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External Trade, Balance of Payments and Foreign Exchange

Export Performance

The performance of the gross merchandise exports is estimated to record another year of strong growth, increasing by 22.1% in 1994 (1993: 16.9%). The stronger growth is largely on account of significant expansion in manufactured exports, estimated to increase by 28%. With this strong increase, the share of manufactured exports to total export earnings is expected to increase further from 74% in 1993 to 77.5% in 1994. The better performance of manufactured exports is attributable to the strong external demand, following the favourable economic growth in the major industrial countries, as well as the continued widening and deepening of the manufacturing base of the economy in view of the significant increases in investments in this sector in recent years. However, export earnings of the mining sector are expected to deteriorate further by 18.9% (1993: -11.7%), reflecting mainly the continued softening in export volume and prices of tin, crude oil and liquefied natural gas. Exports of major agricultural commodities, on the other hand, are expected to improve to increase by 12.4% in 1994 (1993: 1.3%), given the anticipated improvement in prices of the major agricultural commodities. Nevertheless, the share of the major primary commodity exports to total export earnings is expected to decline further to 18.4% (1993: 22.5%).

Exports of Manufactured Goods

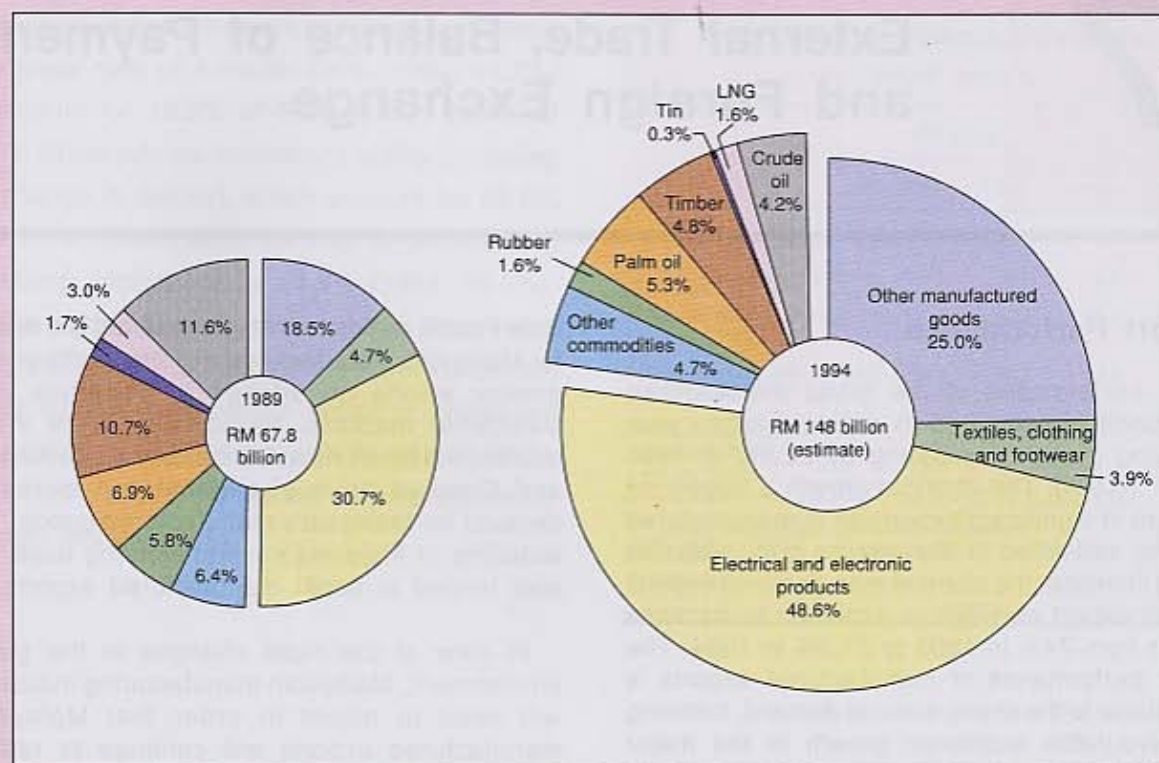
Manufacturing exports continue to constitute the largest proportion of total exports. During the first seven months of 1994, manufacturing exports rose by 31.1% and accounted for 78.3% of total exports. This significant growth reflected the sustained expansion in external demand with the anticipated recovery in a number of the Malaysia's major trading partners. In addition, the fast growing

Asia Pacific region has also increased the market for Malaysian manufactured exports. Furthermore, greater efforts undertaken to penetrate non-traditional markets, particularly Third World countries of South Asia, Central and South America and Oceania have also generated increased demand for Malaysia's manufactured goods. The widening of Malaysia's manufacturing base has also helped to boost manufactured exports.

In view of the rapid changes in the global environment, Malaysian manufacturing industries will need to adjust in order that Malaysian manufactured exports will continue to remain competitive. The successful conclusion of the Uruguay Round of Multilateral Trade Negotiations will lead to greater trade liberalisation which can have positive effects for Malaysian manufactured exports. On the other hand, Malaysia has also offered to reduce and bind tariffs on 7,197 items (consisting of 5,900 industrial products and the rest agricultural products). In addition the formation of the ASEAN Free Trade Area (AFTA) has and will lead to greater tariff reductions, starting from 1 January 1994, when members have agreed to implement an initial tariff reduction package (1 June 1994 for Brunei). While these developments will further liberalise trade, at the same time, they will result in greater competition for Malaysian manufacturers.

The formation of the European single market and the North American Free Trade Area (NAFTA) may have an adverse impact on Malaysian exports. The United States (US) market alone accounts for more than 20% of total manufactured exports from Malaysia. With NAFTA, competition from Mexican exports can increase as the removal of tariffs and non-tariffs by NAFTA will give Mexican exports a greater competitive advantage in the US market.

Chart 7.1
Export Structure



Figures in diagram refer to percentage of total

A further challenge that a number of Malaysian manufactured exporters will face is the possible removal of the Generalised System of Preference (GSP). Manufacturers should view the GSP as only a temporary facility which will eventually be removed in the future. In 1993, GSP exports accounted for about 13.5% of total exports. Of this, about 86% comprised manufactured exports. The European Union (EU), the US and Japan remain the major destinations for Malaysian GSP exports, with the EU accounting for about 48%, the US 29% and Japan 13%. Other destinations include Australia, New Zealand, Canada, the Nordic countries, Switzerland, Eastern Europe and Russia. With the rapid rate of industrialisation and the concomitant increases in income levels, Malaysia will eventually "graduate" out of the GSP status. Malaysian exporters, especially manufacturers must, therefore, adjust to this eventuality and improve productivity and efficiency to remain competitive in these markets.

Several categories of manufactured exports recorded strong growth rates during the first half of 1994. These included the exports of electrical and electronic products, wood-based products, chemicals and non-metallic mineral products as shown in Table 7.1. Some categories of manufactured exports, however, recorded declines. These include exports of petroleum products and iron and steel.

The traditional markets like the US, the EU, Japan and Singapore continue to remain the major destinations for Malaysian manufactured exports. The share of manufactured exports to the EU has declined as a proportion of total manufactured exports, from 16.3% in 1993 to 15.1% during the first half of 1994. On the other hand, manufactured exports to other non-traditional markets have increased. The East Asian economies like Hong Kong, Taiwan and China, in particular, have increased their imports of Malaysian manufactured

Table 7.1
Manufacturing Exports

	1993 (% share)	% change	
		1993 January-June	1994 January-June
Electrical and electronic products and machinery	61.5	32.2	39.4
Textiles, apparel and footwear	6.1	7.1	9.5
Food, beverages and tobacco	2.8	3.3	20.8
Wood and wood products	5.3	73.7	41.9
Rubber products	2.7	24.8	13.3
Petroleum products	1.9	53.1	-8.5
Chemicals and chemical products	3.9	13.9	35.6
Non-metallic mineral products	1.2	13.7	36.9
Iron and steel and metal manufactures	3.5	48.3	11.9
Transport equipment	4.1	68.9	56.7
Others	7.0	23.0	7.0
TOTAL	100.0	31.1	32.6

Source: Department of Statistics

goods over the last few years. In the first half of 1994, exports of manufactured goods to these countries accounted for 11% of Malaysia's total manufactured exports, compared with 10.1% in 1993.

The composition of manufactured exports continues to be narrowly based and is mainly concentrated in exports of electrical and electronic, textiles and wood products. These three products as a group account for almost two-thirds of manufacturing exports. Exports of electrical and electronic products have increased its share of total manufactured exports very significantly, from 48% in 1980 to 62.7% during the first half of 1994. At the same time, the share of exports of other products like wood and rubber products as well as transport equipment have increased accounting for 13.7% of total manufactured exports compared with 12.3% in 1980.

Table 7.2
Major Destinations of Manufactured Exports¹
(% of total)

	1993	1994 January-June
United States	27.3	26.9
European Union of which:	16.3	15.1
United Kingdom	5.2	4.5
Germany	4.6	3.9
Japan	8.6	8.8
Singapore	23.2	24.1
Others	24.6	25.1
TOTAL	100.0	100.0

¹ Includes SITC 1, 5, 6, 7 and 8.
Source: Department of Statistics

Electrical and Electronic Products and Machinery

During the first half of 1994, exports of **electrical and electronic products and machinery** expanded rapidly by 39.4% (January-June 1993: 32.2%), sustaining its position as the single largest foreign exchange earner and contributing about 62.7% of the total value of manufactured exports. The strong demand from some major industrialised countries, especially for electronic components, electrical appliances as well as telecommunication products led to the significant expansion in this industry. As a share of the sector's total exports, electrical and electronic products contributed 91% during the first half of 1994 (January-June 1993: 90%), while machinery accounted for 9% (January-June 1993: 10%).

The export of **electronic products** consists broadly of three main categories namely electronic components, consumer electronics and industrial electronics. As a group, these products expanded significantly by 42% during the first half of 1994, compared with 37.8% during the corresponding period of 1993. The higher export growth of

electronic products was mainly due to the rapid export expansion of the **electronic components** sub-sector, which grew by 29% during the period. The major markets for the export of electronic components are the US, the United Kingdom (UK), Singapore, Taiwan, Japan and Hong Kong. Semi-conductor devices constitute the major component of electronic exports and Malaysia is one of the world's largest producers and exporters of semi-conductors. In 1993, Malaysia accounted for about a quarter of total global sales (RM75 billion) of semi-conductors. The semi-conductor devices exported include integrated circuits, memories, micro-processors, opto-electronics as well as high-reliability military products. Malaysia also produces and exports large amounts of other electronic components such as capacitors, relay switches, transformers and disk-drive parts. However, the electronic industry depends highly on the imported components. As a result, the export growth has also generated increases in the import of electronic components.

The export growth of **industrial electronics**, which include office electronic, computers and computer peripherals, telecommunication, industrial control and automotive electronic equipment, expanded significantly by 58.2% during the first half of 1994 compared with an increase of 35.7% during the corresponding period of 1993. Similarly, exports of **consumer electronics**, which consist of audio-video equipment and electronic household goods increased by 45.1% (January-June 1993: 32.6%). Exports of consumer electronic products such as television receivers and sound recorders or reproducers increased strongly by 38.6% and 61%, respectively during the period, on account of sustained external demand. With the recovery in the US economy as well as the continued strong growth in the other Asia Pacific countries, demand for consumer electronics has risen. In addition, European countries too are switching to cheaper sources of consumer electronic products, as it is no longer competitive to produce such products in Europe.

Table 7.3
Major Destinations for Exports of Electronic Components
(January-June)

Country	1993		1994		Annual change (%)
	RM million	% share	RM million	% share	
United States	3,308.3	37.5	3,989.9	35.0	20.6
Singapore	1,620.8	18.3	2,498.5	21.9	54.2
Japan	851.8	9.6	948.4	8.3	11.3
Hong Kong	703.1	7.9	784.3	6.9	11.5
United Kingdom	681.6	7.7	858.5	7.5	25.9
Germany	355.8	4.0	367.6	3.2	3.3
Others	1,322.9	15.0	1,948.3	17.2	47.3
TOTAL	8,844.3	100.0	11,395.5	100.0	28.8

Source: Department of Statistics

Reflecting the continued efforts undertaken by the Government to diversify the electronic industry, the export structure of electronic products has changed considerably. The contribution of electronic components to the industry's exports has declined from about half in 1990 to 34% in 1993, while exports of consumer and industrial electronics have increased their shares to 23% and 25% respectively.

During the first half of 1994, the export of **electrical products**, which can be broadly classified into electrical appliances, cables and wires as well as other electrical products increased by 29.5% (January-June 1993: 23.7%). Exports of **electrical appliances**, which include refrigerators, rice cookers, washing machines, air-conditioners and fans expanded by 15.7% during the period. This reflects the strong external demand from the US and other Asia-Pacific countries. The electrical appliances sector has contributed significantly to the export performance of the electrical industry and accounted for about 27.5% of total export earnings from electrical products. Malaysia is now the world's largest exporter of room air-conditioners. Exports of **cables and wires** which include a wide range of power and telecommunication cables, increased by 20.1% (January-June 1993: 7.1%) while **other electrical products** (such as dry cells, batteries and electrical lamps and tubes) rose by 38.7% (January-June 1993: 25.2%).

The export of **machinery**, which includes power generating machinery and equipment, machinery specialised for industrial uses, metal working machinery and general industrial machinery and parts, registered a sustained growth of 26.6% during the first half of 1994, compared with an increase of 27.3% during the corresponding period of 1993. The impressive growth is attributable to the higher external demand for general industrial machinery and equipment, which expanded by 28.3% (January-June 1993: 24.7%), brought about by increased demand due to the better economic performance of some of the major importing countries like the US and the UK. The successful penetration of new non-traditional markets in Latin America, the Middle East and China also helped to increase exports. The export of power generating machinery which include generators, electric plants and parts and internal combustion piston engines and parts rose by 37.7%.

Following the recovery of economic activities in the major industrialised countries, exports of electronic and electrical products and machinery are expected to increase further. With the Government's objective to diversify the manufacturing base and reduce the concentration of the electronic industry in the production of mainly semi-conductors, the export structure of the industry should show a wider range of products in the future.

Textiles, Apparel and Footwear

Exports of **textiles, apparel and footwear** represent one of the largest sources of foreign exchange earnings in the manufacturing sector. During the first half of 1994, exports of textile fibres increased by 9.5% (January-June 1993: 7.1%). In the case of textile yarns and fabrics, exports rose by 25.1% while footwear exports declined by 1.7% (January-June 1993: 26.9% and 6.5% respectively). The textile and clothing industry is predominantly export oriented, given the small domestic market. This is reflected by the investment applications approved by the Malaysian Industrial Development Authority (MIDA). Of the 47 textile and clothing enterprises approved in 1993, 22 or 46.8% will be exporting at least 50% of their output.

Exports of **apparel**, in particular, account for about 60% of total exports of textiles and apparel. The major markets for textiles and apparel include

Table 7.4
Exports of Textiles, Apparel and Footwear
(RM million)

Year	1993	1993 (January-June)	1994 (January-June)
Textiles	1,720.7	794.9	994.6
Apparel	3,386.4	1,530.7	1,568.7
Footwear	309.9	163.2	160.5
Others	103.3	49.8	56.5
TOTAL	5,520.3	2,538.6	2,780.3

Source: Department of Statistics.

Table 7.5
Major Destinations for Textile and Clothing Exports
(RM million)

	1993	1993 (January-June)	1994 (January-June)	Annual change (%)
United States	2,384.4	1,041.0	1,158.3	11.3
United Kingdom	528.8	258.1	251.8	-2.4
Singapore	279.3	130.5	143.4	9.9
Germany	399.3	197.1	193.1	-2.0
Others	1,429.5	675.5	712.8	5.5
TOTAL	5,021.3	2,302.2	2,459.4	6.8

Source: Department of Statistics

the US, the EU and Canada, which together import about 70% of textile exports from Malaysia. These countries, however, regulate textile imports into their country under the Multifibre Agreement. Presently, Malaysia has signed five bilateral textile agreements with the US, the EU, Canada as well as Norway and Finland. The agreements cover a period of two years and are subject to renegotiation. Under the agreements, import quotas are set to protect the domestic textile industry in those countries. Other major markets for Malaysian textile and apparel exports include Singapore, Hong Kong and Japan which do not impose quotas.

Malaysia's apparel industry continues to depend heavily on imported primary textiles. The import of textile fibres and manufactured yarn and fabrics during the first half of 1994 amounted to about RM1,729.5 million, exceeding the export of these items of RM994.6 million. Thus, there is potential for the local textile fibre and yarn industry to supply to the local apparel industry besides exporting overseas. This will increase value added in the textile industry and at the same time, reduce the import bill.

In the global market, Malaysian textile exporters face several challenges to sustain their competitiveness. Well established textile

manufacturers like Hong Kong, Taiwan and South Korea are very large-scale manufacturers of up-market textiles and apparel. On the other hand, many low-cost labour surplus economies like Thailand, Indonesia, China, Bangladesh, India, Sri Lanka and Pakistan are becoming important competitors. The textile manufacturers will need to improve product quality and cost in order to maintain competitiveness in the global market. The industry also still depends on third parties in Japan, Hong Kong and Singapore to market many of its products. Though the industry has undertaken measures to promote and diversify Malaysian textiles to non-traditional markets in South America and Australia, greater efforts have to be made to establish a wider network to market textiles directly.

Wood Products

Exports of **wood products** in the first half of 1994 registered an increase of 41.9% (January-June 1993: 73.7%). The rapid increase was due to the strong demand from the East Asian countries of Japan, China, Taiwan and Hong Kong as well as from the US and the EU. The tightening in the world supply of logs, following the restraints or bans on logging activities in several exporting countries, has also generated the increased demand for Malaysian wood products. Consequently, the share of wood exports to total manufactured exports increased to 5.4% in the period under review, compared with 5.1% recorded during the same period of 1993. The strong export expansion was supported by the rapid growth in the wood and wood products industry which saw an increase in output by 10.5%.

Among the wood products exported, exports of **plywood and veneer** (which contributed about 75.9% of wood products exported) grew strongly by 43.8% as a result of an increase in imports by China, South Korea and Taiwan. Exports of **wooden furniture** also showed a large increase by 37.6% (January-June 1993: 38.9%), to account for 23.6% of exports of wood products. The increase in wooden furniture exports was mainly due to strong demand from the US, Japan and Singapore.

The wood products industry has been identified as one of the resource-based industries to be further developed as an important export-oriented sector. The Government's objective is to make Malaysia into a centre for furniture and joinery/

mouldings in the world. Thus, several strategies have been formulated to rationalise the industry. This is to ensure proper utilisation of timber resources and development of indigenous technology as well as to encourage research and development (R & D) to upgrade product quality so as to meet the demands of the export market. The Government has also banned the export of sawlogs from Peninsular Malaysia to ensure adequate timber supplies for the development of the local wood products industry. At the same time, quotas and levies have been imposed on timber exports from Sabah and Sarawak.

The wood products industry continues to face the anti-tropical wood campaign in several countries in the EU. Nevertheless, prospects for exports remain good, in view of the expanding markets, especially in East Asia. Thus in 1993 countries like China and Japan have doubled their imports of wood products from Malaysia compared with 1992. This increasing trend of imports from the East Asian countries is expected to continue, given the tight supply of timber in the world market.

Rubber Products

Exports of **rubber products**, which comprise rubber gloves, materials of rubber, tyres and tubes and other rubber products, expanded by 13.3% during the first half of 1994 (January-June 1992: 24.8%). This was mainly due to strong external demand. Nevertheless, the share of rubber products to total manufactured exports decreased to 2.4% compared with 2.8% recorded during the same period in 1993.

The export of **rubber gloves** (including surgical and non-surgical rubber gloves) increased by 15.2% (January-June 1993: 33.2%), making it the largest contributor (67.2%) to overall exports from the rubber products sub-sector. The increase in glove exports was on account of the rapid expansion in exports of non-surgical gloves to traditional buyers in the US and Germany as well as to the fast growing economies in the Asia-Pacific region.

Exports of **tyres and tubes** (which constitute the third largest group of rubber products exported) increased by 0.4% during the first half of 1994 (January-June 1993: 22.9%). This was due to the sustained demand from the traditional importing countries like the US, Japan and Singapore as

well as increasing sales to new markets such as South Africa, China and Papua New Guinea. Exports of **other rubber products**, including latex-based products, increased significantly at 11.7% due to increased demand from traditional buyers, particularly the US, Germany, the UK and Italy. With the increase in exports, the contribution of other rubber products to the exports of rubber-based products remained significant at 26.6% (January-June 1993: 27%).

Rubber products exported continue to be dominated largely by latex-based products including tyres and tubes. The Government, therefore, has adopted several strategies to encourage product diversification in the industry in order to increase the range of rubber products that can be exported. In this context, rubber products have been designated as promoted products under the Government's industrial policy and encouragement is given in the form of tax incentives for R & D as well as financial and technological assistance for the industry to sustain its competitiveness in the international market.

Food, Beverages and Tobacco

Exports of **food, beverages and tobacco** registered a growth of 20.8% during the first half of 1994 (January-June 1993: 3.3%). Thus, the contribution of exports of food, beverages and tobacco to the overall manufactured export earnings amounted 2.6% compared with 2.9% during the same period in 1993. Exports of manufactured food products, which accounted for the major proportion of total food exports by the industry, rose by 21.5% (January-June 1993: 3.4%). The increase in manufactured food exports was due to the expansion in the export of cocoa products, dairy products and cereals. Earnings from the export of animal feeds rose by 7.2% (January-June 1993: 7.5%). Exports of processed palm kernel oil products registered a growth of 2.1%, increasing from 217,972 tonnes in 1993 to 222,496 tonnes during the first half of 1994.

At present, exports of **beverages** contribute a very small part of the industry's earnings. These exports amounted to less than 5% of total output in 1993, though there are plans by some local brewers to further penetrate the overseas market. The biggest barrier, however, faced by the local brewers is the high import duties imposed by

other countries. Furthermore, despite the high domestic duties, local demand for tobacco products have been sustained. During the first half of 1994, exports of tobacco declined by 22.7% (January-June 1993: 5.6%).

Petroleum Products

As Malaysia has large oil and natural gas reserves, the development of downstream **petroleum products** has taken on a rapid pace in the last few years. As a result, exports of petroleum products, including gas, have increased strongly by an average of 14% between 1989 to 1993. However, during the first half of 1994, exports of petroleum products declined by 8.5% compared with an increase of 53.1% during the same period in 1993. As a result, export receipts from petroleum products constituted 1.5% of total export earnings during the period under review. The decrease in exports of petrol and petroleum products was due mainly to the decrease in exports of refined petroleum products like naphtha, fuel oil, diesel and gasoline. This is in line with the decline in petroleum production during the first half of 1994. The export of liquefied natural gas natural too has declined by 11.2%, during the same period, amounting to RM1,193 million, compared with RM1,344 million during the first half of 1993.

Exports of refined petroleum products are expected to increase significantly in 1994, due to the commencement of production by the First Unit of the PETRONAS oil refinery in Melaka in 1994. At the same time, capacity expansion by the PETRONAS refinery in Kerteh from 30,000 barrels per day (bpd) to 40,000 bpd will further increase output and, therefore, exports. The major markets for petroleum products continue to be Singapore, Japan and South Korea.

Chemicals, Petrochemicals and Plastics

During the first half of 1994, the export of **chemicals, petrochemicals, plastics and related products** increased significantly by 35.6% compared with 13.9% during the same period in 1993. The marked increase was due to the strong expansion in the exports of organic chemicals (42.7%), dyeing, tanning and colouring materials (45.1%), plastics in primary form (51.1%), essential oils and perfumery (32.4%) and medical and pharmaceutical products (29.1%). The strong output expansion by these industries during the first half

of 1994 contributed to the rapid export growth in chemicals and related products. At the same time, the coming onstream of several large petrochemical plants has also increased exports of petrochemical products.

In the case of **pharmaceuticals**, the industry is still not well developed. However, Malaysia still exports pharmaceutical products. These are mainly from the mixing and blending of both modern pharmaceutical as well traditional herbal products.

Exports of **organic chemicals** however, increased significantly during the first half of 1994 by 42.7% while exports of **inorganic chemicals** declined by 4.7%. Exports of organic chemicals consists mainly of alcohol, phenol and related products, while exports of inorganic chemicals consist mainly of phosphorus acids, sulphuric acids and metallic oxides. Exports of fertilisers have declined due to the rise in domestic production. However, approvals have already been given to 90 companies for the production of fertilisers and pesticides but only about a third of the companies are in production. As the domestic market is relatively small, the new projects will lead to increases in exports once these projects commence production.

As for petrochemicals, there are, at present, three polystyrene plants which produce plastic resins that are exported indirectly through other plastic manufacturers in the Free Industrial Zones. In the case of urea formaldehyde, phenol formaldehyde and their related products, there are 35 companies producing indirectly for the export market as the bulk of their output is used in the manufacture of plywood and fibreboards which are exported. In addition, other petrochemical companies also produce mainly for export. These include the polyester staple fibre plant in Prai, the methanol plant in Labuan and the urea/ammonia plant in Bintulu, Sarawak. The export potential of the petrochemical industry will increase as more companies have been approved to produce for the export market.

Non-Metallic Mineral Products

Non-metallic mineral exports include exports of cement, cement and concrete products, structural clay products and glass and glassware. The cement industry is largely domestic oriented with exports

averaging less than 5% of total production. Clinkers still need to be imported to supplement the domestic production shortfall of about 1.9 million tonnes per annum. Grinding plants in East Malaysia source their clinkers mainly from Indonesia and Japan. During the first half of 1994, exports of cement, chalk and related products increased by 145.9% (January-June 1993: -31.5%).

During the first half of 1994, exports of structural clay products rose by 31.5% (January-June 1993: 63.8%). This was due mainly to the rapid growth in the exports of ceramic tiles, tableware and decorative wares. The rapid expansion in production capacity by tile manufacturers as well as the entrance of several new manufacturers into the industry have contributed to the strong export growth of ceramic tiles. In the case of tableware and decorative wares, an increasing number of Japanese producers has established tableware plants in Malaysia in the last decade to cater for both the local and export markets. Exports of glass and glassware expanded by 58.8% (January-June 1993: 13.6%). Capacity expansion within the flat glass industry, together with expansion to downstream production, have led to increased output and, therefore, exports. The improvement in the quality of output and the expanded capacity in the non-metallic mineral products industry have enabled producers to export to a large number of markets. Thus, the major destinations for exports of non-metallic mineral products include some very competitive markets in Europe as well as markets in the Asia-Pacific region, such as the US and Japan.

Iron and Steel and Metal Products

During the first half of 1994, exports of **iron and steel products** (comprising mainly pig and sponge iron, ingots, flat-rolled sheets, and iron and steel bars) declined by 12.7% (January-June 1993: 64.8%). In 1993, exports had expanded markedly, following the rapid capacity expansion undertaken by some steel mills to meet increases in domestic demand with the rapid expansion in construction activities. This increased output resulted in an over supply of iron and steel products which had to be exported. However, exports face stiff competition in the highly competitive international market as well as oversupply globally. The major markets for iron and steel exports include Japan, South Korea, Brazil, the UK and Australia.

The industry is also undertaking export promotion as well as investment in new markets like Vietnam, Myanmar and lately in South Africa.

Exports of **non-ferrous metal products** rose by 33.1% during the first half of 1994 (January-June 1993: 44.7%), stimulated by the rising external demand for copper rods and wires. The traditional major markets for exports of non-ferrous metal products include the US, Japan, Singapore and Thailand. Like the iron and steel products, exports of **fabricated metal products** are influenced by the demand cycle of the domestic construction industry. After the decline in 1988, exports of fabricated metal products rose by an average of over 40% between 1989 and 1993. During the first half of 1994, exports of fabricated metal products rose by 24.4%, compared with 36.1% during the same period of 1993. Despite the strong growth in local demand expected (with the implementation of several large-scale infrastructural projects), exports of fabricated metal products are expected to remain strong in the next few years as the industry expands capacity and output. Furthermore, the Government has identified the fabricated metal products as one of the priority industries to be developed to support other industries and to diversify the export base. The major markets for fabricated metal products include Japan, the US, Australia, Singapore and Taiwan.

Transport Equipment

During the first half of 1994, exports of **transport equipment**, comprising road vehicles and other transport equipment, increased significantly by 56.7%, compared with 68.9% during the corresponding period of 1993. This was mainly due to the significant expansion (66.7%) in the export of other transport equipment, which mainly consists of aircraft and associated equipment as well as rail coaches and components. In the case of road vehicles, exports increased by 16.1% due to the strong increase in the export of road vehicle accessories and components (61.5%). Exports of motorcars, increased by 6% while exports of commercial vehicles declined by 41.5% and motorcycles and scooters by 6.6%. Exports of the national car PROTON totalled 11,816 units during the first half of 1994, an increase of 124.2% when compared with the same period in 1993 (January-June 1993: 5,270 units).

The export of passenger vehicles, in particular, showed a significant uptrend, rising from only RM20.6 million in 1988 to RM387.8 million in 1993. At present, the export of completely built-up (CBU) vehicles is led by PROTON's export drive which has achieved significant success in a number of countries, especially the UK. PROTON has also introduced the 'Left Hand Drive' version for the European market, which is expected to increase exports further. The export of motor vehicle parts too has risen markedly, from RM25 million in 1988 to RM125.4 million in 1993. In view of this, the Government has identified the road transport equipment industry as one of the priority industries to be developed, not only to meet domestic demand, but also for the export market. The domestic market, however, is not sufficiently large for the motor vehicle industry to benefit from economies of scale. Therefore, the Government's policy is to promote the export of motor vehicle components as well as CBU vehicles. The vehicle components industry has great potential. However, the industry will need to be competitive in the international market. As an immediate possibility, the ASEAN countries can provide an important source of market expansion through the ASEAN Complementation Scheme. In addition, a number of Third World countries can also provide further market potential for both the transport and the motor vehicle components industries.

Other Manufactured Goods

Exports of **other manufactured goods**, which include scientific instruments and apparatus, photographic equipment and supplies, musical instruments and miscellaneous manufactured articles, declined by 7% during the first half 1994 (January-June 1993: 23%). Exports of scientific instruments and apparatus as well as photographic equipment were the major sources of growth within this category of goods. Exports of **scientific instruments and apparatus** including optical instruments and medical instruments and appliances, registered a higher growth of 35.1% (January-June 1993: 13.5%). The export of **photographic equipment and supplies** increased by 33.7% during the same period (January-June 1993: 12.9%). At the same time, **exports of musical instruments and parts and accessories** increased sharply by 53.2%, while **miscellaneous manufactured articles**, which include items such as printed matter, toys and sporting goods, jewellery and parts and accessories declined by 6.5% (January-June 1993: 31.5%).

Major Primary Commodity Exports

Export earnings from major commodities of agriculture and mining are expected to decline further by 0.3% (1993: -4.4%) to RM27,225 million as a result of a large decrease of 18.9% in export receipts of the mining sector. The fall in export earnings from the major mining activities is mainly on account of lower export prices of crude oil and liquefied natural gas (LNG) as well as a reduction in the export volumes of crude oil and tin. In contrast, earnings from major agricultural commodities are envisaged to register a growth of 12.4% to account for 12.3% of total exports. The anticipated increase is largely due to increases in export prices of palm oil, palm kernel oil, rubber and pepper. The increase in export earnings of palm oil and palm kernel oil is mainly on account of higher prices due to tighter supply condition in the world vegetable oil market. While receipts from the export of rubber and pepper are estimated to increase, export earnings from sawlogs and sawn timber are expected to decline on account of lower export volume, in line with the promotion of downstream processing domestically.

Palm Oil and Palm Kernel Oil

Earnings from the export of **crude palm oil, processed palm oil and palm stearin** in 1994 are expected to increase significantly by 35% to RM7,800 million. (RM5,772 million in 1993). The robust performance is largely due to the marked increase in the export unit value of palm oil of 21.4% to reach RM1,200 per tonne, as a result of a shortage in the supply of palm oil, following the decline in crude palm oil production. Although export earnings from palm oil are expected to be higher, its contribution to total export receipts remained at 5.3% in 1994. Nevertheless, it is anticipated to be the largest commodity export earner for the year.

As shown in Table 7.6, export volume of palm oil increased by 18.9% during the first seven months of 1994, while export earnings registered an increase of 27.5%, largely on account of a higher export unit value. The relatively higher unit value, which has prevailed since January 1994, is supported not only by low production of palm oil and the existence of low stock level but also due to higher and continuous demand by traditional buyers like China and Pakistan. As at July 1994, the stock level of combined crude and processed

Table 7.6
Primary Commodity Exports

	1994 ^a	% change	1994 January- July	% change
Palm oil¹				
Volume ('000 tonnes)	6,500	11.3	3,799	18.9
Unit value (RM/tonne)	1,200	21.4	1,118	7.2
Value (RM million)	7,800	35.1	4,250	27.5
Sawlogs				
Volume ('000 cubic metres)	8,000	-13.9	4,575	-17.6
Unit value (RM/cu. metre)	314	0.1	315	-6.5
Value (RM million)	2,512	-13.8	1,445	-23.0
Sawn timber				
Volume ('000 cu. metres)	5,100	-6.9	2,713	-14.7
Unit value (RM/cu. metre)	900	8.5	906	13.8
Value (RM million)	4,590	1.0	2,457	-2.9
Rubber				
Volume ('000 tonnes)	900	-3.9	533	-1.8
Unit value (sen/kg)	255	12.1	255	8.9
Value (RM million)	2,295	7.7	1,360	6.9
Pepper				
Volume ('000 tonnes)	17.0	2.6	8.1	-2.6
Unit value (RM/tonne)	4,500	22.3	4,667	59.0
Value (RM million)	76.5	25.2	37.8	54.8
Cocoa				
Volume ('000 tonnes)	100	-18.8	58.5	-26.0
Unit value (RM/tonne)	3,000	21.5	3,082	32.0
Value (RM million)	300	-1.3	180.3	-2.4
Crude oil				
Volume ('000 tonnes)	19,100	-9.2	11,170	-10.3
Unit value (RM/tonne)	325	-14.5	337	-14.4
Value (RM million)	6,210	-22.3	3,760	-23.2
LNG				
Volume ('000 tonnes)	8,000	-0.1	4,900	11.3
Unit value (RM/tonne)	290	-10.5	280	-20.4
Value (RM million)	2,320	-10.7	1,390	-11.3
Tin				
Volume ('000 tonnes)	33	-7.0	21.6	-3.9
Unit value (RM/tonne)	13,900	1.0	13,988	-4.7
Value (RM million)	458	-6.3	302	-8.5
TOTAL VALUE (RM million)	27,225	-0.3	15,515	-4.7

¹ Includes crude palm oil, processed palm oil, palm stearin and palm kernel oil.

^a Estimate.

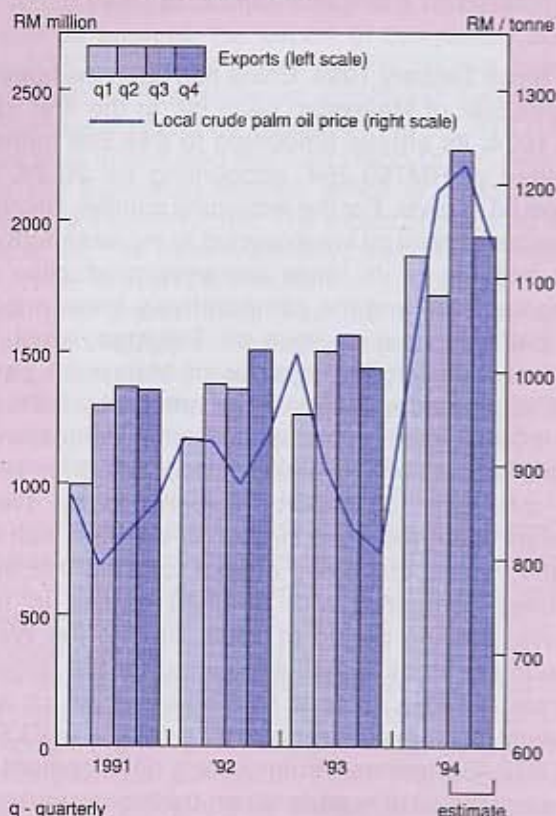
Source: Department of Statistics

palm oil stood at 451,475 tonnes, reflecting a 34% decline compared with 684,728 tonnes registered in the same period of 1993.

Since January 1994, China has been the largest purchaser of Malaysian palm oil. In the first half of 1994, its offtake amounted to 649,596 tonnes valued at RM760,264, accounting for 20.2% of palm oil exports. For the remaining months, China's imports of palm oil are expected to increase further on account of its lower domestic production of vegetable oil and the comparatively lower prices of palm oil vis-a-vis soya oil. Pakistan, which is the second largest importer of Malaysian palm oil, registered a decline in its offtake by 5.5% to 514,050 tonnes on account of better domestic oil seed production. However, it accounted for 16% of total palm oil exports. Exports to the West Asian countries were higher in the first half of 1994, with a combined offtake totalling 416,066 tonnes compared with 384,088 tonnes in the corresponding period of 1993. Among the West Asian countries, Egypt accounted for the largest share (45.6%). Exports to Singapore, which are mainly for re-export, registered a decline of 23.5% to 202,438 tonnes. An important development is the expansion of exports to non-traditional markets, particularly Latin America. The overall increase in export volume of palm oil is partly due to the expected reduction in world export of cotton seed, coconut and sunflower oil, as a result of natural disasters in the producing countries like China, the Philippines and the delayed sowing of sunflower seeds in Argentina and Spain.

Exports of palm kernel oil are expected to increase moderately by 5.4% to 510,000 tonnes, compared with 483,900 tonnes in 1993. In the first seven months of the year, export volume amounted to 245,217 tonnes, reflecting a decline of 3% over the same period of 1993. However, the export unit value of palm kernel oil, which has been on an uptrend since the beginning of the year, is expected to be sustained throughout 1994. Export unit value surged by 28.5% to RM1,374 per tonne (RM1,062 in 1993). Consequently, total export earnings of palm kernel oil increased to RM337 million, 24% higher when compared with the corresponding period of 1993. For the year as a whole, total earnings from palm kernel oil are expected to increase markedly by 34.2% to RM663 million.

Chart 7.2
Palm Oil - Exports and Price



exports of sawlogs from Sabah are envisaged to decline sharply by 12.5% to 160,000 cubic metres due to the ban on exports of sawlogs. This is in line with the State Government's encouragement to increase domestic processing in order to increase the value added of timber output. As such, Sarawak's earnings from the export of sawlogs are estimated to decline by 13%, while that of Sabah by 12.5%.

Japan, Taiwan and South Korea emerged as the major export destinations for Malaysian sawlogs in the first half of 1994. Of the total exports of sawlogs, 57% went to Japan, 16% to Taiwan and 7.8% to South Korea. Other export destinations include China (6.9%) and Hong Kong (4.4%).

Earnings from exports of **sawn timber** during the first seven months of 1994 declined marginally by 3% following a significant decline (15%) in export volume. The fall in volume, however, was offset by the increase in unit value (13.7% to RM905 per cubic metre), resulting in a smaller decline in export earnings. The continued increase

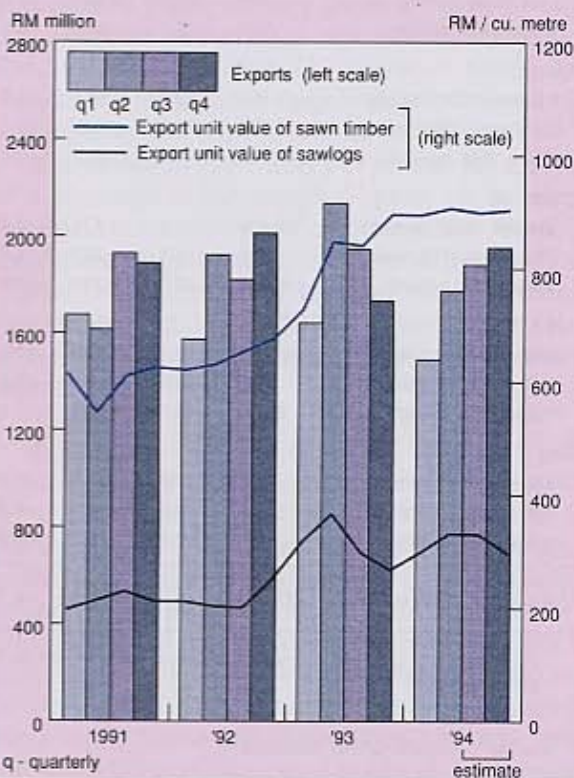
Timber

The export earnings of **timber** (sawlogs and sawn timber) in 1994 are expected to decline by 4.8%. The decline is on account of reduced export volume as a result of the Government's commitment to conserve forest resources through deliberate cutback in log production and encourage downstream processing of wood products. Consequently, the contribution of timber exports to gross export earnings is expected to decline to 4.8%, compared with 6.2% in 1993.

In the first seven months of 1994, export receipts from sawlogs fell by 23%. The reduction was largely due to the sharp decline of 17.6% in export volume as well as a 6.5% decline in export unit value. The decline in export volume is in tandem with the declining output of sawlogs.

Sarawak, which accounts for 98% of Malaysia's exports of sawlogs, is expected to export a lower volume of 7.8 million cubic metres. Similarly,

Chart 7.3
Sawn Timber and Sawlogs - Exports and Unit Value



in export unit value of sawn timber was the result of diminishing supply in the world market. In consonance with the Government's effort to encourage downstream processing, the export volume of sawn timber for the whole of 1994 is expected to decline by 6.9% to 5.1 million cubic metres.

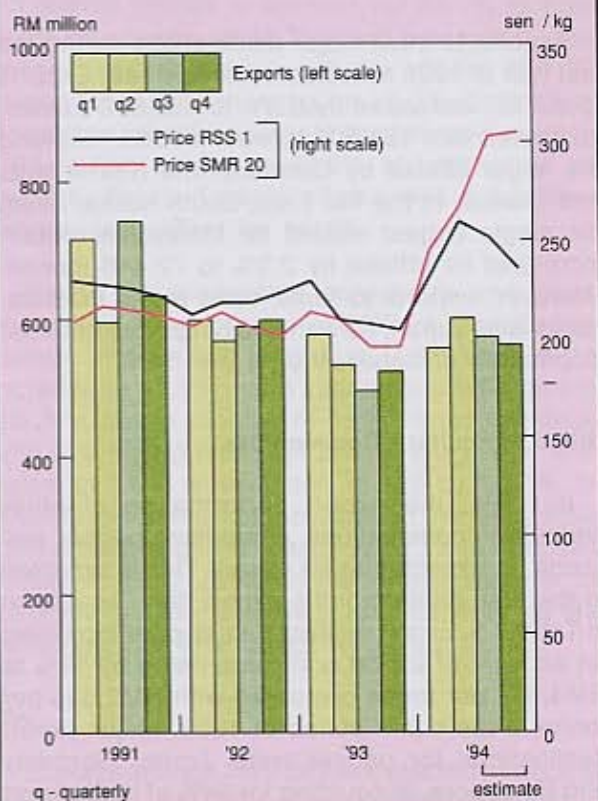
Sabah is expected to retain its position as the largest exporter of sawn timber for the second consecutive year, accounting for 42% of total sawn timber exports in 1994. Earnings are expected to total RM1,928 million, reflecting an increase of 1% compared with RM1,910 million in 1993. Peninsular Malaysia's export volume is expected to decline by 6.8% to 1.9 million cubic metres with earnings anticipated to total to RM1,744 million. Similarly, Sarawak's export volume of sawn timber is expected to decrease to 1 million cubic metres, (1.1 million cubic metres in 1993) with receipts anticipated to amount to RM918 million.

The major markets for Malaysia's sawn timber have shifted to East Asia, particularly Thailand, South Korea, Taiwan, Singapore and Japan. During the first half of 1994, Thailand emerged as the largest buyer, accounting for 29.3% of total Malaysia's sawn timber exports, followed by South Korea (11.3%) and Taiwan (10.8%). The shift was largely due to the expanding economies of the East Asian region. In contrast, combined exports to the EU made up approximately 10% of the total exports compared with 12% in the corresponding period of 1993.

Rubber

Export volume of **rubber** is expected to decline by 3.9% due to a reduction in production. However, the strong surge in unit value has resulted in an increase in export earnings by 7.7% to RM2,295 million. The increase is attributed to strong demand from the major consuming countries resulting from the tight supply situation in the world market. In the first seven months of 1994, the export receipts from rubber grew by 7%. The increase was largely due to the significant increase in unit value (9%) during the period. However, export volume declined by 1.8% due not only to a reduction in rubber output, but also to increased (8%) domestic consumption of natural rubber following the expansion in rubber-based industries. This is demonstrated further by the increase in imports (53%) of rubber for the first seven months compared with the corresponding period of 1993.

Chart 7.4
Rubber - Exports and Price



Prices of rubber started to firm at the beginning of 1994 and are expected to continue until the end of the year. The Daily Market Indicator Price (DMIP) rose unabated to breach the International Natural Rubber Organisation's (INRO's) upper intervention price level, the 'may sell level' of 226 sen per kilogramme, as at 1 June 1994, prompting INRO's intervention to review and stabilise price. The INRO Buffer Stock Manager entered the market on the first week of July after the five-day average DMIP touched 233 sen per kilogramme. However, with market sentiments remaining generally bullish, the INRO intervention ceased to have the required effect and the five-day DMIP stayed well above the 'must-sell' level. During the first seven months of 1994, prices of RSS1 and SMR20 grade rubber shot up by an annual rate of 18% and 24% to average 257 sen per kilogramme and 261 sen per kilogramme, respectively. Prices are expected to sustain for the remaining months of 1994, with the price of RSS1 anticipated to average at around 245 sen per kilogramme, while that of SMR20 at 280 sen per kilogramme for the whole of 1994.

The overall increase in the price of rubber reflects the strong demand from major rubber consuming countries.

Exports to most major destinations during the first half of 1994 reflected a mixed trend. Exports to the EU increased by 6.3% to 139,890 tonnes, compared with 131,509 tonnes in 1993, following the larger offtake by Germany, the Netherlands and France. In the Far East, South Korea, being the single largest market for Malaysian rubber, increased its offtake by 2.3% to 72,446 tonnes. However, exports to three other major markets, comprising Japan, Taiwan and Singapore declined in offtakes of between 33% and 38%.

Other Agriculture Commodities

In 1994, the export performance of other agriculture commodities, comprising pepper and cocoa, is expected to be mixed. This is reflected in the first seven months export data, as shown in Table 7.6. Export receipts from **pepper** increased on account of export unit value rising by 59% to RM4,667 per tonne compared with RM2,935 per tonne in the same period of 1993. Major export destinations for pepper were Japan, Germany and Singapore, accounting for 64% of total export volume. Other important destinations were South Korea (7.7%), the UK (5%) and the US (4.4%).

Export earnings from **cocoa** declined by 2.4% to RM180 million in the first seven months of 1994 on account of a 26% decline in export volume. Singapore continued to be the single largest purchaser of Malaysian cocoa with offtake amounting to 39% of total exports in the first half of 1994, followed by China 31% and the Netherlands 16%. For the whole of 1994, the export volume of cocoa is expected to decline to 100,000 tonnes compared with 123,000 tonnes in 1993. Similarly, total earnings for the year is expected to fall further by 1.3% to RM300 million.

Crude Oil and Liquefied Natural Gas

In 1994, export receipts from crude oil are expected to decline by 22.3% to RM6,200 million, on account of the anticipated fall of 9.2% in export volume and 14.5% in export unit value. During the first seven months of 1994, export earnings declined by 23.3% following a reduction of 10.3% in export volume and 14.4% in export unit value.

The decrease in export volume is because more of the crude is expected to be processed locally, following the coming onstream of an additional refinery in Tangga Batu, Melaka in May 1994. The lower export unit value is on account of lower export prices following excess supply in the global market. Therefore, in 1994, the share of crude oil to total gross export earnings continues to decline to 4.2% (1993: 6.6%).

The downtrend in crude oil prices during late 1993 continued into the first quarter of 1994. Prices were depressed because of a large increase in supply by non-Organisation of Petroleum Exporting Countries (OPEC), particularly from the North Sea region, high level of stocks before the onset of winter and OPEC's decision in November 1993 not to lower production quotas. Reflecting the decline in oil prices, the prices of North Sea Brent (NSB), the main international crude oil benchmark plunged by 24.4% to US\$13.82 per barrel in the first quarter of 1994 from US\$18.29 registered in the corresponding period of 1993. The price of West Texas Intermediate (WTI) fell by 25% to US\$14.82 per barrel from US\$19.79 per barrel. In tandem with world crude oil prices, the price of Malaysian Tapis Blend registered a decline of 17.3% to US\$16.01 in the first quarter of 1994 compared with US\$19.36 recorded during the same period in 1993.

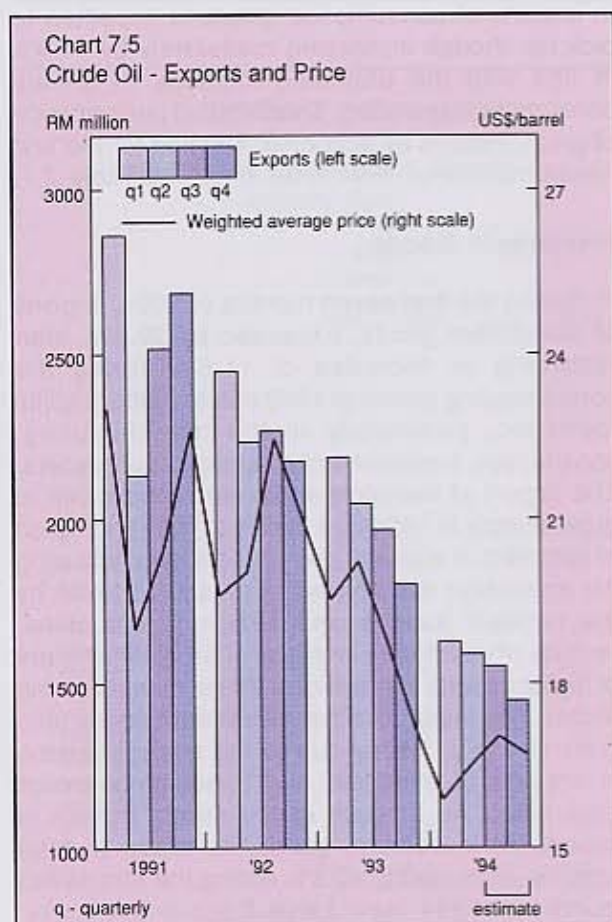
However, crude oil prices staged a sharp rebound in the second quarter of 1994 on account of strong demand for crude oil and oil products, tight supply and some degree of speculative demand. The cold winter in the US and Europe during the first quarter of 1994 helped to reduce crude oil stocks. Demand for crude oil has been relatively strong in North America, following improved economic conditions. In addition, demand for oil products particularly middle distillates has also recovered in Europe, while crude oil demand continued to grow in Asia. This, coupled with OPEC's announcement that its production level would remain unchanged at 24.52 million bpd for the rest of the year, led to pressure on crude oil prices in the second quarter of 1994. Hence, the price of NSB rose by 15.2% to US\$15.92 per barrel in the second quarter of 1994. Likewise, the WTI increased by 18.9% to US\$17.62 per barrel and the Tapis Blend by 5.6% to US\$16.91 per barrel. Prices of crude oil remained firm in the third quarter with NSB increasing by 8.3% to US\$17.24 per barrel, WTI by 6% to US\$18.68

per barrel and Tapis Blend by 8.3% to US\$18.32 per barrel due to disturbances in a number of countries, such as the civil war in Yemen, the strikes in the Nigerian oil industry as well as the Norwegian platforms and the closure of platforms in the North Sea for periodical maintenance in the months of July and August 1994. Prices are not expected to rise significantly in the fourth quarter of 1994 but are likely to remain firm because of the tight market situation.

Reflecting the international market for crude oil, the weighted average price (WAP) based on export prices of all Malaysian crudes declined by 18.7% to US\$15.85 per barrel in the first quarter of 1994, from US\$19.50 per barrel during the same period of 1993. In the second quarter of 1994, the WAP increased by 3.9% to US\$16.40 per barrel when compared with the preceding quarter. Given the tight supply and demand conditions in the global market, the WAP is expected to remain firm and to average at US\$16.50 for the whole of 1994.

Japan, Thailand, Singapore and South Korea remained as Malaysia's major markets for crude oil during the first half of 1994. Japan purchased 2.1 million tonnes to account for 22.1% of total crude oil exports, while Thailand emerged as the second largest market with an offtake of 1.97 million tonnes, accounting for 20.7%. Exports to Singapore, the third largest market amounted to 1.95 million tonnes or 20.5% of total crude oil exports. South Korea's offtake was 1.3 million tonnes accounting for 14.1%.

Based on production schedules and plant capacity, export volume of LNG is expected to remain at 8 million tonnes in 1994, despite an increase of 11.3% in the volume exported during the first seven months of 1994. In consonance with depressed crude oil prices, the export unit value of LNG is expected to fall by 10.5% to RM290 per tonne. Hence, export receipts from LNG are envisaged to decline by 10.7% to RM2,320 million in 1994. Japan is the largest importer of LNG with a share of 96% of the market while the remaining 4% is exported to South Korea.

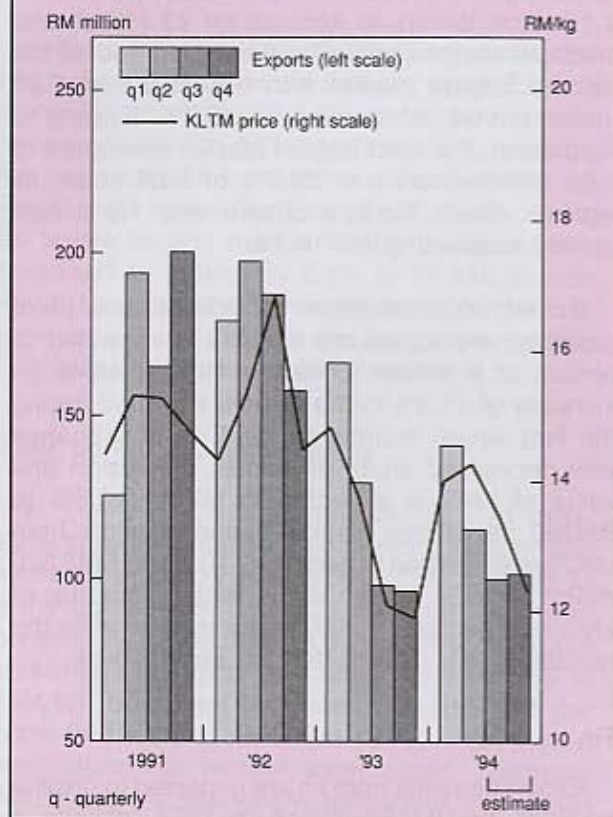


Tin

Export earnings from tin are expected to decline by 6.3% to RM458 million in 1994, despite a marginal increase in export unit value because of the decline in export volume of 7%, following a lower level of production of tin-in-concentrates as well as the availability of tin substitutes. Export earnings decreased by 8.5% to RM302 million during the first seven months of 1994 resulting from a decline in export volume of 3.9% to 21,598 tonnes. Although export unit value decreased by 4.7% to RM13,988 per tonne during the period under review, it is anticipated to stabilise at around RM13,900 for the whole of 1994 due to the possibility of a more effective Supply Rationalisation Scheme by the Association of Tin Producing Countries (ATPC) to reduce global supply following China's entry as the eighth member in April 1994 and Brazil as the ninth member by 1995.

The average price of tin in the Kuala Lumpur Tin Market (KLTM) during the first nine months of 1994 increased by 2.6% to RM13.91 per kilogramme, from RM13.56 recorded during the same period in 1993. This price level is still considered unremunerative and is very much lower than the RM30 per kilogramme registered before the collapse of the International Tin Council in

Chart 7.6
Tin - Exports and Price



1985. The marginal increase in price in 1994 followed the general upward trend of other base metal prices on the London Metal Exchange (LME), partly supported by speculative buying. The weaker ringgit against the US dollar in the first two months of 1994 also contributed to the strong demand, especially from European and Japanese traders who took advantage of the cheaper dollar price of the metal. The price was also boosted by China's entry into the ATPC. However, a sustained recovery in the short term is not likely due to the large LME warehouse stocks as well as stocks in the US Defence Logistics Agency (DLA) strategic stockpile. Based on these factors, the KLTM tin price is estimated to increase by 2.8% to average RM13.50 per kilogramme in 1994 compared with RM13.13 recorded in 1993.

During the first half of 1994, the EU continued to be the largest market for Malaysia's export of tin with an offtake of 7,240 tonnes or 38.8% of total tin exports. Japan purchased 3,606 tonnes

or 19.4% of total tin exports, while South Korea maintained its position as the third largest market with an offtake of 2,040 tonnes or 11%.

Import Performance

With the strengthening of domestic as well as external demand, gross imports, valued at cost, insurance and freight (cif), are expected to increase sharply by 26% in 1994 (15.8% in 1993). The rise in import value reflects mainly the increase in import volume, as prices of imports increased by only 0.1% while import value by 29.9% during the first seven months of 1994.

Imports of intermediate and investment goods, which account for 43.9% and 40.8% of total imports, are expected to increase by 29.6% and 26.4%, respectively, in 1994. The anticipated sharp increase in imports of investment goods is in line with the rapid investment growth in the domestic economy, while the marked increase in intermediate goods reflects, to a certain extent, the high import content of the manufacturing sector. The growth in imports of consumption goods is expected to pick up, though increasing moderately by 14.4% in line with the projected increase in private consumption spending. The detailed performance of gross imports by economic function for the first seven months of 1994 is as shown in Table 7.7.

Investment Goods

During the first seven months of 1994, imports of investment goods, expanded by 29.3%, after recording an increase of 11.5% during the corresponding period of 1993 due to higher capital formation, particularly in the manufacturing, construction, transport and communication sectors. The import of transport equipment rebounded to grow sharply in 1994 due mainly to the importation of commercial aircrafts and LNG tankers, following the expansion and upgrading measures taken by the national airlines and shipping companies. Imports of machinery increase sharply on account of higher imports of machinery for the manufacturing sector. The import of other investment goods also grew strongly, mainly due to the sharp increase in imports of electrical and telecommunication equipment. As a result of the strong growth in imports of investment goods, its share to total imports increased to 40.8% during the first seven months of 1994 (see Table 7.8).

Table 7.7
Gross Imports by Economic Function¹
(January-July)

	Value (RM billion)		Annual change(%)		Share (%)	
	1993	1994	1993	1994	1993	1994
Investment goods	26.6	34.4	11.5	29.3	41.0	40.8
Intermediate goods	27.4	37.0	14.3	35.3	42.2	43.9
Consumption goods	10.6	12.4	4.1	17.2	16.3	14.7
Imports for re-export	0.3	0.5	-14.1	47.4	0.5	0.5
Tin ore	0.2	0.3	-35.9	42.7	0.3	0.3
Natural rubber	0.1	0.2	50.2	53.3	0.2	0.2
TOTAL	64.9	84.3	11.2	29.9	100.0	100.0

¹ Estimated from the five-month detailed compiled by the Central Bank.

Source: Department of Statistics

Table 7.8
Imports of Investment Goods
(January-July)

	Annual change (%)		Share (%)	
	1993	1994	1993	1994
Metal products	17	11	14	13
Iron, steel and non-ferrous metal	15	14	12	11
Others	27	-5	2	2
Transport equipment	-15	29	14	14
Commercial vehicles	-21	46	1	1
Aircraft and parts	10	3	10	8
Ships and boats	-59	172	2	4
Automobile and buses	-65	63	0.1	0.1
Others	-49	39	1	1
Machinery	7	24	28	27
Manufacturing	1	23	11	11
Others	11	25	17	16
Other investment goods	26	39	43	47
Generators	17	64	11	14
Electrical and telecommunication equipment	34	33	18	19
Others	25	26	14	14
TOTAL	11.5	29.3	100	100

Source: Department of Statistics

Intermediate Goods

The import of intermediate goods, which accounted for 43.9% of total imports, expanded at a faster rate of 35.3% for the first seven months of 1994 (January-July 1993: 14.3%), following substantial increase in imports of materials for manufacturing, due to the buoyant domestic demand and external sales of manufactured goods. The increase in the import of materials for manufacturing, which accounted for 82% of the total intermediate goods imports, was due to the significant growth in imports of electronics component parts, semi-manufactured gold and motor assembly parts. The growth in imports of electronics component parts was to meet the growing domestic demand from electrical appliance and service-related industries, while that of semi-manufactured gold picked up strongly following the abolition of import duty on non-monetary gold since July 1993. Imports of building and construction materials expanded significantly during the first seven months of 1994, following the continued pickup in both public and private construction activities. In response to the rising demand and prices of food, imports of materials for agriculture and husbandry also recorded a higher growth. The import of other intermediate

Table 7.9
Imports of Intermediate Goods
(January-July)

	Annual change (%)		Share (%)	
	1993	1994	1993	1994
Materials for agriculture and husbandry	11	4	3	2
Live animal and feedstuff	12	11	1	1
Fertiliser and weed killer	11	-1	2	1
Materials for manufacturing	18	39	80	82
Parts for motor assembly	2	38	4	4
Chemicals	4	11	7	5
Food	12	7	5	4
Plastic materials	11	11	6	5
Electronics component parts	32	49	37	41
Semi-manufactured gold	-7	132	3	6
Others	14	31	18	17
Building and construction materials	5	51	7	8
Building materials of lime, cement, clay, asbestos and glass	40	16	2	1
Tubes, pipes, fitting and metal parts	-5	59	3	4
Others	3	64	2	3
Other intermediate goods	-4	3	10	8
Fuel, crude petroleum and petroleum products	-21	-12	5	3
Others	22	18	5	5
TOTAL	14.3	35.3	100	100

Source: Department of Statistics

goods, particularly fuel, crude petroleum and petroleum products, however, declined as a result of an increase in domestic supply (see Table 7.9).

Consumption Goods

Imports for consumption goods rose by 17.2% during the first seven months of 1994 (January-July 1993: 4.1%), reflecting rising domestic demand. Despite the pickup in growth, its contribution to total gross imports declined further to 14.7% (January-July 1993: 16.3%). Consumer durables that recorded strong increases in imports include gramophones, records, musical equipment

and domestic appliances. In view of the rising domestic demand and prices of food, strong increases in the import of rice and cereal products, vegetables and fruits were also recorded. In line with the rising standard of living, the import of household and cosmetic items, clothing and fabrics and footwear as well as toys and sporting goods also showed sharp increases (see Table 7.10).

Goods imported for re-export, which comprised mainly tin-ore and natural rubber, remained relatively insignificant of total imports (0.5%). Nevertheless, the import of these goods, which are to be processed domestically before being re-exported, increased by 47.4% in the seven months of 1994, due to the decline in domestic production of rubber and tin-ore (see Table 7.7).

Table 7.10
Imports of Consumption Goods
(January-July)

	Annual change (%)		Share (%)	
	1993	1994	1993	1994
Food	8	11	20	19
Rice and cereal products	-14	22	2	2
Vegetables and fruits	15	16	5	5
Meat and fish	11	12	5	5
Others	10	5	8	7
Beverages and tobacco	-1	11	2	2
Consumer durable	19	23	22	23
Vehicles and parts	43	-5	3	3
Domestic appliances	32	12	9	9
Others	3	43	10	12
Other consumption goods	-2	17	56	58
Fuel and petroleum products	-30	14	5	5
Clothing, fabrics and footwear	-8	13	14	14
Household and cosmetic items	9	31	8	9
Toys and sporting goods	-19	10	1	1
Others	8	16	27	26
TOTAL	4.1	17.2	100	100

Source: Department of Statistics

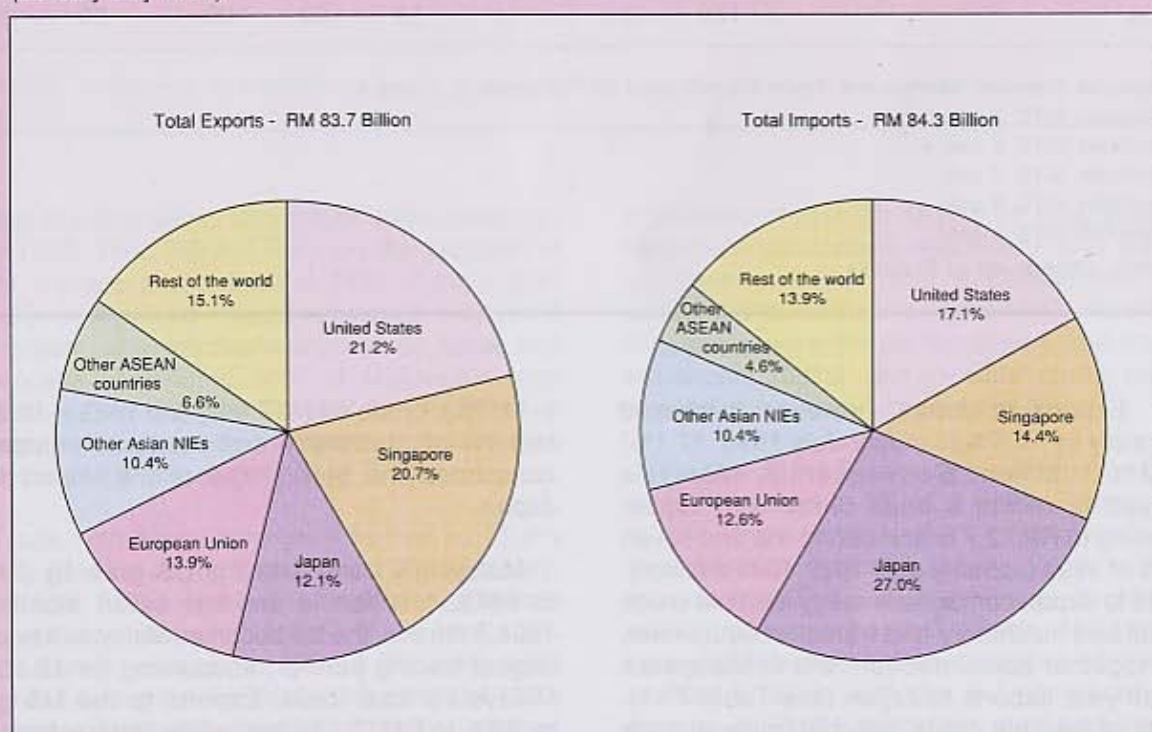
Direction of Trade

During the first seven months of 1994, Malaysia's total trade expanded further by 26.1% to RM168 billion (January-July 1993: 15.5%). With this level of external trade, Malaysia ranked as the 19th largest exporter and importer in the world. Gross exports, valued at free-on-board (fob), expanded by 22.5% (January-July 1993: 19.8%) to account for 49.8% of total trade, while gross imports, valued at cif, rose by 29.9% (January-July 1993: 11.2%) to constitute 50.2% of total trade. With imports growing faster than exports, Malaysia's trade balance registered a deficit of RM598 million (January-July 1993: a surplus of RM3.4 billion). Japan continued to be our single largest trading partner, with a total trade value of RM32.9 billion, accounting for 19.6% of Malaysia's total trade, followed by the US (19.1%), Singapore (17.6%) and the EU (13.2%). Trade with the newly industrialising economies (NIEs) of Asia, comprising South Korea, Taiwan and Hong Kong, constitutes 10.4% of total trade.

For exports, Singapore, the US, the EU, Japan and the Asian NIEs remained as Malaysia's major markets during the first seven months of 1994, accounting for 78.3% of total exports (January-July 1993: 80.4%). Exports to the US increased sharply by 29%, while those to the EU rose by 17.4%. Similarly, exports to Singapore and Japan increased fairly rapidly. Japan, the US, Singapore, the EU and the Asian NIEs were Malaysia's major sources of imports, supplying about 82% of the country's total imports (January-July 1993: 82.3%), with rapid increases in imports from the EU (48.1%), Japan (28.2%), Asian NIEs (27%) and Singapore (24.3%).

Japan maintained its position as Malaysia's most important trading partner, with a total trade value of RM32.9 billion or 19.6% of Malaysia's total trade during the first seven months of 1994. Total trade with Japan grew rapidly during the period by 23% (January-July 1993: 17.9%). This reflects the marked increase in imports from Japan by 28.2% (January-July 1993: 18.4%) to RM22.8

Chart 7.7
Direction of Trade
(January-July 1994)



Figures in diagram refer to percentage of total
Source : The Department of Statistics (DOS)

Table 7.11
Trade with Japan
(January-June)

	<i>Exports</i>				<i>Imports</i>			
	<i>Share (%)</i>		<i>Annual change (%)</i>		<i>Share (%)</i>		<i>Annual change (%)</i>	
	1993	1994	1993	1994	1993	1994	1993	1994
Food, beverages, tobacco, oils and fats ¹	5	6	8	21	0	0	11	4
Inedible crude material, mineral fuels and lubricants ²	51	40	4	-14	1	1	37	-11
Manufactured goods, intermediate ³	11	11	60	11	24	21	15	13
Machinery and transport equipment ⁴	27	36	39	48	67	70	19	35
Manufactured goods, final products ⁵	6	7	26	44	6	6	9	28
Miscellaneous ⁶	0	0	24	53	1	1	1,730	14
TOTAL	100	100	18	11	100	100	20	28

¹ Includes Standard International Trade Classification (SITC) codes 0, 1 and 4.

² Includes SITC 2 and 3.

³ Includes SITC 5 and 6.

⁴ Includes SITC 7 only.

⁵ Includes SITC 8 only.

⁶ Includes SITC 9 only.

Source: Department of Statistics.

billion. Exports to Japan, however, increased moderately by 12.6% (January-July 1993: 17.1%) to RM10.1 billion. Consequently, Malaysia continued to record a trade deficit with Japan, amounting to RM12.7 billion during the first seven months of 1994 (January-July 1993: RM8.8 billion). Exports to Japan comprised mainly inedible crude material and machinery and transport equipment, which together accounted for 76% of Malaysia's first half-year exports to Japan (see Table 7.11). Exports of inedible crude material, mineral fuels and lubricants to Japan, however, declined on account of lower exports in rubber (-26.8%), tin

(-11.7%), crude oil (-12.9%) and LNG (-10.2%). Imports of machinery and transport equipment constituted the bulk (70%) of the import from Japan.

Malaysia's trade with the **US** grew by 26.1% to RM32.1 billion in the first seven months of 1994. With this, the US becomes Malaysia's second largest trading partner, accounting for 19.1% of Malaysia's total trade. Exports to the US grew by 29% to RM17.7 billion, while imports from the US rose by 22.6% to RM14.4 billion. Consequently, a trade surplus of RM3.3 billion was recorded

Table 7.12
Trade with the United States
(January-June)

	<i>Exports</i>				<i>Imports</i>			
	<i>Share (%)</i>		<i>Annual change (%)</i>		<i>Share (%)</i>		<i>Annual change (%)</i>	
	1993	1994	1993	1994	1993	1994	1993	1994
Food, beverages, tobacco, oils and fats	3	2	-9	-2	2	2	-9	26
Inedible crude material, mineral fuels and lubricants	2	2	8	20	3	3	118	13
Manufactured goods, intermediate	5	5	24	29	11	10	18	9
Machinery and transport equipment	74	77	43	38	77	77	34	21
Manufacture goods, final products	16	14	20	20	5	6	26	51
Miscellaneous	0	0	138	-27	2	2	243	55
TOTAL	100	100	35	33	100	100	34	22

Source: Department of Statistics.

during the first seven months of 1994 (January-July 1993: RM2 billion). Data on the first half of 1994 indicate that a total of 77% of the export to US comprised machinery and transport equipment, of which thermionic valves, tubes and photocells constituted 35% of Malaysia's total exports to the US (see Table 7.12). In terms of imports, machinery and transport equipment also accounted for the major share (77%).

Trade with **Singapore** grew further by 21.2% during the first seven months of 1994 (January-July 1993: 7.7%) mainly due to increases in both exports and imports by 19.1% and 24.3% respectively, compared with 9.9% and 4.6% recorded during the corresponding period of 1993. Singapore, Malaysia's third largest trading partner, accounted for 17.6% or RM29.5 billion of Malaysia's total trade. First half-year data indicate that a

significant proportion (61%) of total exports to Singapore comprised machinery and transport equipment, while other manufactured goods accounted for 20% (see Table 7.13). Imports from Singapore were mainly machinery and transport equipment (63%) and inedible crude material, mineral fuels and lubricants (14%).

Trade with the **EU** during the first seven months of 1994 valued at RM22.3 billion, increased by 30.3%, accounting in 13.2% of total trade. Total exports to the EU increased by 17.4%, while total imports from the EU grew sharply by 48.1%. In spite the faster import growth, Malaysia still recorded a trade surplus, though a smaller one, at RM1.1 billion with the EU compared with a surplus of RM2.8 billion for the same period in 1993. Exports to Germany grew moderately by 10.4%, but imports from Germany grew markedly

Table 7.13
Trade with Singapore
(January-June)

	<i>Exports</i>				<i>Imports</i>			
	<i>Share (%)</i>		<i>Annual change (%)</i>		<i>Share (%)</i>		<i>Annual change (%)</i>	
	1993	1994	1993	1994	1993	1994	1993	1994
Food, beverages, tobacco, oils and fats	10	8	-3	1	1	1	-7	0
Inedible crude material, mineral fuels and lubricants	16	10	18	-28	19	14	-9	-7
Manufactured goods, intermediate	11	12	20	20	15	12	0	3
Machinery and transport equipment	51	61	8	39	56	63	5	43
Manufacture goods, final products	10	8	-1	-2	5	5	3	23
Miscellaneous	2	1	614	-11	4	5	54	53
TOTAL	100	100	10	18	100	100	2	27
<i>Source:</i> Department of Statistics.								

by 42.6%, thus resulting in a trade deficit of RM579 million. Nevertheless, trade with the UK remained in surplus (RM229 million). The bulk of exports to and imports from the EU were mainly machinery and transport equipment (see Table 7.14).

Malaysia's trade with the **NIEs of Asia**, excluding Singapore, constituting 10.4% of total trade valued at RM17.5 billion, increased by 19.5% during the first seven months of 1994. Exports grew by 12.8%, slower than the relatively high import growth of 27%, thus resulting in a trade deficit of RM112 million. Among the NIEs, trade with Taiwan was the highest. Imports from South Korea and Taiwan increased rapidly by 41.5% and 21.3% respectively, while that from Hong Kong rose to 20.7%. Major exports to and imports from the NIEs were mainly machinery and transport equipment and

manufactured goods of final products, as shown in Table 7.15.

During the first seven months of 1994, trade with **ASEAN** countries (excluding Singapore) expanded by 31.5% to RM9.4 billion, accounting for 5.6% of Malaysia's total trade. Exports to these countries increased sharply by 33% (January-July 1993: 10%), see Table 7.16. The major export items continued to comprise mainly machinery and transport equipment as well as mineral fuel and lubricants, which accounted for about 60% of Malaysia's total exports to these countries. Imports from these countries also increased significantly by 30%, the bulk of which was food and machinery and transport equipment, which accounted for 56% of the total imports. With exports rising at a faster rate than imports, trade with these countries continued to be in surplus, that

Table 7.14
Trade with the European Union
(January-June)

	<i>Exports</i>				<i>Imports</i>			
	<i>Share (%)</i>		<i>Annual change (%)</i>		<i>Share (%)</i>		<i>Annual change (%)</i>	
	1993	1994	1993	1994	1993	1994	1993	1994
Food, beverages, tobacco, oils and fats	9	10	0	32	5	4	19	12
Inedible crude material, mineral fuels and lubricants	11	9	-4	6	3	2	47	-23
Manufactured goods, intermediate	9	9	2	20	28	26	-12	45
Machinery and transport equipment	54	56	43	25	55	57	-4	59
Manufacture goods, final products	17	15	10	0	5	5	-15	35
Miscellaneous	0	0	60	16	4	6	24	173
TOTAL	100	100	22	19	100	100	-4	53

Source: Department of Statistics.

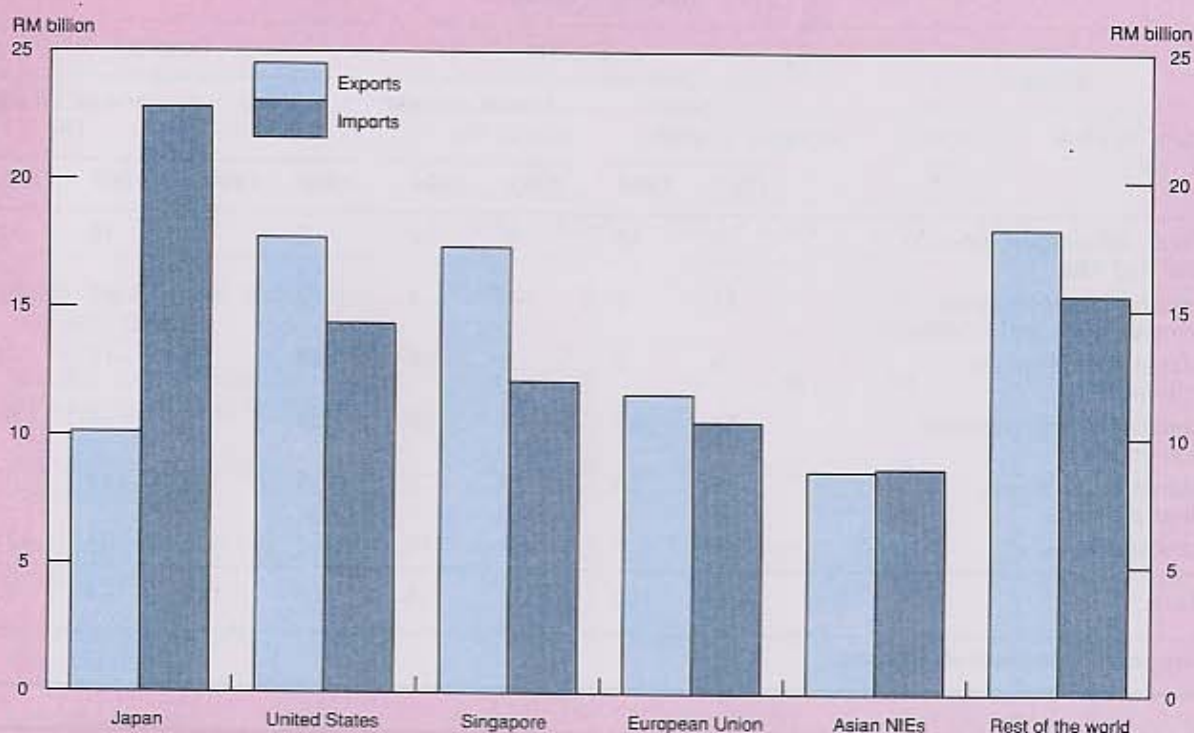
Table 7.15
Trade with the Newly Industrialising Economies of Asia¹
(January-June)

	<i>Exports</i>				<i>Imports</i>			
	<i>Share (%)</i>		<i>Annual change (%)</i>		<i>Share (%)</i>		<i>Annual change (%)</i>	
	1993	1994	1993	1994	1993	1994	1993	1994
Food, beverages, tobacco, oils and fats	6	7	23	30	2	1	-7	-8
Inedible crude material, mineral fuels and lubricants	36	24	18	-27	1	1	81	30
Manufactured goods, intermediate	17	20	43	29	36	31	7	12
Machinery and transport equipment	36	43	33	35	50	56	2	44
Manufacture goods, final products	4	6	32	69	8	7	-5	13
Miscellaneous	1	0	83	14	3	4	104	59
TOTAL	100	100	28	12	100	100	5	29

¹ Comprising South Korea, Taiwan and Hong Kong only.

Source: Department of Statistics

Chart 7.8
Balance of Trade
(January-July 1994)



is RM1.6 billion during the first seven months of 1994, compared with a surplus of RM1.2 billion during the same period in 1993.

Trade with **China** continued to expand rapidly at 54.7% during the first seven months of 1994 (January-July 1993: 32.6%), reflecting a significant 72% increase in exports and 35% increase in imports. China presently accounts for 2.9% of Malaysia's total trade. With exports expanding at a much faster rate than imports, Malaysia's trade with China registered a larger surplus of RM873 million during the first seven months of 1994 (January-July 1993: RM 186 million). Major imports from China were food items, glassware, medicinal and pharmaceutical products while Malaysia's exports comprised mainly primary commodities such as sawlogs, rubber and palm oil as well as manufactured goods.

Trade with **Australia** and **New Zealand** expanded further by 33% and 26% respectively

during the first seven months of 1994. In the case of Australia, the growth of imports (36%) was faster than exports (27%), thus resulting in Malaysia recording a trade deficit of RM1.3 billion. On the other hand, exports to New Zealand grew at a faster rate (43%) than imports (9%), hence, enabling Malaysia to record a trade surplus of RM143 million during the same period. Imports from these two countries comprised mainly dairy products, wheat, meat and raw beet, while exports to these countries were mainly primary commodities, manufactured goods as well as machinery and transport equipment.

Trade with **West Asia**, which accounted for only 1% of total trade with Malaysia during the first seven months, grew by 7%. Total exports increased by 15% (January-July 1993: 13%) while imports declined by 13% (January-July 1993: 20%). A significant portion of the trade was with the United Arab Emirates, Saudi Arabia and Jordan,

Table 7.16
Direction of Trade with Other Trading Partners
(January-July)

	<i>Exports</i>				<i>Imports</i>				<i>Balance of trade</i>	
	<i>Share (%)</i>		<i>Annual change (%)</i>		<i>Share (%)</i>		<i>Annual change (%)</i>		<i>(RM million)</i>	
	1993	1994	1993	1994	1993	1994	1993	1994	1993	1994
ASEAN (exclude Singapore)	31	30	10	33	26	25	13	30	1,170	1,628
China	13	16	76	72	13	13	4	35	186	873
Australia	6	6	-10	27	15	15	20	36	-895	-1,301
New Zealand	3	3	147	43	3	3	-10	9	11	143
West Asia	11	9	13	15	5	3	20	-13	848	1,142
Eastern Europe	0	1	-35	271	1	1	-29	86	-38	11
Other minor trading partners	36	35	15	31	37	40	-5	47	577	75
TOTAL	100	100	18	36	100	100	4	35	1,859	2,571
(Share to total exports or imports)	20	22			18	18				
<i>Source:</i> Department of Statistics										

which together accounted for 72% of Malaysia's total trade with West Asia. Major export items to West Asia were crude palm oil, manufactured goods as well as machinery and transport equipment, while about half of total imports from West Asia comprised mineral fuel.

Trade with **Eastern Europe** increased by 150% during the first seven months of 1994, with Poland accounting for 49% of the total trade with Eastern Europe. On the whole, trade with these countries was still in favour of Malaysia, with a small surplus of RM11 million. Major export items to these

countries were palm oil, rubber, manufactured goods as well as machinery and transport equipment.

Data for the first seven months of 1994 also indicate that trade with Indo-China and Myanmar as well as Central and South America also increased although still accounting for a small share in total trade. Trade with Indo-China rose by 13.4% to account for 0.4% of Malaysia's total trade, while that with Central and South America increased by 48.3% to account for 1.3% of Malaysia's total trade.

FEATURE ARTICLE 4

Changing Trade Pattern

Introduction

Malaysia, being an open economy, is very much dependent on external trade for its economic development. External trade (both exports and imports) accounted for a significant and rising portion of its gross domestic product (GDP), reflecting the importance of international trade to the Malaysian economy. The share of merchandise trade, which accounted for 73% of GDP in 1970, has grown to 140% in 1993.

Direction of External Trade

The direction of Malaysia's external trade remains relatively unchanged since 1970. Japan, the United States (US), the Association of South-East Asian Nations (ASEAN), the European Union (EU) and East Asia together accounted for more than 80% of Malaysia's total trade flows during

the period 1971-93. While the order of importance of these countries/regions as Malaysia's trading partners has changed over the period, their importance as major trading partners of Malaysia, however, remained. Of significance is the rising importance of East Asia (comprising South Korea, Hong Kong, Taiwan and China) as one of our major trading partners. In contrast, the importance of the EU as a trading partner has declined.

The direction of Malaysia's external trade correlates closely with the sources of foreign investments in Malaysia, especially in the manufacturing sector as foreign firms investing in Malaysia's manufacturing sector generally source their intermediate goods from their parent or associated companies in their home countries. Subsequently, the processed products are exported back either to their country of origin or other markets.

Similar to the pattern of Malaysia's external trade, Japan, the US, ASEAN, East Asia and the EU were the major foreign investors in Malaysia.

Table 1

Direction of Trade by Major Market

	1970		1980		1990		1993		Average annual growth (%) 1971-93
	RM million	% share	RM million	% share	RM million	% share	RM million	% share	
United States	1,039	11	8,137	16	26,720	17	44,485	19	18
European Union	2,050	22	8,634	17	23,418	15	31,153	13	13
– UK	920	10	2,049	4	7,448	5	8,769	4	10
– Germany	371	4	2,292	4	6,486	4	8,914	4	15
Japan	1,694	18	11,795	23	31,563	20	47,959	20	16
ASEAN	2,276	24	10,208	20	38,010	24	57,001	24	15
– Singapore	1,434	15	8,138	16	29,852	19	44,193	19	16
East Asia	740	8	3,954	8	19,000	12	31,227	13	18
– South Korea	145	2	987	2	5,711	4	7,731	3	19
– Hong Kong	158	2	851	2	4,021	2	7,362	3	18
– Taiwan	142	2	1,045	2	6,051	4	10,180	4	20
– China	295	2	1,023	2	3,186	2	5,912	3	14
Others	1,652	17	8,895	17	20,054	12	26,813	11	13
TOTAL	9,451	100	51,623	100	158,765	100	238,638	100	15

They together, accounted for 65% of the total approved investment in the manufacturing sector in Malaysia during the 1980s and 79% during 1991-93. During the 1981-93 period, approved investment by East Asia rose by an average of 30% per annum, compared with the overall approved foreign investment in the manufacturing sector of 18% per annum. As a result, East Asia accounted for 26% of the foreign investment approved during 1980-93. This is consistent with the rising importance of Malaysia's external trade with East Asia, from 8% of Malaysia's total international trade in 1980 to 13% in 1993.

Direction of Exports

ASEAN, the US, Japan, the EU and East Asia continue to be our major export markets. Their importance as markets for our exports has increased since 1970 through 1993. They together, accounted for 83% of our gross merchandise exports in 1970. This share has increased further to 89% in 1993 and valued at close to RM110 billion (please see Table 2).

In 1970, ASEAN was our largest export market, accounting for 25% of our total exports. The EU market was second (20%), followed by Japan (18%) and the US (13%). The East Asian market only accounted for 6% of our exports. In 1993, ASEAN remained the biggest market for our exports (accounting for 28% of total exports). However, most of our exports to ASEAN are to Singapore. The US was in second position (20%), followed by the EU (15%), Japan and East Asia (13% each). The importance (in terms of export shares) of US, ASEAN and East Asia as our export markets have improved over the 1971-93 period while that of the EU and Japan has declined.

By country, Singapore, Japan and the US are our major export markets. They together, accounted for 53% of Malaysia's exports in 1970. In 1993, they continued to account for more than 50% of our exports. Singapore was our largest export market in 1970 and remained so in 1993, accounting for about 22% of our exports. Japan was our second largest export market in 1970. However, the position was overtaken by the US in the 1990s.

Table 2
Direction of Malaysia's Exports by Major Market

	1970		1980		1990		1993		Average annual growth (%) 1971-93
	RM million	% share	RM million	% share	RM million	% share	RM million	% share	
United States	671	13	4,609	16	13,487	17	24,631	20	17
European Union	1,047	20	4,962	18	11,863	15	17,549	15	13
– UK	342	7	779	3	3,136	4	5,102	4	13
– Germany	162	3	1,017	4	3,097	4	4,431	4	16
Japan	944	18	6,429	23	12,589	16	15,729	13	13
ASEAN	1,311	25	6,348	22	23,048	29	33,783	28	15
– Singapore	1,113	22	5,385	19	18,052	23	26,307	22	15
East Asia	330	6	2,112	8	9,605	12	16,139	13	18
– South Korea	134	3	569	2	3,677	5	4,155	3	16
– Hong Kong	64	1	529	2	2,523	3	4,994	4	21
– Taiwan	65	1	498	2	1,728	2	3,888	3	20
– China	67	1	471	2	1,675	2	3,094	3	18
Others	860	17	3,712	13	9,054	11	13,383	11	13
TOTAL	5,163	100	28,172	100	79,646	100	121,214	100	15

The proportion of exports to the rest of the world has declined from 17% of total export in 1970 to 11% in 1993. Nevertheless, significant absolute increases in exports to the South countries were registered. For instance, exports to Indo-China and Myanmar rose by an average of 16% per annum over the last 23 years from a meagre RM21 million in 1970 to RM665 million in 1993. The exports to the African continent has also increased, by an annual average of 20%, from RM19 million to RM1.2 billion, respectively.

The relative importance of the five major trading partners to Malaysia has changed over time. At

the same time, the structure of our exports to these markets also changed over time in tandem with the overall structure of our external trade flows. As a result of the efforts undertaken by the Government to diversify our exports, our export base has also been broadened. Rapid industrialisation has led to a change in the structure of exports from one of mainly raw material and intermediate manufactured exports to one of final manufactured goods, as shown in Table 3.

The structure of our external trade with **Japan**, our largest trading partner, has changed over the last 23 years, though not very significantly as

Table 3
Export and Import Trade Structure

	Exports (% of total)				Average annual growth (%) 1971-93	Imports (% of total)				Average annual growth (%) 1971-93
	1970	1980	1990	1993		1970	1980	1990	1993	
Food, beverages, tobacco, oils and fats ¹	12	15	12	9	14	21	11	7	5	9
Inedible crude materials, mineral fuels and lubricants ²	61	57	33	19	9	20	20	8	6	10
Manufactured goods, intermediate ³	23	14	9	12	11	25	25	24	23	15
Machinery and transport equipment ⁴	2	11	36	49	33	28	39	50	56	19
Manufactured goods, final products ⁵	1	2	10	10	28	5	4	6	6	16
Miscellaneous ⁶	1	1	*	1	12	1	1	5	4	21
TOTAL (RM billion)	100 (5.2)	100 (28.2)	100 (79.6)	100 (121.2)	15	100 (4.3)	100 (23.5)	100 (79.1)	100 (117.4)	16

¹ Include Standard International Trade Classification (SITC) codes 0, 1 and 4.

² Include SITC 2 and 3.

³ Include SITC 5 and 6.

⁴ Includes SITC 7 only.

⁵ Includes SITC 8 only.

⁶ Includes SITC 9 only.

* Figure smaller than 0.5%.

Table 4
Trade with Japan

	Exports (% of total)				Average annual growth (%)	Imports (% of total)				Average annual growth (%)
	1970	1980	1990	1993		1970	1980	1990	1993	
Food, beverages, tobacco, oils and fats	4	5	4	5	14	3	1	*	*	8
Inedible crude materials, mineral fuels and lubricants	65	80	68	48	12	1	1	1	1	18
Manufactured goods, intermediate	31	12	7	11	8	49	34	25	23	14
Machinery and transport equipment	*	2	18	29	50	42	60	67	68	20
Manufactured goods, final products	*	1	3	7	38	5	4	7	6	19
Miscellaneous	*	*	*	*	13	*	*	*	1	26
TOTAL (RM billion)	100 (0.9)	100 (6.4)	100 (12.5)	100 (15.7)	13	100 (0.8)	100 (5.4)	100 (19.1)	100 (32.2)	16

* Figure smaller than 0.5%

shown in Table 4. In 1970, our exports to Japan were mainly inedible crude materials, mineral fuels and lubricants as well as intermediate manufactured goods, which together accounted for 96% of the total export to Japan. By 1993, there was a shift towards the export of machinery (electrical, non-electrical and electronics) and transport equipment as well as final manufactured goods. However, the proportion of raw material and intermediate manufactured goods exports remained significant at 59%, while the former increased from a negligible level in 1970 to reach 36% in 1993.

As with Japan, exports to the **US** were mainly concentrated in raw materials and intermediate manufactured goods in 1970. They together, accounted for 93% of the total exports to the US in 1970 (please see Table 5). Over the years,

in line with greater investment flows from the US, which were mainly in the electrical and electronics sector, the content of exports to the US also changed over time. In 1993, 90% of the exports comprised machinery and transport equipment and final manufactured goods.

The pattern of export to **Singapore** resembles more closely the overall international trade structure of Malaysia. This is mainly because a fairly large portion of these trades were reexports, as Singapore is the major entreport port in the region. In 1970, the exports to Singapore were largely food, beverages, tobacco and inedible raw materials, which together accounted for 87% of exports (please see Table 6). In 1993, the export structure was more diversified, but with greater concentration in machinery and transport equipment (55%).

Table 5
Trade with the United States

	Exports (% of total)				Average annual growth (%) 1971-93		Imports (% of total)				Average annual growth (%) 1971-93
	1970	1980	1990	1993			1970	1980	1990	1993	
Food, beverages, tobacco, oils and fats	5	6	4	3	13	14	6	3	2	9	
Inedible crude materials, mineral fuels and lubricants	33	48	8	2	4	5	3	3	3	3	16
Manufactured goods, intermediate	60	11	5	5	5	16	19	12	11	17	
Machinery and transport equipment	*	31	66	74	64	59	66	77	76	20	
Manufactured goods, final products	2	3	17	16	29	4	4	4	6	21	
Miscellaneous	*	1	*	*	12	2	2	1	2	20	
TOTAL (RM billion)	100 (0.7)	100 (4.6)	100 (13.5)	100 (24.6)	17	100 (0.4)	100 (3.5)	100 (13.3)	100 (19.9)	19	

* Figure smaller than 0.5%

Table 6
Trade with Singapore

	Exports (% of total)				Average annual growth (%) 1971-93		Imports (% of total)				Average annual growth (%) 1971-93
	1970	1980	1990	1993			1970	1980	1990	1993	
Food, beverages, tobacco, oils and fats	20	22	12	9	11	20	5	1	1	3	
Inedible crude materials, mineral fuels and lubricants	67	59	23	14	7	32	56	27	18	16	
Manufactured goods, intermediate	5	8	11	12	19	26	13	17	14	16	
Machinery and transport equipment	5	10	44	55	28	4	20	42	55	33	
Manufactured goods, final products	2	1	10	9	24	8	4	6	5	17	
Miscellaneous	1	*	*	1	15	10	2	7	7	17	
TOTAL (RM billion)	100 (1.1)	100 (5.4)	100 (18.1)	100 (26.3)	15	100 (0.3)	100 (2.8)	100 (11.9)	100 (17.9)	19	

* Figure smaller than 0.5%

Sources of Imports

As in the case of exports, the EU, ASEAN, the US, Japan and East Asia were also the major suppliers of imports to Malaysia. In 1970, the EU and ASEAN were the major suppliers of imports to Malaysia, each contributing 23% to our total value of imports. Japan was next, accounting for 17% of our total imports, followed by East Asia (10%) and the US (9%) (please see Table 7). However, the relative importance of the EU and ASEAN declined over the period 1971-93. By 1993, the share of imports from the EU declined to 12% and that from ASEAN to 20%. The US and Japan, on the other hand, experienced the most significant increase in import shares. The share of imports from US increased by 8 percentage points from 9% in 1970 to 17% in 1993, while that from Japan, by 10 percentage points from 17% to 27%. Thus, Japan has overtaken the position of ASEAN and the EU to

become the most important import supplier to Malaysia, accounting for 27% of total Malaysia imports in 1993. ASEAN was second in position, supplying 20% of Malaysia's import, followed by the US (17%), East Asia (13%) and the EU (12%).

By country, Japan was the largest source for our imports in 1970, accounting for 17% of our imports, while the United Kingdom (UK) was in second position, accounting for 14% of our imports. The US was third with 9%, followed by Singapore (8%). By 1993, Japan continued to be Malaysia's largest supplier of imports, followed by the US (17%) and Singapore. However, the imports from the UK dropped significantly to only 3%.

In line with the changing emphasis in the domestic economy, the import structure has also changed from one of more broad-based imports to one emphasizing on imports of intermediate manufactured goods and machinery and transport

Table 7
Sources of Imports by Major Market

	1970		1980		1990		1993		Average annual growth (%) 1971-93
	RM million	% share	RM million	% share	RM million	% share	RM million	% share	
United States	368	9	3,528	15	13,233	17	19,854	17	19
European Union	1,003	23	3,672	16	11,555	15	13,604	12	12
– UK	578	14	1,271	5	4,312	5	3,667	3	8
– Germany	209	5	1,274	5	3,389	4	4,483	4	14
Japan	749	17	5,365	23	18,974	24	32,230	27	18
ASEAN	965	23	3,860	16	14,962	19	23,218	20	15
– Singapore	320	8	2,753	12	11,800	15	17,886	15	19
East Asia	410	10	1,842	8	9,394	12	15,089	13	17
– South Korea	11	-	418	2	2,034	3	3,576	3	29
– Hong Kong	94	2	321	2	1,497	2	2,368	2	15
– Taiwan	76	2	546	2	4,323	5	6,293	5	21
– China	229	5	551	2	1,511	2	2,818	2	12
Others	792	18	5,183	22	11,001	14	13,429	11	13
TOTAL	4,288	100	23,451	100	79,119	100	117,423	100	15

equipment. In terms of imports from **Japan**, the structure remained broadly the same, with intermediate manufactured goods and machinery and transport equipment accounted for more than 90% of the total imports over the last 23 years. Nevertheless, there is a significant shift from the import of intermediate manufactured goods towards the import of machinery and transport equipment (please see Table 4). As a result, the share of intermediate manufactured goods imported fell from 49% in 1970 to 23% in 1993, while that of machinery and transport equipment rose from 42% to 68%.

In the case of imports from the **US**, they were more diversified, as shown in Table 5. In 1970, the import of food, beverages and tobacco, intermediate manufactured goods and machinery and transport equipment accounted for close to 90% of the total imports to Malaysia, with the latter forming the largest portion of imports (59%). During the last 23 years, machinery and transport equipment remained the largest import category from the US and its proportion has increased from 59% in 1970 to 76% in 1993, reflecting mainly the increase in imports of thermionic valves for the electronic industry.

As for imports from **Singapore**, the structure was more broad-based with food, beverages, tobacco, inedible crude material and intermediate manufactured goods accounted for 78% of the imports (please see Table 6). By 1993, there is a move towards the import of raw materials, intermediate manufactured goods and machinery and transport equipment, with the latter accounting for 55% of the total imports from Singapore.

Balance of Trade

Malaysia recorded trade surpluses with the five major trading partners over the last 23 years, except Japan (please see Table 8). With Japan, Malaysia experienced a growing deficit trade balance since 1988. This is attributable to some extent, the appreciation of the yen which has led to the general increase in the value of Malaysia's imports from Japan as well as the relocation of

Table 8
Trade Balance by Major Market
(RM million)

	1970	1980	1990	1993
United States	302	1,081	254	4,778
European Union	44	1,290	308	3,945
Japan	195	1,064	-6,385	-16,500
ASEAN	345	2,488	8,086	10,565
East Asia	-80	269	211	1,050
Others	68	-1,471	-1,946	-46
TOTAL	875	4,721	528	3,791

Japanese companies to Malaysia which, in turn, resulted in the increase in imports of inputs from Japan. This is aggravated by the economic slowdown in Japan in the early 1990s which led to a significant slowdown in exports to Japan and the significant increase in imports from Japan by the local Japanese companies, as most companies in Japan were having excess supply with the decline in domestic demand.

Conclusion

Though the structure of Malaysia's trade has changed fairly significantly over the last 23 years, the direction of Malaysia's trade remains generally the same. Broadly, ASEAN, the EU, East Asia, the US and Japan continue to be Malaysia's major trading partners. Nevertheless, their relative importance as Malaysia's trading partners has changed. The most significant is the declining importance of the EU resulting from the slowdown in trade flows with the UK, our former colonial master. On the other hand, trade with the US and East Asia strengthened, thus leading to their rising market shares in Malaysia's external trade.

Balance of Payments

The overall position of the balance of payments is expected to remain in surplus in 1994. Nevertheless, the current account is projected to deteriorate further, following an increase in the services deficit and a narrowing in the merchandise surplus. However, the current account deficit is expected to be offset by the continued strong inflows of long-term capital despite some net outflows of short-term capital.

Current Account

Merchandise exports are expected to show a significant improvement in 1994 due largely to the continued strong external demand for manufactured goods. The **merchandise exports**, valued at fob, are expected to expand further by 22.2% in 1994 (1993: 17.3%). The growth in **merchandise imports**, however, is expected to outpace the growth of merchandise exports, with an increase of 25.9% (1993: 19.3%). The

acceleration in merchandise imports is partly due to the increase in the import of bulky items, including aircraft, LNG tanker and other floating structure, which is expected to increase by 31.6% to RM6.9 billion (1993: RM5.3 billion). In view of the higher import growth than that of export, the merchandise account is estimated to register a smaller surplus of RM5.9 billion, which is equivalent to 3.4% of GNP (RM8.2 billion or 5.3% of GNP in 1993).

The **services account** deficit is expected to widen further in 1994 to reach RM17.7 billion, equivalent to 10.3% of GNP (RM15 billion or 9.7% of GNP in 1993). The rising services deficit is mainly due to the anticipated continued large repatriation of profits and dividends as a result of large inflows of foreign investment in previous years, the increased in net freight and insurance charges, following the upsurge in trade, as well as greater net payments for contract and professional charges. Though the net receipts on travel are expected to improve, it is notable to offset the deficit in the rest of the services account.

Table 7.17
Current Account of the Balance of Payments
(RM million)

	1993			1994 ^a		
	+	-	Net	+	-	Net
Merchandise account (Exports & imports fob)	118,366	110,173	8,193	144,607	138,730	5,877
Services account	19,548	34,499	-14,951	24,266	42,007	-17,741
Freight and insurance	1,927	6,817	-4,890	2,314	8,601	-6,287
Other transportation	2,846	3,072	-226	3,008	3,163	-155
Travel	5,638	4,732	906	6,941	5,965	976
Investment income	4,714	12,888	-8,174	6,363	15,399	-9,036
Government transactions	302	312	-10	434	416	18
Other services	4,121	6,678	-2,557	5,206	8,463	-3,257
Goods and services account	137,914	144,672	-6,758	168,873	180,737	-11,864
Unrequited transfers	888	479	409	705	498	207
Current account	138,802	145,151	-6,349	169,578	181,235	-11,657

^a Estimate

As in the past, the **investment income** is expected to remain as the major contributor to the services deficit. The net outflow in investment income is expected to increase further to RM9 billion in 1994 to account for 50.9% of the services deficit (RM8.2 billion and 54.7% in 1993). The gross investment income outflows, mainly in the form of repatriation of profits and dividends, particularly from the manufacturing, oil and gas sectors, are expected to rise further to RM15.4 billion in 1994 (RM12.9 billion in 1993). On the other hand, investment income receipts, comprising mainly interest earnings on external reserves and income derived from other financial claims, are expected to increase moderately to RM6.4 billion (RM4.7 billion in 1993).

Similarly, the net outflow for **freight and insurance** charges is estimated to rise to RM6.3 billion in 1994 (RM4.9 billion in 1993), to account for 35.4% of the total services deficit. Payments for freight and insurance are expected to increase by 26.2% to RM8.6 billion (RM6.8 billion in 1993), in line with the accelerating merchandise trade growth. Gross freight and insurance earnings, however, are estimated to increase marginally to RM2.3 billion (RM1.9 billion in 1993), thus resulting in higher net payment for freight and insurance.

The **'other services'** account is expected to continue to register a deficit in 1994 of RM3.3 billion, accounting for 18.4% of the total services deficit. Payments for 'other services', comprising mainly contract and professional charges, management and agency fees, commissions, salaries and allowances, are expected to increase to RM8.5 billion (RM6.7 billion in 1993). Total receipts from 'other services' are also expected to increase, though at a slightly slower rate, to RM5.2 billion (RM4.1 billion in 1993), following the anticipated higher earnings from contract and professional charges, merchanting trade, rent and royalties.

Other transportation, which comprises passenger fares, port and airport disbursements, bunker and charter fees, is expected to register a smaller net outflow of RM155 million in 1994 (RM226 million in 1993). With the anticipation of an increase in earnings by the national airlines, total receipts are estimated to increase to RM3 billion (RM2.8 billion in 1993), while gross payments are estimated to increase to RM3.2 billion (RM3.1 billion in 1993).

The **travel** account is expected to record a surplus for the fifth consecutive year, with RM976 million surplus in 1994 (RM906 million in 1993). In line with the Government's efforts to promote the tourism sector under the Visit Malaysia Year Campaign, travel receipts are expected to grow by 23.1% to RM6.9 billion. The payments for travel, comprise mainly travelling overseas by Malaysians for purposes of education, leisure, business and pilgrimage, are estimated to increase to RM6 billion.

On **Government transactions**, a net inflow of RM18 million is expected to be recorded in 1994, compared with an outflow of RM10 million in 1993. This is mainly the result of a relatively lower expenditure (RM416 million) incurred by the various Malaysian Government departments abroad compared with the receipts (RM434 million) from foreign governments for similar transactions.

On aggregate, the deficit in the services account is expected to widen further to RM17.7 billion in 1994 (RM15 billion in 1993). With the anticipation of a smaller surplus in the merchandise account, **the current account of the balance of payments** is expected to register a larger deficit of RM11.7 billion, which is equivalent to 6.8% of GNP (deficit of RM6.3 billion or 4.1% of GNP in 1993).

Capital Account

The long-term capital account of the balance of payments is expected to record a higher net inflow of RM20.9 billion in 1994, compared with RM14.4 billion in 1993. This is mainly due to the larger inflows of official long-term capital and the continued substantial inflows of corporate investment.

The **official long-term capital** is expected to record a substantial increase in net inflow in 1994 of RM7.9 billion. This is largely due to the significantly higher external borrowings by the Non-Financial Public Enterprises (NFPEs), which more than offset the repayments and prepayments of foreign loans by the Federal Government. Gross borrowings by the NFPEs are expected to increase significantly to RM12.5 billion, while gross payments are expected to increase marginally to RM2.4 billion. The net inflows of **corporate investment**, though declined, are expected to remain large at RM13 billion (RM13.4 billion in 1993). The significant inflows of corporate investment since 1989 is attributable to the increase in foreign investment in manufacturing as well as the oil sector.

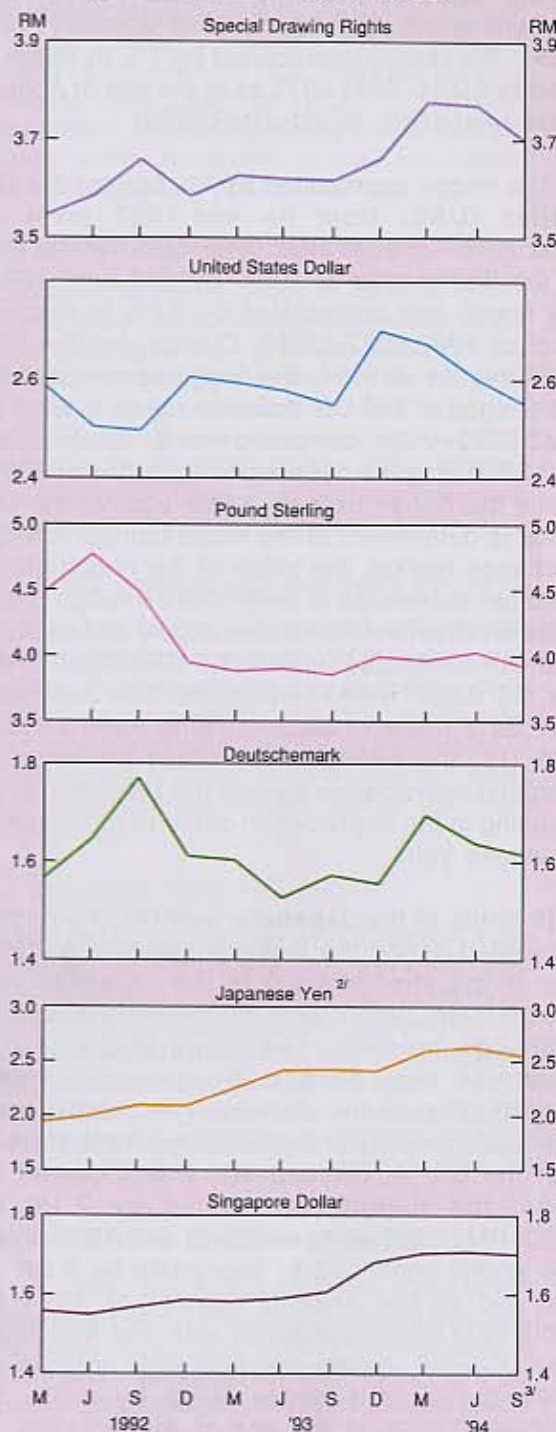
Taking into account the net position of the current and the capital accounts, the **basic balance** is expected to record a higher surplus in 1994, amounting to RM9.3 billion (RM8.1 billion in 1993). With the narrowing of the interest differentials favouring Malaysia and the imposition of measures by the Government since January through August 1994 to discourage speculative capital inflow as well as the foreign exchange losses resulting from the appreciation of the ringgit against the US dollar, the net short-term capital, including errors and omissions, is expected to register a net outflow of RM4 billion. Hence, the overall balance of payments is expected to record a small surplus of RM5.3 billion in 1994 (RM 29.2 billion in 1993). As a result, the Central Bank's net international reserves are expected to increase by RM5.3 billion to RM81.7 billion at the end of 1994, which is sufficient to finance 6.7 months of retained imports.

Foreign Exchange Market

The ringgit depreciated against most major currencies in the first two months of 1994, but gradually strengthened thereafter mainly against the US dollar. The depreciation of the ringgit towards end-1993 and early 1994 was mainly attributable to commercial demand for the US dollar for repatriation of profits and dividends by multinational firms, the settlement of imports and bouts of speculative activity undertaken with the expectations of significant strengthening of the ringgit in the new year. The Central Bank, in order to maintain orderly conditions in the foreign exchange market, introduced various measures during the first two months of 1994 to curb excess liquidity arising from the inflow of speculative short-term foreign capital. Although these measures exerted some downward pressure on the ringgit, they were nevertheless successful in weeding out the speculative flows. Subsequently, in May and August, the Central Bank lifted four of the restrictions on capital movements. As at end-August 1994, the ringgit had recovered to about US\$1=RM2.56 and RM2.55 levels prevailing during the greater part of 1993.

During the first eight months of 1994, the **total transactions** in foreign exchange market amounted to RM384.8 billion, of which 61.2% were dominated by the exchange of US dollar. Against the **composite index** which comprises the currencies

Chart 7.9
Exchange Rates of the Malaysian Ringgit^{1/}



^{1/} End of March, June, September and December

^{2/} RM = ¥ 100

^{3/} As at 30 August 1994



Appreciation of the Malaysian Ringgit
Depreciation of the Malaysian Ringgit

of Malaysia's major trading partners, the ringgit increased by 2% from its end-1993 level. In terms of the **Special Drawing Rights (SDR)**, the accounting unit of the International Monetary Fund (IMF), the ringgit depreciated by 1% to reach a level of SDR1=RM3.6975 as at the end of August 1994 (end-1993: SDR1=RM3.6609)

The ringgit appreciated by 1% against the **US dollar (US\$)** from its end-1993 level of RM2.7010=US\$1 to RM2.6735=US\$1 at the end of the first quarter of 1994. By end-June 1994, the ringgit had appreciated by 3.8% to reach a level of RM2.6027=US\$1. Overall, for the first eight months of 1994, the ringgit appreciated by 5.8% against the US dollar to reach a level of RM2.5530=US\$1, compared with an appreciation of 2.3% during the corresponding period of 1993. While the ringgit exchange rate against the US dollar is determined at the Kuala Lumpur foreign exchange market, the value of the ringgit vis-a-vis other currencies is determined through cross rates which reflect the relative supply and demand of these currencies against the US dollar. When the US dollar weakened against the Japanese yen, as a result of Japan's rising trade surplus with US, the stronger yen offset the ringgit's marginal appreciation against the US dollar, thus resulting in the depreciation of the ringgit against Japanese yen.

In terms of the **Japanese yen (¥)**, the ringgit weakened during the first eight months of 1994 due to the strengthening of the Japanese yen against major currencies in the international foreign exchange markets. The appreciation of the Japanese yen, despite the generally weak performance of the Japanese economy, was attributable mainly to Japan's large trade surplus with the US. At the end of the first quarter of 1994, the ringgit depreciated by 7.1% to ¥100=RM2.5982 compared with end-1993 level. The ringgit continued to depreciate by 8.2% at the end of the second quarter of 1994 to ¥100=RM2.6286, compared with the end-1993 level. Overall, during the first eight months of 1994 the ringgit depreciated by 5.5% to ¥100=RM2.5525 at the end of August 1994.

The ringgit weakened against the **Singapore dollar (S\$)** during the first eight months of 1994. During the first quarter of 1994, the ringgit depreciated slightly by 1.4% to S\$1=RM1.7040 compared with the end-1993 level. During the second quarter, there was a further depreciation of ringgit by 1.6% to S\$1=RM1.7077 compared with the end-1993 level. The depreciation of ringgit against the Singapore dollar was due mainly to the strengthening of the Singapore dollar in the international foreign exchange markets. Overall, during the first eight months of 1994, the ringgit depreciated by 1.2% to S\$1=RM1.7018 at the end of August 1994.

The ringgit recorded a mixed performance against the **pound sterling (£)** during the first eight months of 1994, after depreciating by 1.2% to RM3.9901=£1 at the end of 1993. The economic recovery of the UK and the increasing interest rate caused the pound sterling to strengthen in the international foreign exchange markets vis-a-vis other European currencies. During the first quarter of 1994, the ringgit appreciated by 0.7% to RM3.9608=£1 at the end of March 1994. However, this trend reversed as the ringgit depreciated by 0.8% at the end of the second quarter of 1994 compared with the end-1993 level. The ringgit appreciated against the pound sterling to RM3.9172 =£1 at the end of August 1994.

Against the **deutschmark (DM)**, the ringgit depreciated during the first quarter of 1994. It depreciated by 2.5% against the deutschmark to RM1.5968= DM1 at the end of March 1994, compared with RM1.5575=DM1 at the end of 1993, mainly due to the strong performance of the deutschmark against the US dollar in the international foreign exchange markets. The deutschmark appreciated by 3.6% and 9.3% against the US dollar at the end of March and June 1994, respectively. As at the end of June 1994, the ringgit depreciated by 5% to RM1.6397=DM1. The ringgit continued to weaken by 3.7% against the deutschmark reaching RM1.6175=DM1 as the deutschmark continued to strengthen against the US dollar by 9.9% at the end of August 1994.

FEATURE ARTICLE 5

The Use of EDI in Facilitating Trade and its Implementation in Malaysia

Introduction

The electronic data interchange (EDI) is the direct computer-to-computer exchange of structured trading documents using universally agreed message standards. The basic principle of EDI is that computer-generated trading documents, such as orders and invoices, are transmitted directly from one trading partner's computer system to another trading partner's computer system across a telecommunication network. The term 'trading partner' refers to any company, government department or commercial or non-commercial entity with whom an organisation regularly exchanges documents containing formatted data or messages as a normal consequence of carrying out business or government functions.

The need for EDI is largely driven by global economic trends. Increasingly, countries are extending their operations beyond their national boundaries into the global market. Raw materials sourced in one country are forwarded to another for manufacturing and assembling and subsequently shipped to yet another for distribution and consumption. Underlying this complex physical flow of goods, there is an equally complex flow of documents and information between the various parties involved in the trading cycle and these include the exporters and importers, freight forwarders, customs brokers, shipping agents, terminal operators, insurance companies, banks and government agencies.

In a non-EDI environment, the exchange of documents and information throughout the physical flow process involves voluminous paper work and re-keying of data at each process. Any delay or error in the handling of these paper work would have a direct impact on the delivery of consignment.

The Need for EDI

The introduction of information exchange through EDI would have the following benefits:

(a) Facilitate Global Trading

Many corporations are now actively sourcing from all parts of the world for the most effective

solutions to meet their needs. Inventory holdings are kept to the minimum with just-in-time delivery. For such operations to function efficiently, quick access to international data bases for material sourcing, quick response system to exchange procurement documents and easy communications among parties are crucial. A good EDI system will help achieve these results.

(b) Promote Seamless Transportation

In order to deliver goods to their customers at very short notice, companies need to make direct booking for the carrier space and to track the movement of their shipment from the point of uplift to the final destination. An EDI system can facilitate inter-port documentation as well as the flow of goods within a port by linking customs brokers, freight forwarders, terminal operators, hauliers and regulatory agencies.

(c) Direct Interface with Regulatory Bodies

There is an increasing trend towards the establishment of one-stop national EDI information system. Companies need only to register once and all relevant government authorities will have access to the information through the sharing of common data at a single source. This eliminates duplication and the tedious task of document verification.

(d) Electronic Trade Financing

EDI can be successfully used to support trade financing. Companies with access to information from banks and financial institutions can make electronic application and seek approval for the various financial instruments. Inter-bank payment and remittance can also be expedited. A network-based facility recently launched by EDI (M) Sdn. Bhd. (known as Ringgit*Net) is an example of financial transactions via EDI.

Implementation of EDI in Malaysia

In 1986, the National Trade Facilitation Committee (NTFC) comprising members from both the public sector (the Ministry of International Trade and Industry (MITI), the Treasury and the Department of Customs and Excise) and the private sector (National Chamber of Commerce and Industry Malaysia (NCCIM), the Chinese, Malay and Indian Chambers of Commerce and the Federation of Malaysian Manufacturers) was formed to address the complexity of paper work and procedural problems faced by the trading

community in international trade. The Committee commissioned an expert from the United Nations Conference on Trade and Development to study this matter. The expert devised the Aligned Documentation System (ADS) which simplified and standardised trade documents used by the business community. The ADS paved the way for the implementation of EDI in Malaysia.

Recognising the importance of private sector involvement, the NTFC sought the cooperation of the NCCIM to undertake the implementation of this project. An agreement to this effect was signed between MITI (representing the Government) and the NCCIM on 25 September 1989. The NCCIM, in turn, formed EDI (M) Sdn. Bhd. to implement the project.

In order to oversee the implementation of EDI in Malaysia, the Government formed the Electronic Data Interchange Implementation and Coordination Committee (EDI/ICC). The Committee will address the following matters:

- (i) the implementation of EDI and its implications to legal documentation;
- (ii) the establishment of standard for the Malaysian EDI for Administration, Commerce and Trade;
- (iii) the implementation of Port Klang Community System; and
- (iv) interfacing between Customs' Sistem Maklumat Kastam (SMK) and Dagang*Net, which is the National EDI clearing centre established by EDI (M) Sdn. Bhd.

EDI (M) Sdn. Bhd. has launched the National Clearing Centre or Dagang*Net through which all electronic messages and data of users are stored and routed. Through a single connection to Dagang*Net, the local business community can communicate electronically among themselves,

with the public sector and their trading partners overseas. Two main EDI services provided through Dagang*Net are the Port Klang Community System (PKCS) and Ringgit*Net.

PKCS, a port-based EDI system, aims at connecting shippers with the Port Authority, Customs, freight forwarders, shipping lines, banks and all other relevant parties. This system has been developed to eventually help all those involved in trade to replace the physical movement of paper documents with electronic means. The pilot run of PKCS was launched on 4 April 1993. This project will be replicated with necessary adjustments and implemented at all other major ports in Malaysia. Similar community-based EDI systems will also be implemented at Malaysian international airports beginning with the Subang Air Community System.

Ringgit*Net is a network facility offered to facilitate the exchange of financial transactions using EDI. It connects users with financial institutions and government agencies to facilitate payment transaction between parties. In this regard, a task force under the Accountant General Department was established to examine procedures relating to the payment of Customs duties through EDI. The task force has devised the payment system which went on a trial run on 1 September 1994.

Conclusion

The successful implementation of the EDI will enhance the establishment of a well-structured, modern and efficient electronic commerce infrastructure in Malaysia. This will serve to improve efficiency and productivity by minimising the voluminous paper work and data re-entry, enhance the flow of information amongst the various parties involved in trade, and sharpen the competitive edge of companies and the nation.