



August 12, 2011

Mr. Craig Thomson, MP  
Mr. Steven Ciobo, MP  
c/o Committee Secretary  
Standing Committee on Economics  
PO Box 6021  
Parliament House  
Canberra ACT 2600  
Australia

To the Honorable Craig Thomson and the Honorable Steven Ciobo:

I respectfully write as an observer of Malaysia's economic development, a committed advocate in and outside the United States government of free and open trade, and as the chairman of an economic analysis firm and a U.S. environmental group (U.S. Climate Task Force). I wish to convey concerns about the Food Standards Amendment (Truth in Labelling – Palm Oil) Bill 2010 and the public relations campaign being mounted in your country to support it. This food labeling legislation, currently before your committee, is, as I understand it, based on certain inaccurate claims and mistaken views about how best to promote productive reforms in developing nations. It also would discourage trade between your country and a developing nation in violation of World Trade Organization rules.

The Malaysian palm oil industry generates very significant benefits for that nation's economy and economic development, including large exports, substantial employment, and the adoption of advanced technologies and business methods. In 2010, the industry contributed 7.5 percent of Malaysian GDP, a larger share than the professional services industry in Australia and nearly as large a share as your manufacturing sector. Under Malaysia's Economic Transformation Program, the palm oil industry also plays a key part in the program's long-term goal of moving that nation to the ranks of the world's high-income societies. Recently, I wrote an essay for Malaysia's *New Straits Times* which noted,

*It's a strength that Malaysia is the world's second largest producer and exporter of palm oil. Indeed, the palm oil sector's achievements in harnessing new technology, delivering foreign investments to Africa, developing a skilled labour force, and embracing global markets offer Malaysia a sound model for how other sectors should grow and mature. The palm oil sector can help point the way towards high-income status.*

In light of the critical importance of trade and economic modernization to the economic growth of Malaysia – as with all developing countries – measures which would discourage trade between two important, regional trading partners and slow that modernization should be approached with great caution.

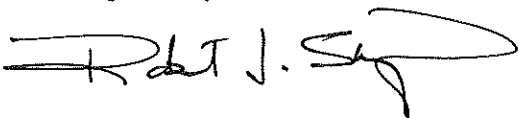
The proposed legislation, as I understand it, would single out palm oil for labeling among all of the various types of vegetable oils. Moreover, this labeling would occur in the context of the current campaign in Australia to associate the production of palm oil with environmental degradation, including deforestation and the associated endangered status of orangutans. To begin, this would appear to be a misuse of Australian regulation, with the organizations opposing palm oil production using labeling regulation to promote entirely separate goals. Furthermore, the principal causes of deforestation are not palm oil development but poverty and subsistence farming, which force desperate people to consume forests for fuel. In this regard, the Malaysian palm oil development program has enabled thousands of landless farmers to establish their own farms to cultivate palm, cocoa and rubber, substantially improving their standards of living. The United Nations and the World Bank both have lauded this anti-poverty effort. In addition, the state governments of the Malaysian provinces in which endangered orangutans reside have set aside half or more of all land as permanent forests, and they have established wildlife sanctuaries and national forests for habitats for the orangutans.

The allegations that certain Australian groups have leveled against the Malaysian palm oil industry ignore the factors which drive agricultural expansion in emerging economies and the impact of the palm oil sector on Malaysia's ecosystem. The rates of deforestation in Malaysia do not reflect production of palm oil or any single commodity, but national strategic decisions to expand production and economic activity in many areas. These efforts, aimed at hastening the modernization across much of the Malaysian economy, include limits on deforestation that exceed those of most developing nations.

Food labeling is an important tool to ensure that consumers have the information they need to make informed choices. In this context, ensuring that consumers have information related to the health and safety of products, especially foods, is vitally important. However, the proposed measure does not concern the health and safety of palm oil products. Instead, it would promote a political critique of an industry in another country as that country is struggling to modernize itself. Moreover, that country, Malaysia, has undertaken major efforts to move palm oil production towards a form of fully-sustainable agriculture and so protect its forests and the orangutans. Therefore, the legislation would run counter to internationally-recognized norms regarding compulsory labeling, based on debatable assertions and allegations about the practices of an industry in a much poorer nation which has undertaken unusually strict regulation of that industry.

I have enclosed a copy of the essay which I recently published in Malaysia's *New Straits Times*, and which I hope will give you a better understanding of the role of the palm oil industry in Malaysia's economic development. I urge you to objectively consider the ramifications of this legislation for the people of Malaysia and uphold the terms of open and fair trade between Malaysia and your country.

Respectfully,

A handwritten signature in black ink, appearing to read "Robert J. Shapiro". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Dr. Robert J. Shapiro  
*Chairman of Sonecon, LLC, Chairman of the U.S. Climate Task Force, and former U.S. Under Secretary of Commerce for Economic Affairs (1997-2001)*

## Malaysia's path to high-income growth

Robert J. Shapiro, August 5, 2011

MALAYSIA stands at an important crossroads. It has successfully engaged with world trade and globalisation, adopted advanced technologies and undertaken the necessary public investments in education and infrastructure required to achieve middle-income status.

It has achieved world-class status in certain sectors, most notably vegetable oils, natural gas and certain electronic products.

But Malaysia also faces a challenge common to many middle-income economies: how to manage the transition to join the ranks of fully modernised, high-income nations?

The answer is to intensify its engagement in the global economy, solidify its commitment to economic and political stability, and redouble its public investments in education and infrastructure.

These are the necessary ingredients to produce an economy truly open to adopting the technological and organisational innovations of the world's most advanced economies and capable of generating some of those innovations on its own.

Since 1990, the share of everything produced in the world that's traded across borders has jumped from 18 per cent to more than 30 per cent -- the greatest increases and highest levels ever seen in history. Moreover, cross-country investment has grown twice as fast as worldwide trade.

The most important kind of transfers has been "foreign direct investments", where multinational companies build factories and other operations around the world.

The use of those foreign direct investments -- and the direct purchase of those technologies by native businesses -- has produced a new dynamic in the world economy: for the first time ever, worldwide growth is driven not by the advanced countries, but by those parts of the developing world, including Malaysia, that effectively have embraced globalisation.

Malaysia was for a time a commodity-based economy, and commodities remain critical to its prosperity. About 22 per cent of Malaysian exports are commodities -- led by palm oil, then followed by oil and natural gas.

It's a strength that Malaysia is the world's second largest producer and exporter of palm oil. Indeed, the palm oil sector's achievements in harnessing new technology, delivering foreign investments to Africa, developing a skilled labour force, and embracing global markets offer

Malaysia a sound model for how other sectors should grow and mature. The palm oil sector can help point the way towards high-income status.

In a recent speech before the Malaysian palm oil industry, I noted the ways in which the palm oil industry is contributing to Malaysia's development and prosperity.

Palm oil has widespread practical application for everyday consumer products; an ingredient for food staples and confectionary products in the developed and developing worlds; health supplements; personal care products such as soaps and detergents; and medical treatments.

In one recent example of many of these dynamics, the area of Lahat Datu was recently reported as set to become the country's centre for downstream use of palm oil waste products for the manufacture of pulp and paper.

In the future, we may also see palm oil assume an important place as a biofuel supplement to gasoline or even a biomass source of energy for electricity generation.

In fact, palm oil is already a growing source of biodiesel in the United States and other countries. It is therefore no surprise that palm oil is the largest single contributor to Malaysia's gross domestic product, accounting for 7.5 per cent of that GDP last year.

And perhaps most important for the future modernisation of the Malaysian economy, the industry produces "spillover" benefits by demonstrating to other industries the advantages of adopting advanced technologies and business methods.

The reforms under the New Economic Model and Pemudah will help improve business and could also contribute even more towards economic growth by expanding commitments to research and development and worker training, and promoting greater openness to trade and investment. These, along with a redoubled commitment to public investment in education, will help Malaysia advance towards high-income status.

The West can do its part as well by lowering certain trade barriers and ensuring access to its wealthy markets -- and Malaysia will have to return the favour by lowering its trade barriers. That's also a vital part of engaging in globalisation.

There's not much time. Malaysia is in the midst of an historic baby boom-baby bust cycle, just like the ones that affected the Asian Tigers 40 years ago, and the United States, Europe and Japan 30 years before that.

Today, 30 per cent of Malaysians are under age 15, and only five per cent are over age 65.

The economic miracles of Taiwan, South Korea, Hong Kong, Singapore -- and Germany and Japan before them -- were all built on a convergence of baby booms, investments in education to prepare those boomers to be productive, reforms to increase investment so that jobs were waiting for them, and flows of foreign direct investment to modernise the economy.



Without all of that, baby booms can produce nation-sized mobs of unemployed young people, as seen in parts of Latin America. And just as it has everywhere else, Malaysia's baby boom will be followed by a baby bust, which will produce additional new challenges.

Now is the time to strengthen the policies and commitments that can make the best use of Malaysia's baby boom and help Malaysia strive to be a high-income country a generation from now.

Palm oil, along with electronics, can provide the models. They are among Malaysia's leading export products, developing more and more applications every year. As they help develop new technologies and encourage innovation, the oil palm and electronics sectors in Malaysia can help contribute to the evolving "ideas-based economy" that has helped sustain economic growth in another high-income country -- the US -- for so many decades.

*Dr Robert J. Shapiro was undersecretary of commerce for economic affairs under United States President Bill Clinton and is chairman of Sonecon LLC, a global economic consultancy*