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**MALAYSIA**

**Multi-annual Indicative Programme 2021-2027**

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## 1. The overall lines of the EU international cooperation in Malaysia

### 1.1. Basis for programming

The basis for programming is the country's 12<sup>th</sup> Malaysia Plan (2021-2025) itself aligned with Shared Prosperity Vision 2030.

Since its independence in 1957, Malaysia has remained politically stable, has experienced rapid economic growth and is expected to reach high-income status by 2027. Malaysia's promising economic prospects are supported by well-developed infrastructures, substantial natural resources, notably in oil, gas, forestry, fisheries and agriculture, as well as globally competitive manufacturing and services sectors. The development has benefitted all ethnic groups, though not evenly, and Malaysia continues to struggle with structural inequalities. Deep cleavages between ethnic, religious and economic groups, as well as between east and peninsular Malaysia, are increasingly characterising the country.

The COVID-19 pandemic has had a major economic impact, notably on vulnerable households. Income inequality remains high relative to other East Asian countries but is gradually declining, even if the absolute gap across income groups has increased over the past decade. On top of this the pandemic risks exacerbating profound social and economic consequences for the many people who work in the informal labour market. Over the longer term, ongoing reform efforts to tackle key structural constraints in the economy as well as improved quality of education would help sustain Malaysia's development. The country's economic prospects are supported by well-developed infrastructure, substantial natural resources, and globally competitive manufacturing and services.

Malaysia is committed to the implementation of the Paris Agreement. The country faces deterioration and climate change impact on its rainforest and long coastlines. Economic growth has heavily affected biodiversity and the natural environment and Malaysia is struggling with finding a balance between protecting the environment, combatting climate change, as well as sustainable and equitable development.

With the upgrade of **EU-ASEAN relations** to the level of **strategic partners**, the EU's relevance as an interlocutor for Malaysia is key for the EU's broader influence in the region. In line with the **EU strategy for cooperation in the Indo-Pacific**, the expected signature of the negotiated **Partnership Cooperation Agreement (PCA)** and a possible future resumption of negotiations on an ambitious and comprehensive **Free Trade Agreement (FTA)** if the conditions are right, the EU is pursuing a **balanced and broad engagement with Malaysia to improve overall relations and to promote universal and shared values** on human rights, democracy, the environment, business and trade relations. Furthermore, the **European Union will further develop partnerships and strengthen synergies with likeminded partners, such as Malaysia**, in security and defence. This will include **responding to challenges** to international security, including maritime security, malicious cyber activities, disinformation, as well as from emerging and disruptive technologies, countering and improving resilience to terrorism, violent extremism and hybrid threats, countering organised crime and illicit trafficking, in full compliance with international law.

**The EU has a strategic interest in strengthening its relationship with Malaysia:**

- Malaysia is an important and committed **ally in defence of multilateralism and a rules-based international order**;
- Malaysia can become a **partner in security cooperation**. Malaysia remains an **influential player within ASEAN** and can therefore play a significant role in implementing **the EU-ASEAN strategic partnership**;
- The **EU has considerable economic interests in Malaysia**, a country strategically located between the Melaka Straits and the China Sea, where 50% of the world trade circulates;
- Its strategic location gives Malaysia a key role in the successful implementation of the **EU Strategy for Cooperation in the Indo-Pacific**;
- Malaysia is a functioning democracy and **the EU has a strong interest in it staying on the path of democracy**;
- Malaysia is host to some of the world’s last remaining megadiverse tropical forests – the Malaysian Forest Spine in Peninsular Malaysia and the Heart of Borneo are **important global ecosystems**, populated by several indigenous peoples’ groups.

**EU cooperation with Malaysia** will extend beyond the objective of poverty reduction and aim at **deepening bilateral trade and investment relations**, based on shared principles on sustainable supply chains, sustainable production and consumption, sustainable fisheries, strengthening environmental protection and conservation in Malaysia, while supporting national efforts to eliminate illegal, unreported and unregulated (IUU) fishing, increased climate change mitigation and adaptation as well as more broadly supporting the implementation of the **2030 agenda and the Sustainable Development Goals (SDGs)**.

The aims and priorities of the Government of Malaysia are well-aligned with the 2030 agenda, as well as the priorities of the European Union. The country’s 12<sup>th</sup> Malaysia Plan (2021-2025) is anchored on three key themes:

- 1) “Resetting the economy” which focuses on restoring growth momentum, propelling high impact industries, micro, small and medium-sized enterprises (MSMEs) and global value chains;
- 2) “Strengthening security, wellbeing and inclusivity” which focuses on efforts to uphold the country’s stability by enhancing defence and security, while improving healthcare, providing affordable housing, promoting an active lifestyle and fostering unity;
- 3) “Advancing sustainability” which focuses on advancing green growth as well as enhancing energy sustainability and transforming the water sector.

Prospects of resuming talks between the EU and Malaysia on a **Free Trade Agreement** were explored in 2017 but are currently on hold. Signature of an **EU-Malaysia Partnership Cooperation Agreement (PCA)** is expected shortly. The debate on palm oil production plays an important role in bilateral EU-Malaysia relations. In particular, the societal and environmental benefits of EU policies including the revised Renewable Energy Directive as well as proposals for deforestation-free commodities and sustainable corporate governance need to be more positively promoted. Potential future support to Malaysia should consider this issue.

The COVID-19 pandemic and its social and economic consequences have highlighted the importance of **multilateralism to address global challenges and promote peace and**

**stability.** EU actions, while applying the principles of “do no harm” and “build back better”, will focus on supporting the post-COVID economic recovery and the transition to a sustainable, socially just, resilient and climate neutral economy, by means of implementing mutual priorities to help Malaysia achieve the SDGs and the Paris Agreement goals.

All actions taken under this programming exercise shall comply with EU legislation, in particular EU restrictive measures (sanctions) adopted pursuant to Article 215 of the Treaty on the Functioning of the European Union.

## 1.2. Status of joint programming

There is no joint programming process in Malaysia.

## 2. Cooperation Facility

The **priorities** of this multi-annual indicative programme will focus on connectivity, human development and the Green Deal, with **objectives** focusing on strengthening EU interests and political priorities in the country, while tackling areas of common interest.

As for the **expected results**, the Cooperation Facility for Malaysia will support policy dialogues including on connectivity and trade, dialogues on policy commitments to deliver the SDGs, dialogues with civil society, youth and women’s organisations, and public diplomacy. The **specific indicators** will be developed in subsequent action programmes.

The Cooperation Facility will consist of a wide range of tools, initiatives and activities to **reinforce the EU strategic interests and priorities in Malaysia**. The action will put in place a policy facility to support ongoing policy dialogues and negotiations with the public authorities, the economic actors and the civil society. The facility will also support enhanced public diplomacy and strategic communication efforts and awareness of the EU in Malaysia in key areas of interests.

The activities undertaken under the Cooperation Facility will **complement thematic and regional programmes for the ASEAN and Asia region**, as well as the EFSD+. **Blending operations and guarantees** will be funded by the regional envelope, however the Cooperation Facility for Malaysia could fund studies and assessments to support the design of EFSD+ actions, including on green bonds, which Malaysia is already issuing successfully.

With an overall aim to **enhance the EU-Malaysia partnership**, through **strengthened synergies between mutual interests, principles, policies and values**, complemented by **increased understanding and visibility of the EU and its role on the world scene**, the Facility will **support activities addressing the following**:

- **Policy Dialogues** under the PCA including security (including, e.g., trafficking in human beings, cybercrime, drug trafficking, organised crime, terrorism), human rights, good governance, rule of law, the digital and green transitions, as well as science and research.
- Dialogue on policy **commitments to deliver the SDGs**. The activities implemented under the Cooperation Facility will be **aligned with the 2030 Agenda and the SDGs**.

- Trade issues, including areas that would be covered under a future **free trade agreement** in case negotiations are resumed, including economic governance, market liberalisation, trade and sustainable development, structural reforms and regulatory convergence, as well as inclusive growth and decent work, including fundamental rights at work.
- **Cooperation between European and Malaysian businesses.** Cooperation will promote decent jobs, including fundamental rights at work, improve the business environment and mobilise sustainable investments.
- Promote **regulatory cooperation, including on standards and other regulatory measures supporting market access, the digital transition,** as well as on other relevant policies in the trade, digital and economic diplomacy area.
- Cooperation that can facilitate mutually beneficial resilient and sustainable global value chains, in order to improve their diversification and security.
- Cooperation on creating the conditions for more circular-production models, and more accountable and responsible value chains between the EU and Malaysia.
- A **structured dialogue with civil society organisations, youth organisations and women’s organisations** to ensure the mainstreaming of cross-cutting issues.
- **Support to the Gender Action Plan’s implementation and objectives** in the country.
- **Public diplomacy and strategic communication** activities to promote understanding and awareness of the Union's values, interests and specific policies, including foreign and security policy, science and research, gender, fight against disinformation, as well its multilateral agenda.
- The **external dimension of the Green Deal,** with a focus on the promotion of deforestation-free supply chains, particularly for palm oil and issues related to the EU renewable energy directive – RED II, as well as on forest management and biodiversity. A forest partnership could be explored.

In case a Team Europe Initiative (TEI) is conceived for Malaysia, the EU’s indicative contribution to this TEI is subject to the confirmation of the Team Europe partners’ indicative meaningful contribution as early as possible. In the absence thereof, the EU’s indicative contribution may be redirected in accordance with the priority areas of the MIP and their allocations. The obligation of the Union and the Member States to coordinate their development policies following initiatives by the Commission to this effect, as per article 210 TFEU, always applies.

### 3. Financial overview

<i>Cooperation Facility</i>	<i>100%</i>	<i>EUR 20 million</i>
TOTAL for 2021-2027	<i>100%</i>	<i>EUR 20 Million</i>

## ATTACHMENT 1. DONOR MATRIX

<b>Receipts for Malaysia</b>			
	2017	2018	2019
Total net receipts (USD million)	2192.3	-918.3	11079.7
Gross ODA (USD million)	95.4	83.6	121
Bilateral share (gross ODA) %	82.3	81.7	81.9
NET ODA/GNI (%)	0.0	0.0	0.0
Net ODA (USD million)	- 29.3	- 34.5	6
Population (million)	31	32	32
GNI per capita (ATLAS USD)	9,940	10,590	11,200

<b>Top Ten Donors of Gross ODA for Malaysia, 2018-2019 average, USD million</b>	
JAPAN	30.38
GERMANY	14.94
UK	13.81
US	7.85
FRANCE	7.2
UNHCR	6.98
SAUDI ARABIA	3.08
UNICEF	2.91
EU INSTITUTIONS	2.47
GLOBAL ENVIRONMENT FACILITY	2.32

<b>Bilateral ODA by Sector for Malaysia 2018-2019 average %</b>	
Education	37%
Health and population	5%
Other social infrastructures and services	21%
Economic infrastructure and services	1%
Production	9%
Multisector	16%
Humanitarian aid	7%
Other and unspecified	4%