Malaysian authorities in the framework of the EC co-operation programme. Dialogue took place in other instances or for a, such as ASEAN or WTO (I 5.4.2). The paucity of the available funds for EC cooperation did not allow or motivate a sequencing of any sort of EC view on the Malaysia reform agenda (I 5.4.3). As a middle income country that is moving rapidly towards industrialised nation status, cooperation between the EC and Malaysia falls

somewhere in between the two financing instruments DCI and Industrialised Countries Instrument (ICI) and possibly a specific instrument for middle income countries would be needed to appropriately address Malaysia's needs (particularly in the trade and economic sector). In many areas (poverty reduction, environment, health etc.), Malaysia is, however, still eligible for support under the DCI (JC 5.4). Malaysia's challenge is "to climb up the value chain", as one interviewee put it, and this is where the country needs the most support in terms of specific TA that helps Malaysia to comply to the highest extent with EC and global standards, mainly in the trade, investment and IP sectors, but also including cross-cutting issues such as environmental standards.

**4.6 EQ6 - To what extent was the EC mix of instruments (regional and thematic budget lines), approaches (fiduciary funds, project approach, macro-level programmes, SWAP), financing modalities (specific procedures, budget support, joint funding) and/or channels of disbursement (government, private sector, NSAs, multilateral organisations) appropriate to the national context and EU strategic policy aims?**

*The financial volumes mobilised under the CSPs were too limited to allow for a strategic mix of various instruments, approaches or financing modalities. On the other hand, the stance of the government on external aid was another limiting factor for the EC to develop a diversified strategy, and this was even more far reaching in terms of instruments, as the standard EC financing agreement procedure was not accepted by the government. The EC therefore relied only on generic, regional level instruments for its interventions in Malaysia during the evaluation period, as they do not require any financial agreement to be implemented.*

At an earlier stage (1997 Asian financial crisis), large multipurpose regional trust funds were also used (in support of the Central Bank). In between, bi-lateral projects were also initiated, before a major drawback was faced with the failed SPF initiative. The Erasmus Mundus window embodied a specific approach of a framework managed directly from Brussels, towards individuals in Malaysia (and other ASEAN countries). However, large in diversity, this instrument mix can hardly be gathered into a thoughtful strategic framework. It is rather dependent on resources made available at regional level to complement the bi-lateral NIP.

As most of the approaches are actually to a large extent common to several, if not all SE Asian countries, it is difficult to come to the conclusion that changes were introduced to fit with a changing context in Malaysia, or to the local specificities of each sector (I 6.1.1). This regional trend of standardisation of EC instruments Asia-wide, has an impact on the content of policy dialogue and puts in question the capacity of adequately addressing local needs.

EC cooperation was not in a position to be pro-active and therefore did not find much ground to incorporate emerging issues in interventions. The European interventions in Malaysia have not profited from a country-level dialogue. Instead, they have relied on generic regional programmes. In the trade sector there is evidence that emerging issues were quickly and successfully dealt with in a mutually beneficial dialogue, but the same kind of evidence was not found for other sectors. EC cooperation was not in a position to be pro-active regarding CCIs either, even if the EC portfolio has always succeeded to maintain the right balance between economic co-operation and the social sector with a constant emphasis on Gender, Human rights and more globally on the promotion of what are the fundamental values of Europe (I 6.1.2).

In the case of Malaysia, project components under regional EC-ASEAN/Asia programmes in the trade/economic sector (see EQs 1 and 5), the implementing modality responded to the needs of the actions, as well as to the capacity of the partner, as it is clearly outlined in the monitoring/evaluation reports on COGEN 3, Asia Trust Fund (AFT), ECAP II and one Asia Invest project.

In other sectors, given the lack of coordination of predominantly regional instruments at national level in Malaysia, it is questionable whether the actual combination of instruments, approaches and financing modalities was the outcome of a strategic process. While almost all projects did achieve stated aims (some mutual understanding, transfer of European best practices and technology, insights in governance agenda, etc.), there is evidence to suggest that programmes did not manage to address intended goals adequately (I 6.2.1). The interventions in the HE sector relied on regional instruments that addressed needs and priorities in a generic manner. Although the combination of instruments achieved policy goals in a narrow sense, the volume and dimensions of these projects enable programmes to only address a very small part of the overall problems. The mix of policy tools did not change significantly over the reporting period and there is little evidence of a strategic learning process. Environmental interventions of the EC were predominantly channelled through regional, demand-driven instruments. While evidence suggests that environmental policy interventions in Malaysia achieved some of their goals, evidence also suggests that, given the lack of coordination at national level, programmes overshot their targets or were of little real use to policy actors on the ground. In terms of environmental interventions in Malaysia, the evidence provides no indication that the different sources of knowledge and feedback about the programmes were pulled together in a strategic process of learning.

No intended combination of instruments was found, as most of the EC interventions came from regional programmes' calls of proposals, where EU partners of consortia were leaders and the main beneficiaries. Malaysian members of the Consortia were exposed to EC regulations only in terms of providing accounts and receipts. Malaysian partners' capacity ranks fairly high when compared to developing countries (I 6.2.2).

No authority on strategic thinking and combining EC instruments/approaches was identified at national level out from the EC Delegation in Malaysia. Exchanges of views on EC co-operation instruments were not organised through fora and workshops (I 6.3.1). When they did take place, such events were intending to disseminate projects' results, like for AsiaUrbs. No testimony was found either, of an analysis of comparative advantages of the various instruments and approaches in the Malaysia context. This might be explained by the fact that the bulk of resources were expected from regional programmes (I 6.3.2).

Lessons were learned through other channels than documentation, probably direct experience of the Delegation's staff and experience from other ASEAN countries, mainly Thailand. Those lessons are systematically mentioned in CSPs to justify chosen instruments/approaches/sectors but in very general terms, but which show a good understanding of the Malaysian context (I 6.3.3).

Monitoring/evaluation reports with some assessment of instruments and approaches efficiency are available on regional programmes (for example COGEN 3, Asia Trust Fund (ATF), ECAP II and one Asia Invest project). Monitoring and evaluation was otherwise weak during the period under review, and cannot be assessed as an explanatory variable in terms of the efficiency and ability to achieve EC assistance goals. The constraints were much more related to the government's non-cooperative stand and the weakness of resources whatsoever available (I 6.3.4, I 6.3.5).

#### **4.7 EQ7 - To what extent has the EC coordinated and cooperated with EU Member states and IFIs intending to improve the complementarity of their interventions?**

*Coordination with MS took place with the EC as a pro-active player (exchange of information on matters of mutual concern). This interaction remained using an informal approach to a certain extent, which is appropriate considering the small number of projects implemented by the EC and MS in Malaysia. The EC Delegation took a leading role in resolving trade disturbances in negotiations with the Malaysian government. No joint implementation of MS/EC cooperation projects was considered. The same applied to relations with IFIs which were requested to be phased out by GoM.*

The EC programming documents (CSP 2002-2006, p. 19) underline its commitment to providing for complementarities in co-operation programmes at EU and international level, involving all partners including EU Member States, business associations, universities and other institutions, NGOs, trade associations and others. Regular meetings of EU Heads of Mission and of economic counsellors in Malaysia were held, as well as regular meetings with the World Bank, the Asian Development Bank and the UN agencies. The 2005 strategic evaluation allowed assessing that the EC played a significant role in coordinating MS initiatives and dialogue with the Malaysian government. This coordination did not imply a complementarity between the co-operation programmes, and mainly so for trade and investment initiatives, where competition remains the rule among MS. No reports of solving conflicts or inconsistencies are available to date. The 2005 Strategic Review mentioned that coordination did take place with the EC as a pro-active player (exchange of information on matters of mutual concern). This somehow informal approach can be seen as appropriate, considering the small number of projects implemented by the EC and MS (JC 7.1).

The EC did not launch joint programmes with MS. On the contrary, as EC co-operation was mainly based on ASEAN programmes, the scope for joint co-operation with MS narrowed during the covered period (cf. I 7.2.1). There is no locally based joint policy dialogue or common donors' platform in Malaysia. MS leave to policy dialogue to EC HQ in Brussels (mainly on trade matters), and focus on small-scale project implementation or economic initiatives (I 7.2.2).

While Embassies of MS stressed the "good coordination role of the Delegation", the point of reference was more the constructive input of the Delegation as the lead agency in resolving trade disturbances in negotiations with the Malaysian government (see EQ1), than the joint implementation of MS/EC cooperation projects (JC 7.1).

MS highly appreciated that the EC has constantly reminded Malaysia of the values on which Europe is based.

The only example of an externally managed facility financed mainly by the EC in Malaysia is the Trust Fund I, managed by the WB, and mainly financed by the EC (see EQ1). No mention of this instrument was made in EC programming documents and no mention of EC programming documents contents can be found in TF planning materials. It can therefore be assessed that consistency was not considered in designing both logical frameworks, and that no link was entertained during implementation. Assessment of the consistency with EC long term goals will be difficult as EU long term goals in Malaysia were not clearly stated in EC programming documents. No evidence of EC visibility in ASEM TF implementation was found specifically for Malaysia. Overall reporting of the WB managed ASEM TF1 in ASEAN was weak in terms of EC visibility. An example of good EC visibility is the Malaysia project component of the Asia Trust Fund, which was managed by the International Trade Centre (ITC). The project was characterised by high EC visibility according to interviews at SIRIM, the Malaysian implementing agency (JC 7.3).

Apart from the fact that the EC Delegation was in touch with both MS and IFIs on a regular basis, no evidence was found (see I 7.4.1) that this led to improved complementarity between them. The CSP shortly presents MS and IFIs cooperation activities, but no gaps are specifically identified (see I 7.4.2). Along the same lines, EC strategic planning in CSPs does not assess EC comparative advantage (see I 7.4.4). Day-to-day operations might have been organized according to principles of additionality and gap-filling, but this was neither anticipated in the CSPs nor reported (see I 7.4.5) during the field mission.

**4.8 EQ8 - To what extent did the EC approach result in progress towards a balanced economic partnership between Malaysia and EU within the overall process of integration into the world economy that would not have occurred absent EC co-operation programmes?**

*Given the small volume of the cooperation programme, it is unlikely that it had any measurable impact on the development of the overall economic relationship between Malaysia and the EU within the overall process of integration into the world economy. However, with regards to individual sectors, mainly cooperation on energy, the EC approach resulted in important value added to the partnership.*

The COGEN 3 programme implementation in Malaysia is the only record of a significant progress towards a balanced economic partnership between this partner and EU within the overall process of integration into the world economy that would not have occurred in the absence of the EC co-operation programmes. The project had a positive impact at policy levels through the organisation of several fora and study tours for ASEAN policy makers in Europe and ASEAN, which has raised their awareness on the importance of promoting cogeneration in their countries. Impacts are also visible in Malaysia and Cambodia, however, to a smaller extent. COGEN impacted the policy framework and legislation in Malaysia. Thailand, Malaysia and Singapore were commercially more ready to invest in cogeneration projects than the other ASEAN countries, and the direct impacts were concentrated there. Many of the projects have an innovative approach and are the first of their kind in ASEAN, introducing new standards and methodologies for end users and policy makers, for instance in Malaysia (European Commission, Ex-post Evaluation of the COGEN 3 Programme. Framework Contract 2006/115686, Popular Report, September 2006).

ECAP II also provided a valuable - albeit indirect - contribution to economic relations as the Malaysia component helped to improve the national legal framework for IP as well as IPR administration, enforcement and awareness. Malaysia's IP regime complies now better to EC and global standard and this should benefit trade and investment relations between the EU and Malaysia.

At the level of policy dialogue, conflicts on trade issues were resolved in (informal) dialogue between the EC (coordinated with the MS) and the Malaysian government (JC 8.1).

## 5 CONCLUSIONS

### 5.1 Global

**Conclusion cG1** (*from EQs 1, 2, 3, 5, 6*): Regional convergence for programming under the NIP/MIP was set up during the evaluated period, and was applied to a large extent to major sectors of EC interventions such as higher education (Erasmus Mundus) and economy (SPF). It intended to build on lesson learned in changing economies and to set-up more flexible and open ways of mobilising pro-active local stakeholders of the civil society and the private sector. The EC did not succeed in achieving a strategic response through Regional programmes in Malaysia. Limited bilateral resources were not used to complement RIP projects, as the Small Projects Facility (initial focal sector) was not agreed upon by the Malaysian government. With this dead-end, EC co-operation was forced to a widespread and piecemeal gathering of small and disconnected projects with limited impact, apart from that on a local level, nor visibility beyond directly involved stakeholders (except for trade issues).

**Conclusion cG2** (*from EQs 1, 2, 5*): With disbursements of € 6.05 million over the 1997-2007 period, EC bilateral co-operation could not enjoy any significant weight in policy dialogue and in bringing about some changes on major issues for Malaysia's governance agenda, particularly Human Rights, where international concerns remain. Ways were found however, notably by establishing an EC Delegation in Kuala Lumpur, to re-build a working relationship. But achieving a balance between addressing needs and entertaining the partnership with the government became the overarching strategic goal.

**Conclusion cG3** (*from all EQs*): Even if EC co-operation goals were not achieved, all projects were efficiently implemented during the period under review, due to the regional programme inherent call of proposals procedures, the good level of capacity of Malaysian shareholders, and externalization to international organizations (World Bank for Trust Funds and UNDP for community development programmes) of manpower demanding programmes.

**Conclusion cG4** (*from EQs 2, 4, 5*): New generation projects, from 2002 onwards, were either unlikely to consider CCIs (such as the Erasmus Mundus window), or directly addressing gender or HR concerns. With a very limited project portfolio, no impact was evidenced on cross-cutting issues mainstreamed in EC interventions. Small NGO-implemented projects might have been an opportunity to breed a constructive dialogue between the EC Delegation staff and related ministries. However, the lack of benchmarking right from the CSP made it difficult to assess.

### 5.2 Specific

**Conclusion cS1** (*from EQ 1*): There is no empirical evidence that the EC cooperation programme has had any major measurable effect on trade relations with Malaysia. The development of trade relations has been subject to other dynamics, including the implementation of the new GSP regime, that are outside the scope of this evaluation. However, evidence was found that the small Malaysia components of regional EC-ASEAN/Asia programmes (particularly ECAP II, Asia ProEco and ATF) were efficiently and effectively implemented and helped Malaysian government agencies and the private sector to adapt to EU standards. Furthermore, the EC Delegation played a decisive role in resolving recent (small) disturbances in trade relations.

**Conclusion cS2** (*from EQ 1*): The presence of the Delegation improved the visibility of the EC in Malaysia. Malaysian stakeholders who have already established contact with the Delegation highly appreciate close relationships with the EC. However, not all Malaysian government agencies – even line ministries such as MITI – have a clear idea about the role of the EC Delegation. Given the main focus on regional programmes and the fact that the (small) Delegation in Malaysia was only established in 2003 the relevance of the EU as trade partner and investor is not matched by an equivalent visibility of the EU in Malaysia.

**Conclusion cS3** (from EQ 1, 8): On trade matters, the EU-Malaysia Chamber of Commerce rely on RIP resources and did not entertain strong relations with the Delegation (which is a common feature Asia wide) limiting the scope for coherence and visibility; however, relations have improved significantly since mid-2008.

**Conclusion cS4** (from EQ 2): While the existing instruments and programmes for promoting intercultural learning were adequate, the scope and penetration of these projects was far too small to make a significant impact on Malaysian needs for investment in research and teaching excellence in Higher Education. Since intercultural learning and understanding in this field is a long-term process in which interpersonal and institutional linkages need to mature and percolate through research landscapes in both Europe and Malaysia, it may be too early to expect tangible and measurable results. Policy goals and strategies in Malaysia bear all the characteristics of a modern HE and RTD policy agenda. However, the suitability of these generic ideas – designed primarily for highly advanced economies -- for the specifically Malaysian context is more than questionable. EC support to Higher Education through the Erasmus Mundus window was not visible enough.

**Conclusion cS4** (from EQ 2): In general, linkages between HEI's and researchers were good, useful and sustainable. They were, however, sparse. Linkages at policy-making level (either at SOM or official level) were more tenuous and fragile. Legal barriers to the flow of students and faculty between Europe and Malaysia were part of a wider set of problems. The flow of students and faculty between the two regions stayed imbalanced. These concern, primarily, the lack of knowledge about Malaysian universities in Europe as well as the considerable pecuniary and reputational disincentives for European students and faculty to relocate to Malaysia. Administrative requirements of proposal writing and project management were perceived as being too difficult and too time-consuming.

**Conclusion cS5** (from EQ 2): The EC's HE policy interventions in Malaysia have not yet led to more intensive cooperation sectors of mutual economic benefit. Existing policy instruments have, however, created sustainable institutional and interpersonal networks in the areas of sustainable development and sustainable resource management. Existing collaborative programmes provide second-order benefits in terms of capacity for proposal preparation and project management.

**Conclusion cS6** (from EQ 3): The EC Delegation's work on the environment has been hampered by the lack of bi-lateral instruments to coordinate and steer environmental policy interventions at the national level. While the flexibility of demand-driven, regional instruments is an advantage, the broad remit of these tools renders them too generic in cases. Synergies between the thematic, regional and national level could not be exploited to the full to provide any sort of strategic answer to climate change.

**Conclusion cS7** (from EQ 3): Flexible, demand-driven instruments have enabled the Commission to meet perceived national environmental needs and priorities but the lack of horizontal/ thematic coordination at national level has prevented the realization of environmental projects tailored to Malaysia's specific stage of development. Reliance on bottom-up, regional instruments precluded rational policy sequencing of programmes. Instead, environmental projects emerged from existing networks and activities.

**Conclusion cS8** (from EQ 3): The Malaysian environmental policy agenda suffers from a considerable implementation gap. European environmental projects have addressed parts of the causes of this implementation deficit by helping Malaysian policy actors build institutional, individual and technological capabilities.

**Conclusion cS9** (from EQ 4): CCI issues were clearly seen as crucial emerging issues for the future of Malaysia by many stakeholders including multilateral/ bilateral and NGOs representatives. The paucity of available EC funds and the lack of human resources dedicated to CCIs have limited the capacity for information creation and strategic analysis on CCIs.

**Conclusion cS10** (*from EQ 4*): Flexible instruments such as EIDHR and the NGO co-financing budget line proved to be a potentially useful way of mainstreaming good governance and gender issues, but they have not yet functioned in full in this regard.

**Conclusion cS11** (*from EQ 7*): The absence of coordination/complementarity is mainly due to the limited scope for joint action all MS phased out for development cooperation. The level of development reached by Malaysia contributed further to empty the EC role of coordination with MS as they (and IFIs as well) do not engage in ODA to Malaysia anymore (except for Denmark, which is phasing out). Thus, there was little ground for EC added value in terms of playing a coordinating role apart for trade issues. For MS embassies, the EC Delegation is seen as less related to ODA, and more to trade matters. However, a fundamental of Malaysian government policy became a conflictual issue, raised by the former Head of Delegation. If the rationale of this issue is not discussed by MS, the relevance of raising it the way it was, remains doubtful as this was done without prior consultation with MS. Government-EC working relationships were briefly affected, but not the projects.

## 6 RECOMMENDATIONS

### 6.1 Global

**Recommendation rG1** (*from cG1*): However limited, bi-lateral resources should be the core of the strategic response and the EC Delegation should have more of a say on regional and thematic projects, to reinforce the consistency of specific interventions with overall EC cooperation. This is precluding impact and visibility of EC assistance.

**Recommendation rG2** (*from cG2*): In the evolving context of Malaysia, policy dialogue can be re-assigned as one major EC interventions' goals if focused of the major mutual concern that is trade regulations and more specifically, on anticipating the non-tariff barriers to access EU markets. The new thrust of EC strategy after 2007 already shows a commitment to policy dialogue.

**Recommendation rG3** (*from cG2*): Along this line, the growing concern of line ministries of benefiting from targeted high level technical assistance from EU experts should be addressed. Some specific area(s) of demand for training courses, such as EC procurement policies, need to be identified together with the stakeholders involved in policy dialogue.

**Recommendation rG4** (*from cG4*): The EU governance and human right agenda should be kept as one major entry of the CCIs. Benchmarking right from the CSP is a prerequisite for carrying on with projects focussed on CCIs, as their actual impact on beneficiaries and government policies needs to be documented.

### 6.2 Specific

**Recommendation rS1** (*from cS1*): Create more synergies among the Malaysia components of regional projects which, in many cases, have common or compatible foci (compliance with EU standards, green procurement policies, food safety etc.). Such synergies could be achieved, for example, through a partial shift from regional to national/local calls for proposals in the trade/economic cooperation sector.

**Recommendation rS2** (*from cS2, cS3*): While there are natural limits to the workload of a small EC Delegation, a more direct involvement of the Delegation in the selection of project proposals should be considered to increase both EC visibility and the Delegation's steering capabilities in relations with Malaysian counterparts. To the extent possible, the Delegation should foster and strengthen formal relations with stakeholders, such as the EU-Malaysia Chamber of Commerce and Industry, that have established a track record of promoting EC/EU interests and contributed constructively to the conduct of relations with Malaysian state and non-state agencies.

**Recommendation rS3** (*from cS4*): Implement more medium- and short-term HE policy instruments (i.e. more directly “interventionist” measures) to complement the programmes with a more long-term horizon. Potential involvement of the EC in HE area could consist of assisting the production of the necessary knowledge- and evidence-base for effective HE policy-making as well as the development of HE policy instruments that address the specific situation of developed middle-income countries such as Malaysia. EC policy-makers should consider expanding programmes and funding to encourage the flow of students and, in particular, faculty from Europe to Malaysia. This could be done through existing programmes, such as Erasmus Mundus or ASEM-Duo, or through a new programme.

**Recommendation rS4** (*from cS4, cS7, cS11*): Improve coordination and targeting: (i) vertical coordination of outreach efforts at different levels (national and regional), and (ii) horizontal coordination between Commission, other foreign players with more established institutional linkages (i.e. the British Council) as well as local HEI's internationalisation offices, which require assistance in building managerial and coordination capacities. Guidelines or help for filling out forms and proposal drafting as well as project management would increase the efficiency of application and project management processes.

**Recommendation rS5** (*from cS5*): Leverage and disseminate EC experiences into the national Malaysian HE landscape. Participants in European collaborative projects could become ‘multipliers’ of European best practices in collaborative project management.

**Recommendation rS6** (*from cS6*): Coordination and steering at the national level would provide a considerable value-added to the regional environmental programmes and projects. This coordination need not necessarily be based on sophisticated bi-lateral instruments (although these are of course desirable) nor need it occupy that much time of Delegation officials. Events such as proposal-writing seminars, consortium-building workshops, clustering workshops, or debriefing/dissemination seminars could already activate synergies between different actors at the national level.

**Recommendation rS7** (*from cS7*): Assistance in coordinating policies, organizations and practices across these policy communities would be a valuable contribution to the implementation of the Malaysian environmental agenda, fragmented across energy and environmental policy communities. In order to pursue its environmental policy goals, the EC needs to actively engage with the different framing and definition of global environmental challenges in Malaysia.

**Recommendation rS8** (*from cS8*): The EC may consider expanding the range of environment-related activities to include policy design and implementation.

**Recommendation rS9** (*from cS9*): Find more innovative approaches to be in the position to be more visible and to be in a position to engage in policy dialogue with authorities on CCIs. More appropriate indicators and benchmarks should be developed to measure progress towards CCI expected results in line with the achievement of strategic goals. EIDHR and budget lines should be used on an experimental basis, to provide additional cross-sectoral inputs from the ground. For example, EIDHR can be used to propose community-based development methodology on gender, governance (corruption), etc. which can be virtually tailor-made to address specifically Malaysian issues and which could be replicated.

**Recommendation rS10** (*from cS10*): The formulation of a cross-cutting issues portfolio needs to be more detailed with the Malaysian authorities' agreement. The EC should try to be viewed more as a partner of Malaysian authorities. In parallel, and regarding the emerging HR priority needs of refugees, the EC should join in with other multilateral partners who have already developed a specific diagnostic and strategic analysis to elaborate EC strategy. This will also be an opportunity for the EC to improve relations with NSAs, as since 2004, a “Migration working group” composed of multilateral and bilateral donors and around 30 NGOs work on these subjects. The same applies to gender and governance issues with UNDP and governmental agencies.

**Recommendation rS11** (*from cS11*): Coordination set-up with MS should be reinforced but without giving it a more formal pattern and cumbersome procedures. Emerging issues should be taken as opportunities to tie existing links on an ad-hoc basis, mainly on trade issues and extend progressively the scope for joint actions.