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External Trade, Balance of Payments and Foreign Exchange

Export Performance

The value of **gross exports** is envisaged to increase at a significantly lower rate of 4.1% in 1996 to RM192.6 billion, after registering a robust growth of 20.2% in 1995. The slowdown in export growth is mainly due to the slower growth of **manufactured exports** and a drop in the value of agricultural exports. Exports of manufactured goods are envisaged to increase by only 5.8% in 1996, against a growth of 22.9% in 1995. This is mainly as a result of slower growth in overseas sales orders for electrical and electronic products such as transistors, integrated circuits, audio-visual products, including televisions and radios, as well as air-conditioning units due to large stocks overhang and softening of prices due to more intense competition in the global market. Nevertheless, with the growth of the export of manufactured goods envisaged to be slightly above the overall growth of exports, its share to total exports is expected to increase to 81.0% in 1996, compared with 79.7% in 1995. The **export of agriculture commodities**, on the other hand, trended downward with an estimated decline of 15.3% to RM18.3 billion in 1996, after recording an increase of 11.4% in 1995. This is due to the poor export performance of the major agriculture exports, including palm oil which is expected to decline by 21.4% due to weaker price, sawn timber 20.0% and rubber 9.1% as a result of lower export prices and export volume. The **export of the mining sector**, on the other hand, is anticipated to expand by 15.9% to RM12.1 billion, after registering a growth of 10.7% in 1995, mainly due to firmer price of crude oil as well as higher export volume of liquefied natural gas (LNG) to Japan and South Korea. The expected improvement in the performance of the mining sector is, however, insufficient to offset the decline in the export earning of major commodities. As a result, the contribution of the primary sector to total export earnings is estimated to decline to 15.8% in 1996 (1995:17.3%).

Exports of Manufactured Goods

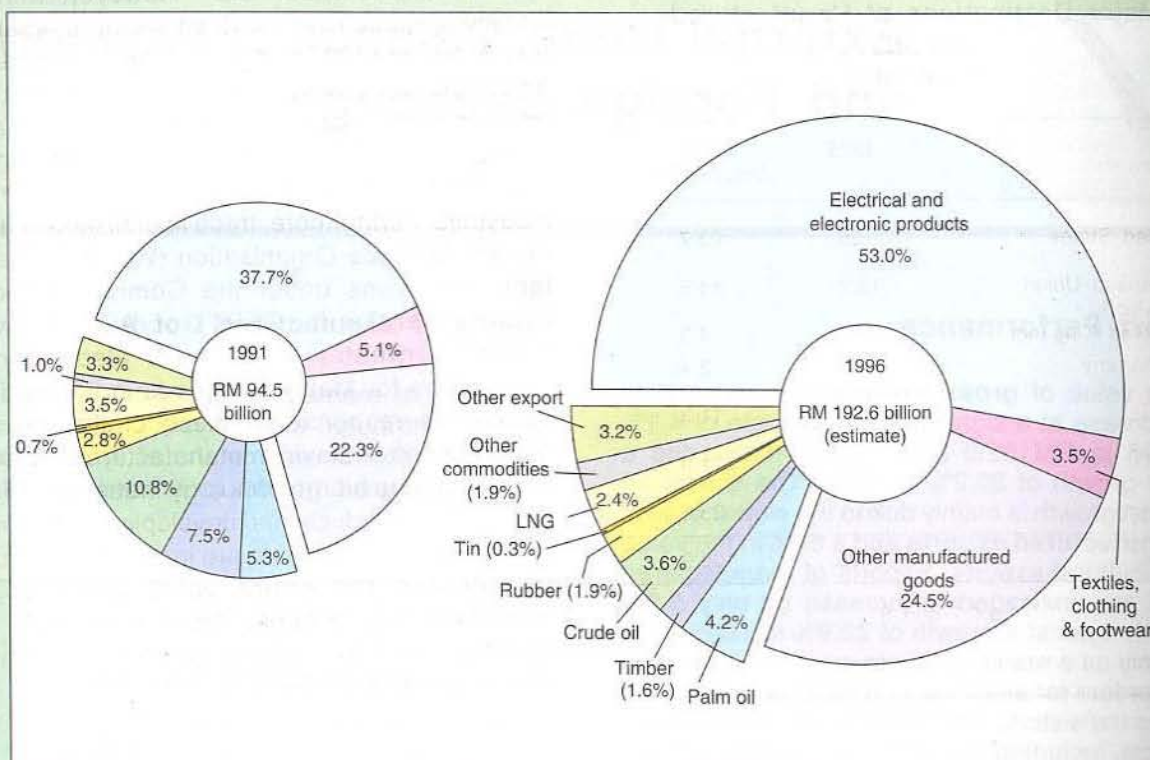
Exports of **manufactured goods** remain the largest contributor to Malaysia's total exports. During the first seven months of 1996, exports of manufactured goods increased by 14.9%

Table 7.1
Manufacturing Exports

Year	% Change		
	1995 % share	1995 (January-July)	1996 (January-July)
Electrical and electronic products and machinery	65.7	23.8	17.0
Textiles, apparel and foot wear	4.5	8.0	11.6
Food, beverages and tobacco	2.5	19.0	7.6
Wood and wood products	4.2	0.9	17.1
Rubber products	2.2	12.5	15.9
Petroleum products	2.1	62.2	10.3
Chemical and chemical products	5.1	56.3	8.4
Non-metallic mineral products	1.1	19.3	5.7
Iron and steel and fabricated metal products	3.3	34.5	17.8
Transport	3.6	-8.6	-5.0
Others	5.7	8.1	18.3
TOTAL	100.0	21.0	14.9

Source: Department of Statistics

Chart 7.1
Export Structure



Figures in diagram refer to percentage of total
Source : The Department of Statistics.

(January-July 1995: 21%) and accounted for 81% (January-July 1995: 78.2%) of total exports. This strong albeit slower growth was supported by higher export orders from the United States (US) and Japan whose economies have picked up after the slowdown in 1995 as well as domestic production capacity expansion. Product enhancement, competitive pricing and improved marketing strategies have also enabled Malaysian manufactured goods to penetrate non-traditional markets, particularly in Africa and Oceania. However, the slowdown in exports to Western Europe on account of unfavourable economic conditions, as well as softening of demand for electronics products have affected the robust growth of manufactured exports. Consequently, for the whole of 1996, exports of manufactured goods are expected to record a moderate growth of 5.8% after registering a growth of 22.9% in 1995.

With the exception of transport equipment, paper and pulp and jewellery, all other categories of manufactured exports registered positive growth during the first seven months of 1996. Exports of rubber and wood-based products increased significantly by 15.9% and 17.1%, respectively compared with 12.5% and 0.9% during the corresponding period of 1995. Significant slowdown, however, were registered in the exports of petroleum and chemical products while the growth in the exports of textile and clothing as well as electronic and electrical products decelerated moderately.

In terms of composition, electronic and electrical products continued to constitute the largest share of manufactured exports. Nevertheless, due to recent stronger growth in production, exports of chemical products, manufactures of metal and wood products recorded increasing shares. During the first seven months of 1996, electronic and

Table 7.2

Major Destinations of Manufactured Exports¹
(% of total)

	1995	1996 January-July
United States	26	23.7
European Union	15.2	14.5
of which:		
United Kingdom	4.8	4.3
Germany	3.7	3.4
Japan	10.4	11.3
Singapore	22	21.9
Others	26.4	28.6
TOTAL	100.0	100.0

¹ Includes SITC 1,5,6,7 and 8

Source: Department of Statistics

electrical products accounted for 66% of total manufactured exports followed by chemical products 5%, wood products 4.5%, textile and clothing 4.4% and metal products 3.5%.

As for export markets, the US, European Union (EU), Japan and Singapore remain the major destinations. As a group, these countries account for two-thirds of total manufacturing exports. During the first seven months of 1996, manufacturing exports to the US increased by 7.8% and accounted for 23.7% of total manufacturing exports. Exports to Singapore increased by 11.6%, reflecting a share of 21.9% while exports to Japan increased sharply by 31% and accounted for 11.3% of total exports. Exports to the EU increased marginally by 1% and accounted for a share of 14.5%. Significant increases of manufactures to smaller markets, such as Australia, New Zealand and Africa, were also noted during the period.

In the past, the Generalised System of Preferences (GSP) has enabled Malaysia to gain access to markets in the US, Japan and EU. In 1995, GSP exports accounted for 12.5% of total

exports and 88% of these were manufactured items. The US, Japan and EU accounted for 86% of the markets under GSP. However, with the impending graduation from the US GSP programme from 1 January 1997 and greater restrictions placed on the EU GSP, Malaysia may lose its competitive edge in comparison to other GSP beneficiaries such as China, Philippines, Thailand and Indonesia who are also low-cost producers in labour-intensive industries. Furthermore, trade liberalisations under the World Trade Organisation (WTO) as well as tariff reductions under the Common Effective Preferential Tariff (CEPT) of ASEAN, while providing greater access will also intensify competition for Malaysian goods in international market. In response to these challenges and opportunities, Malaysian manufacturers must not only move into high-technology industries, higher value added products and developing global brand names but also adopt a more integrated approach to increase the entire value chain of the manufacturing process from Research and Development (R&D), design, production distribution to marketing activities.

Electrical and Electronic Products and Machinery

Despite the softening of global demand in the first seven months of 1996 due to high level of stocks overhang in the global market since late 1995 as well as increased price competition, especially in the case of electronics related products, Malaysia's export of electrical and electronic products and machinery continued to expand at a strong, although at a slower pace, that is by 17% to RM59.8 billion (January-July 1995: 23.8%). Consequently, these exports still constitute the largest share that is at 66% of total value of manufactured exports.

The **electronic products** comprising electronic components, industrial electronics and consumer electronics grew significantly although at a slower rate of 16.6% to RM54.7 billion compared with 24.3% or RM46.9 billion during the corresponding period of 1995. The strong export growth of electronic products was underpinned by the continued expansion in the export of the **electronic components** such as thermionic valves, photocells, and tubes during the period. The US, Singapore, Japan and United Kingdom continued to be the

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

<i>Country</i>	<i>1995</i>		<i>1996</i>		<i>Annual Change (%)</i>
	<i>RM Million</i>	<i>% share</i>	<i>RM million</i>	<i>% share</i>	
United States	5,630	33.2	6,175	29.4	10.9
Singapore	4,143	24.4	5,019	23.9	21.1
United Kingdom	1,393	8.2	1,407	6.7	1.0
Japan	1,204	7.1	2,163	10.3	79.7
Hong Kong	1,077	6.4	1,470	7.0	36.4
Taiwan	832	4.9	1,638	7.8	96.9
Others	2,670	15.8	3,130	14.9	17.2
TOTAL	16,949	100	21,002	100	23.9

Source: Department of Statistics

major export market for Malaysian electronic products. In terms of total export of electronic products, electronic components contributed 35% compared with 33% exported in the corresponding period of 1995. The growth in the export of **industrial and consumer electronics** such as telecommunication equipment, office machines, automatic data processing equipment and telecommunication and sound recording equipment decelerated to 13% valued at RM29 billion compared with 24.3% growth recorded in the corresponding period of 1995. The deceleration in growth rate was attributed to excess inventories as well as production capacity expansion abroad that have led to greater competition. Export earnings from consumer electronic products, which comprised mainly television receivers, radio broadcast receivers and sound recorders and reproducers, declined by about 5.6% compared with a 30% growth registered in the same period of 1995. This subsector contributed about 12.4% of total manufactured exports.

Exports of **electrical products**, which included of electrical appliances, cables and wires and other electrical products, increased albeit at a slower rate of 20.8% in the first seven months of 1996 (January-July 1995: 34.3%). Exports of **electrical appliances** including refrigerators, rice cookers, washing machines, fans and other appliances expanded by 4.3% during the period, brought about by continued external demand, especially from major importing countries of Japan, US and the EU, as well as domestic production capacity expansion. The electrical appliances sector has contributed significantly to the export performance of the electrical industry and accounted for 22.5% of total export earnings from electrical products. Similarly, the exports of **cables and wires**, which included a wide range of power and communication cables, increased by 29.5% (January-July 1995: 31.7%) while **other electrical products** such as dry cells, lamp and tubes and batteries rose by 26% compared with 28.7% registered during the corresponding period of 1995.

Textiles, Apparel and Footwear

Exports of primary textiles increased sharply by another 22.9% during the first seven months of 1996, after an increase of 34% registered during the same period in 1995. This steady increase was attributed mainly to a 45.6% jump in the export of textile yarn (January-July 1995: 78.5%), following expansion of production capacity. The export of synthetic textiles rose by 7%, while the export of woven textile fabrics surged by 52.6%. Nevertheless, the overall export growth of primary textiles was affected by a 11.9% decline in the exports of cotton textiles, during the period under review, on account of increasing cost of raw materials and competition from lower cost producers. Exports of apparels recovered marginally by 1.5% due to increased off-takes from Japan, Hong Kong and Germany after registering a decline of 5.2% in the corresponding period of 1995. In the case of footwear, exports increased by 6.4% due to better product design and competitive pricing of Malaysian brand names. Consequently, exports of the **textiles, apparel and footwear** as a whole increased by 11.6% during the first seven months of 1996 compared with an increase of 8% registered during the corresponding period of 1995. These exports accounted for 4.4% of total manufactured exports during the first seven months of 1996 (January-July 1995: 4.5%).

Table 7.4

Exports of Textiles, Apparel and Footwear (RM million)

Year	1995	1995 (January-July)	1996 (January-July)
Textiles	2,830.3	1,551.5	1,906.5
Apparel	3,465.4	1,806.0	1,834.8
Footwear	280.5	160.4	168.9
Others	135.7	76.8	81.8
TOTAL	6,711.9	3,594.7	3,992.0

Source: Department of Statistics

Table 7.5

Major Destinations for Apparel and Clothing Accessories Exports¹ (RM million)

Year	1995	1995 (January-July)	1996 (January-July)	Annual Change (%)
United States	2,765.8	1,408.5	1,554.3	10.3
United Kingdom	521.7	301.8	314.8	4.3
Singapore	328.7	181.4	175.6	-3.2
Germany	392.8	210.9	258.5	22.6
Others	1,671.8	908.8	1,010.9	11.1
TOTAL	5,680.8	3,011.4	3,314.1	10.1

¹ Including Surgical Gloves

Source: Department of Statistics

During the first seven months of 1996, the US remained the largest export market for apparel and clothing accessories with a share of 46.9% of the total value of apparel and clothing accessories exported, followed by the EU (26.1%). Exports to the quota markets of the US, EU, Canada and Norway accounted for 76% of total exports. Exports to non quota markets including Japan, Hong Kong, Singapore, Philippines and Thailand grew by 12% and accounted for 12.7% of total apparels and clothing accessories exports.

Wood Products

Export earnings of **wood products** in the first seven months of 1996 registered a significant growth of 17.1% to RM4.1 billion compared with 0.9% or RM3.5 billion attained in the corresponding period of 1995. The stronger performance was due to increased demand for wooden furniture, especially for office and household use as well as favourable export prices attained for some selected wood products such as veneer and plywood. As such, the share of exports of wood products to total manufactured exports is expected to be sustained at about 4.5%.

Exports of **plywood and veneer**, which constituted about 71% of total wood products exports, grew by 15.6% to RM2.9 billion during the first seven months of 1996 (January-July 1995 RM2.5 billion). The increase in earnings was brought about by increased exports, especially to Japan 22.6% and China 8.9% (January-July 1995: 68% and -41% respectively). Exports of plywood to Singapore, rebounded with a purchase of RM177.8 million worth of these goods compared with RM151.6 million in the same period of 1995. In addition, better prices of plywood and veneer attained in the export market during the period also boosted earnings. The export of plywood to Korea is expected to increase attributable to the ability of Malaysian exporters to penetrate the Korean market as the country becomes less dependent on the supply of plywood from Indonesia. In Japan, the expected increase in the number of housing starts in 1996 provide better prospects for Malaysian plywood exports. It is expected that a total of 1.5 million units of houses will be built in Japan including the reconstruction of Kobe City. Other export markets including the US, UK and Saudi Arabia are also expected to sustain a high import level.

Furniture and furniture components, constitute a substantial share of about 29% to total wood products exported in the first seven months of 1996. Export earnings from this sub-sector showed a creditable increase of 20% to RM1.2 billion during the period. The US and Japan continued to be the major export markets for Malaysian furniture and components. In the first seven months of 1996, a total of RM424.5 million and RM244 million worth of furniture was exported to these two countries, respectively. Other export markets include Singapore, the UK, Australia and Hong Kong.

The price stabilisation agreement between Indonesian and Malaysian plywood exporters will help boost the export performance in the long term. This agreement set up in 1992 is aimed at stabilising plywood prices covering the China, Korea and UK markets. There is also great potential for the wood products sector in the emerging economies of the world, especially the ASEAN region. As the overall wealth in this region rises, demand for more processed wood products can be expected to increase.

Rubber Products

Export earnings from **rubber products** surged by 15.9% during the first seven months of 1996 to RM2 billion (January-July 1995: RM1.8 billion). The improved performance was underpinned by strong demand for rubber gloves, tyres and articles of rubber. With the better export performance, its contribution to total manufactured exports increased slightly to 2.3% (1995: 2.2%). The US continued to remain as the largest market for Malaysian rubber products followed by the EU countries, and Japan during the first seven months of 1996.

During the review period, total export earnings of surgical and non surgical gloves surged by 27.8% to RM1.5 billion and emerge as the largest contributor (72%) to total export earnings of rubber products. Similarly, exports of tyres and tubes expanded sharply by 37.1% (January-July 1995: -6.4%) while export of articles of rubber increased albeit moderately by 7.2% (January-July 1995: 21.3%). The increase in the exports of rubber products was attributed to continued high demand from overseas and the increase in the number of manufacturers producing rubber products.

The industry's export is dominated by latex based products which contributed approximately 80% of total export earnings of rubber products. In terms of market, the US is still the largest. For instance, in the first half of 1996, total export of rubber products to U.S amounted to RM711 million or about 40.8% of total exports of rubber products. Other major importers include the UK (6.8%), Japan (6.3%) and Germany (5.7%). Latex based products are expected to remain as the largest export item within the rubber products in the immediate term as Malaysia has established a strong position in the market for dipped latex products, such as rubber gloves and condoms.

Food Beverages and Tobacco

Export earnings of industry producing **food, beverages and tobacco** increased moderately by 7.6% to RM2.2 million in the first seven months of 1996, attributable to the favourable export growth of beverages and tobacco sub-sectors. Exports of **food items**, which accounted about 87% of the industry's total export, grew at a slower rate of 0.9% (January-July 1995: 16%) due to the

decline in the exports of the majority of food items, with the exception of flour, sugar, chocolate and confectionary products, animals feed and palm oil products as a result of production capacity constraints and higher domestic consumption.

On the other hand, exports of **beverages and tobacco** as a group, increased significantly by 73% (January-July 1995: 58.6%), offsetting the decline in exports of food items, on account of increasing external demand as well as expansion of production capacity. Earnings from the export of beverages, which included alcoholic and non-alcoholic drinks, expanded by 12% to RM138 million while that of tobacco products increased by 187% to RM188 million.

Petroleum Products

During the first seven months of 1996, exports of **petroleum products** which included refined petroleum products, residual petroleum products and gases increased moderately by 10.3% to RM1,901 million compared with a large increase of 62.2% achieved during the corresponding period of 1995. The slowdown is on account of a deceleration in exports of refined petroleum products comprising gasoline, fuel oil, diesel and kerosene with growth moderating at 12% (January-July 1995: 55.8%) due to limited refining capacities as well as the stagnation in crude oil production for 1996. Exports of residual products increased by 36% (January-July 1995: 430%) and exports of propane and butane increased by 24.6% after a very large increase of over 100% during the same period in 1995 while sales of natural gas, mainly to Singapore, increased by 45.7% (January-July 1995: 9%).

Chemicals and Chemical Products

Exports of **chemicals and chemical products** comprise a wide variety of products, namely, organic chemicals, inorganic chemicals, dyeing, tanning and colouring materials, medicinal and pharmaceutical products, essential oils, perfumes, cosmetics, toiletries, cleaning preparations, manufactured fertilizers, plastics in primary forms and non-primary forms, disinfectants, pesticides, starches, lubricating preparations and other miscellaneous chemical products. The main contributors to the total chemical and chemical

products exports during the first seven months of 1996 were organic chemicals and plastic products in primary forms with shares of 19.4% and 17.7%, respectively.

Exports of chemical and chemical products increased moderately by 8.4% to RM4,468 million during the first seven months of 1996, after registering a large increase of 61% during the same period of 1995. The slowdown was due to the decline in export earnings of organic chemicals by 9.3% (January-July 1995: 30.8%) to RM687.9 million following low export prices of methanol. The growth in the exports of plastics in primary forms decelerate significantly to only 0.7% (January-July 1995: 91.5%) due to constraints in domestic production capacity. However, exports of all other categories within the chemical and chemical products industry registered positive growth. Marked increases were recorded for exports of inorganic chemicals (29%), plastics in non-primary forms (22.8%) and other chemical products such as disinfectants, pesticides, starches and lubrications (33.7%) due to expansion of production capacity. The largest market for chemicals and chemical products was Singapore followed by Korea, Japan and Hong Kong.

Non-Metallic Mineral Products

Exports of non-metallic mineral products registered a moderate growth of 5.7% to RM987 million in the first seven months of 1996 compared with a growth of 19.3% during the corresponding period in 1995. Several sub-sectors of the industry registered decreases in export growth, mainly those closely related to the construction sector, these include cement, clay and refractory construction materials and pottery. The decline exports is largely on account of higher domestic demand as a result of buoyant construction activities in the country.

During the first seven months of 1996, exports of **cement** recorded a larger decline of 9.8% compared with a decline of 2.7% registered during the same period in 1995. The decline was on account of increase in domestic consumption following rapid progress of infrastructural construction as well as robust construction starts in the low and medium cost housing sector. As the output of the domestic cement industry estimated at 13.2 million metric tonnes in 1996

was insufficient to meet the domestic requirement, substantial amount of cement, valued at RM411 million, has to be imported during the first seven months of 1996 to cater for domestic shortages.

Exports of **clay and refractory construction materials** grew albeit at a marginal rate of 3.3% to RM101 million compared with 20.4% increase recorded in the same period of 1995, with ceramic tiles being the major item exported. Although there was a growing domestic market for ceramic tiles, exports was made possible due to rapid expansion in production capacity for tiles manufacturing.

Exports of glass ware accelerated by 32.2% in the first seven months of 1996 compared with 11.3% in the corresponding period of 1995 while exports of glass and mineral manufactures slowed down markedly by 16.8% and 23% respectively compared with a growth of 76.2% and 32.7% during the same period of 1995. However, exports of **pottery** registered a marked decline of 28.5% compared with an increase of 16% in the corresponding period of 1995, attributed to increased domestic demand, especially from nurseries, institutions and private households. The growth in the export of **non-ferrous metal products** slowed down significantly to 3.6%, after recording a sharp increase of 55.6% in the corresponding period of 1995. The lack lustre export performance was attributed to decline in the export of non-ferrous based metal, nickel, aluminium and structure of iron and steel to cater for increasing domestic needs.

Iron and Steel and Metal Products

The **iron and steel and metal products** industry is basically domestic oriented with a major proportion of its output sold in the domestic markets. However, the industry's output is also exported, contributing about 2% to total value of manufactured exports. The bulk of the export comprise of iron and steel products (98%) and are targeted at regional markets such as Thailand, Singapore and China.

In the first seven months of 1996, export earnings of iron and steel and metal products as a group, grew significantly by 17.8% to RM3.2 billion compared with RM2.7 billion registered in the corresponding period of 1995. This was largely

due to strong orders for products of almost all the sub-sectors of the industry. Exports of **iron and steel products** expanded by about 40.3% to RM1 billion compared with RM708 million attained in the same period of 1995. Exports of flat rolled iron products, ingots and pig/sponged iron also increased by 89%, 231% and 16.6%, respectively (January-July 1995: 445%, -84%, 56%, respectively). Similarly, export of iron bars, rod and sections grew by 19.7% on account of continued demand from consuming countries. On the other hand, exports of ferrous waste, non insulate iron and steel wire, rail and railway track declined at an average rate of 43% during the period. However, these products made up a very small percentage of the total industry's export of about 3%. The export demand is expected to remain strong as the competitiveness of traditional steel suppliers, such as Japan has been eroded somewhat due to factors such as escalating labour cost.

Transport Equipment

During the first seven months of 1996, exports of **transport equipment** comprising road vehicles, railway vehicles, aircraft, ships, boats, floating structures and associated equipment and parts and accessories declined further by 5% from a decline of 8.7% registered in the corresponding period of 1995. The decline is on account of a sharp reduction of 53.4% in the export of ships, boats and floating structures for off shore drilling activities to the ASEAN countries. Exports of motorcycles and scooters declined marginally by 3% because of moderations in the growth of domestic output due to capacity constraints. Exports of commercial road vehicles increased by 26.1% while exports of passenger vehicles increased by 20%, underpinned by production capacity expansion as well as more aggressive marketing. Exports of the **national car**, PROTON increased by 24.5% to 14,405 units during the first seven months of 1996 compared with 11,566 units during the same period of 1995. The UK remained the largest destination for PROTON cars with 7,982 units while exports to new markets in Germany (1,836 units) and Australia (1,372 units) are encouraging. PERODUA started exporting to Brunei since March 1996 and has exported a total of 90 units up to July 1996. From September 1996 PERODUA will be exporting to Malta, Mauritius and Cyprus.

Other Manufactured Goods

During the first seven months of 1996, exports of **other manufactured goods** which included leather, leather goods, professional and scientific instruments and apparatus, photographic equipment and supplies, musical instruments and parts and accessories and miscellaneous items such as watches, clocks, printed matter, toys and sporting goods and jewellery, accounted for 3.5% of exports of total manufactured goods. Exports of these manufactured goods increased by 27.1% during the period under review (January-July 1995: 7.6%), supported by sharp increases in the exports of toys and sporting goods (53.9%), musical instruments and parts and accessories (36.4%) and leather (73.4%).

Major Primary Commodity Exports

With generally lower prices of several commodities, total export earnings from primary commodities is expected to decline by 5.2% to RM30,405.6 million in 1996 (1995: 11.1% or RM32,065.2). In comparison to 1995, agriculture exports in 1996 are expected to register a lacklustre performance. Earnings from major commodities like rubber, palm oil, sawlogs and sawntimber are expected to be lower due to relatively weaker prices for these commodities. As for the mining sector, buoyed by better prices, export earnings from crude petroleum and Liquefied Natural Gas (LNG) are expected to be higher in 1996. Export earnings from crude oil will be mainly driven by higher prices as export volume is expected to be lower. As for LNG, export earnings is expected to jump by 46.9% in view of strong demand from Japan, South Korea and Taiwan.

Palm Oil and Palm Kernel Oil

Export earnings of **crude palm oil, processed palm oil** and **palm stearin** are expected to decline significantly by 21.4% in 1996 to RM8,177 million from RM10,399 registered in 1995. During the first seven months of this year, earnings from palm oil declined by 15.5% from the corresponding period in 1995, solely on account of lower price (please see table 7.6). Export volume rose by 2.7% to 3.8 million tonnes during the same period, underpinned by growing world population. Offtake

Table 7.6
Primary Commodity Exports

	1996 ^a	% change	1996 January-July	% Change
Palm oil¹				
Volume ('000 tonnes)	6,900	1.3	3,842.6	2.7
Unit value (RM/tonne)	1,185	-22.4	1,324	-17.7
Value (RM million)	8,177	-21.4	5,086.9	-15.5
Palm Kernel Oil				
Volume ('000 tonnes)	460	3.4	264.2	7.4
Unit value (RM/tonne)	1,972	5.1	1,972	6.2
Value (RM million)	907.1	8.7	520.9	14.0
Sawlogs				
Volume ('000 cubic metres)	7,000	-9.6	3,864	-13.0
Unit value (RM/cu. metre)	320.9	9.8	319.0	9.3
Value (RM million)	2,246.3	-0.8	1,232.6	-4.8
Sawn timber				
Volume ('000 cu. metres)	3,712	-15.0	2,163	-17.9
Unit value (RM/cu. metre)	827.3	-5.9	817.8	-9.4
Value (RM million)	3,071.0	-20.0	1,769.0	-25.6
Rubber				
Volume ('000 tonnes)	950	-6.2	542.8	-8.1
Unit value (sen/kg)	386.2	-3.1	383.4	-11.4
Value (RM million)	3,669.2	-9.1	2,081.0	-18.6
Pepper				
Volume ('000 tonnes)	16.8	15.1	8.8	19.0
Unit value (RM/tonne)	6,297.6	-9.6	6,234	-10.6
Value (RM million)	105.8	4.0	55.0	6.3
Cocoa				
Volume (million kg)	50	-4.8	31.4	-6.8
Unit value (RM/tonne)	3,200	-2.3	3,213	-2.6
Value (RM million)	160.0	-7.0	100.9	-9.3
Crude oil				
Volume ('000 tonnes)	18,058	-5.8	10,471	-4.7
Unit value (RM/tonne)	350	0.1	392.6	9.7
Value (RM million)	6,862	2.4	4,110.9	4.5
Liquefied Natural Gas (LNG)				
Volume ('000 tonnes)	14,120	42.3	7,415	46.2
Unit value (RM/tonne)	330	3.3	352.3	8.0
Value (RM million)	4,659.6	46.9	2,411.8	45.7
Tin				
Volume ('000 tonnes)	35.1	-0.3	20.2	-3.7
Unit value (RM/tonne)	15,600	0.8	15,810	5.3
Value (RM million)	547.6	0.5	319.8	1.4
TOTAL VALUE	30,405.6	-5.2	17,688.8	-5.8

¹ Include crude palm oil, processed palm oil, and palm stearin.
^a Estimate

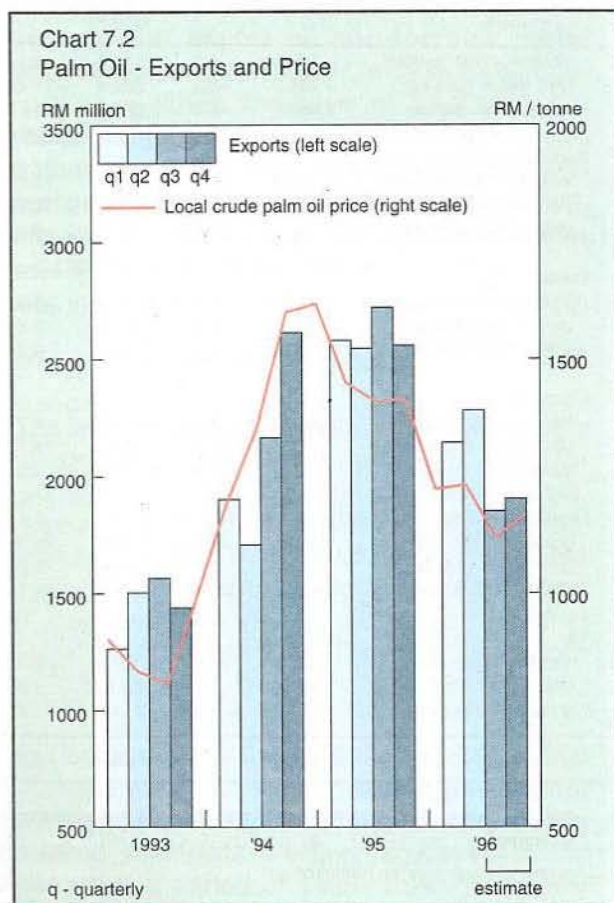
Source: Department of Statistics

remains strong as world stocks of vegetable oils, in particular soyabeans would decline to 15.76 million tonnes in 1995/96, compared to 22 million tonnes for the 1994/95 season. Considering that palm oil is one of the world's most efficiently produced vegetable oil, it would be able to continue to take advantage of this shortfall. The relatively lower price of palm oil in comparison to other oils and fats has encouraged consumers to substitute other oils with palm oil. Imports from countries like Pakistan, India, Egypt and other countries in South America which are more price-sensitive have been encouraging. The leading importers of Malaysian palm oil during the first six months of 1996 are Pakistan (558,208 tonnes) followed by China (434,353 tonnes) and India (332,444 tonnes) with a combined offtake of 1.33 million tonnes.

The average local delivery price of crude palm oil for the first quarter of 1996 was RM1,221.50/tonne. It increased slightly to RM1,231.33 per tonne during the second quarter. However, in the

third quarter, the price dropped to RM1,118.5 per tonne due to the increase in stocks and an increase in seasonal production. In the fourth quarter, the price is expected to recover to RM1,168.70 per tonne in the light of a low cyclical production. For 1996 as a whole, crude palm oil price is estimated to average RM1,185 per tonne. For the first eight months of 1996, crude palm oil price is estimated at RM1,193.88 per tonne, a decline of 21% compared to the average price of RM1,510.38 per tonne recorded during the corresponding period of 1995.

Total export earnings of **palm kernel oil** is expected to increase by 8.7% to RM907.1 million in 1996 (1995: RM834.7 million) due to higher unit price. For the first seven months of 1996, the export volume of palm kernel oil increased by 7.4% to 264,171 tonnes compared to 246,078 tonnes in the corresponding period of 1995. Earnings from palm kernel oil for the same period in 1996 is RM520.9 million, up by 14% as compared to RM457 million during the corresponding period in 1995.



Timber

The total export earnings of sawlogs and sawntimber in 1996 is expected to decline by 12.9% to RM5,317.3 million as against RM6,102.7 million recorded in 1995. This is attributed to lower volume of sawlogs and sawntimber exported, coupled with weaker unit value of sawntimber. In terms of export volume, sawlogs is expected to decline further by 9.6% in 1996 to 7 million cubic metres while that of sawntimber by 15% to 3.7 million cubic metres. The unit value of sawlogs is expected to increase by 9.8% in 1996 to RM320.90 per cubic metre as compared to RM292.20 per cubic metre in 1995, while the unit value of sawntimber declined by 5.9% from RM879.10 to RM827.30. For the first seven months of 1996, the export volume and value of sawlogs was 3.86 million cubic metres and RM1,232.6 million, respectively, compared to 4.44 million cubic metres and RM1,295.2 million in the same period of 1995. All the sawlogs exported originated from Sarawak, as sawlogs produced in Peninsular Malaysia and Sabah are still banned from export. In the first six months of 1996, Japan was the largest importer of sawlogs from Malaysia accounting for 50.6% or 1.71 million cubic metres, followed by Taiwan, 17.8%, South Korea, 7.7% and Hong Kong, 6.5%.

Chart 7.3
Sawn Timber and Sawlogs - Exports and Unit Value

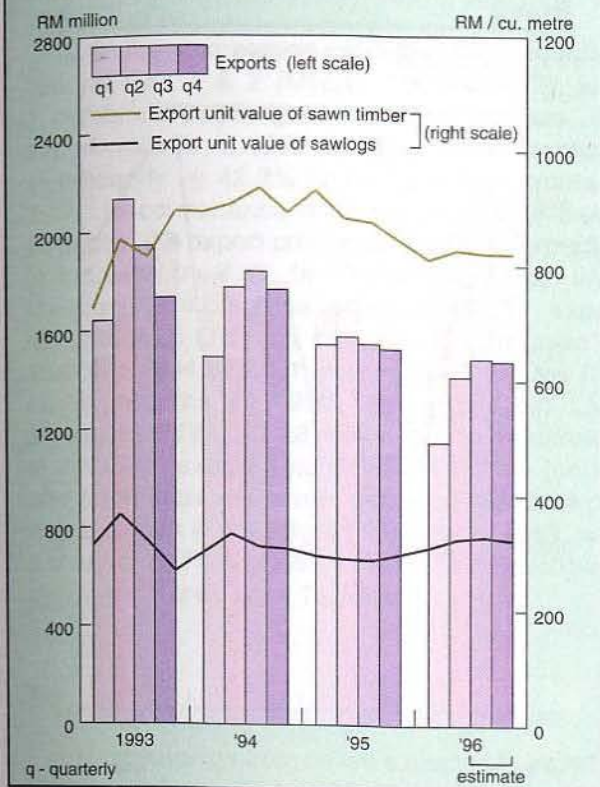
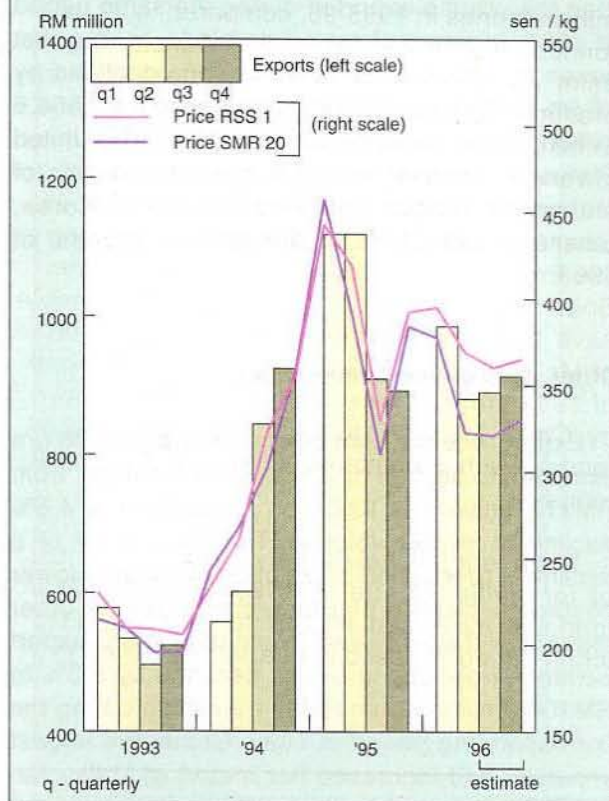


Chart 7.4
Rubber - Exports and Price



Rubber

Total export volume of rubber in 1996 is expected to decline by 6.2% to 950,000 tonnes from 1.013 million tonnes in 1995 due to reduced demand, following a slowdown in the automobile industry overseas. Thus, earnings from rubber is expected to decline by 9.1% to RM3,669.2 million in 1996 from RM4,037.9 million in 1995. The lower earnings from rubber exports are also due to the expected decline in unit value by 3.1% from 398.6 sen/kg in 1995 to 386.2 sen/kg in 1996. Export of Standard Malaysian Rubber (SMR), which accounts for 80% of total Malaysian rubber export, are expected to decline by 3.3% from 816,760 tonnes in 1995 to 789,800 tonnes in 1996, arising from reduced demand for tyres due to the slowdown in the automobile industry.

Likewise, export of Ribbed Smoked Sheets (RSS) is also expected to decline by 3.3% to 42,500 tonnes from 43,968 tonnes in 1995. The shortage of raw materials for processing has contributed to the decline in the production and hence, exports of RSS.

With regards to latex, the downtrend in export is expected to continue. In 1996, latex export is expected to drop by 5.1% to 103,200 tonnes from 108,735 tonnes. The main reason for this decline is increasing local consumption of latex by local rubber product manufacturers who are mainly latex dipped-goods producers.

In the first seven months of 1996, rubber prices took a downturn due to the general lack of buying interest, following a short rally in February on shortcovering for the wintering season. The average price of RSS 1 declined by 9.8% to 375 sen/kg from 416 sen/kg in the corresponding period of 1995. Similarly, SMR 20 declined by 15% from 406 sen/kg to 345 sen/kg over the same period. As the market has shown sign of softening in the first half of the year in the absence of strong support from consumers, and with this trend envisaged to continue for the rest of the year, the price of RSS 1 is thus expected to average 370 sen/kg in 1996, while that of SMR 20 is expected to average around 335 sen/kg.

Malaysia exported 542,764 tonnes of rubber in the first seven months of 1996 or 8.1% less than the volume exported during the same period of 1995. In terms of export earnings, for the first seven months of 1996 the earnings declined by 18.6% to RM2,081 million compared to RM2,556.6 million during the same period of 1995. The United States of America was the main destination of Malaysian rubber, followed by South Korea, Germany and China in the first six months of 1996.

Other Agriculture Commodities

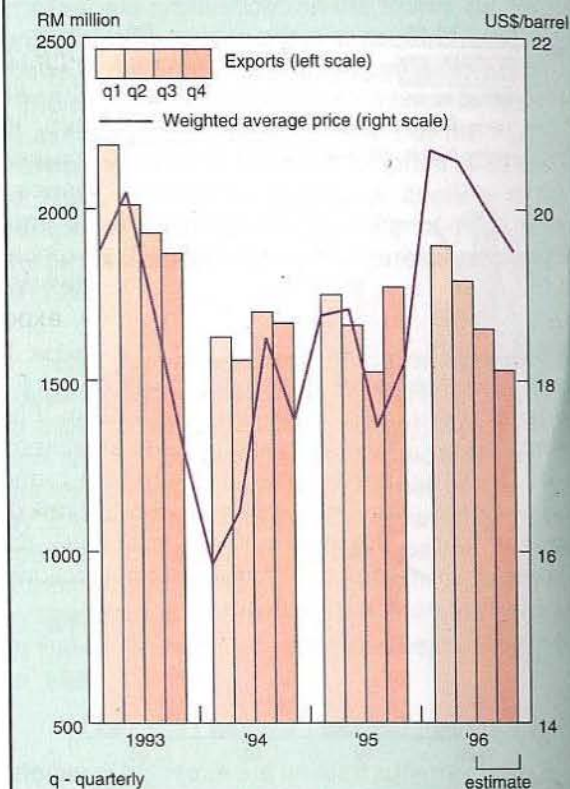
Export receipts from **cocoa beans** in 1996 are expected to decline by 7% to RM160 million, from RM172 million in 1995, on account of a 4.8% decline in export volume. This is in view of a decline in production of cocoa beans due to lower hectareage planted and also conversion to other crops. For the first seven months of 1996, export earnings from cocoa beans declined by 9.3% to RM100.9 million from RM111.3 million during the corresponding period in 1995. China, the largest importer, had increased her import of Malaysian cocoa beans to 11.1 million kilogramme from 0.9 million kilogramme.

Export earnings from **pepper** in 1996 is expected to increase by 4% , from RM101.7 million in 1995 to RM105.8 million in 1996 due to the depleted stock in importing countries. For the first seven months of 1996, export volume of pepper increased by 19% to 8,816 tonnes worth RM55 million compared to 7,411 tonnes worth RM51.7 million for the same period in 1995.

Crude Oil and Liquefied Natural Gas

In 1996, despite lower export volume, receipts from **crude oil** is expected to increase by 2.4% to RM6,862 million, due to better price performance. **Export volume** is expected to decline by 5.8% from 19.2 million tonnes in 1995 to 18.0 million tonnes in 1996. Crude petroleum unit value for the first seven months of 1996 is RM392.60 per tonne (US\$20.50 per barrel) or 9.7% higher than RM358.03 per tonne (US\$18.87 per barrel) recorded in the same period in 1995. As a result, export earnings increased by 4.5% to RM4,110.9

Chart 7.5
Crude Oil - Exports and Price



million during the first seven months of 1996 compared to RM3,934.7 million in the same period in 1995.

Crude oil prices, which have been on the downward trend since the second half of 1995, turned around in the first half of 1996, mainly due to the stronger demand for crude oil, resulting from the prolonged cold weather in North America. This caused a drawdown on crude oil stocks in the United States as well as a pickup in global demand for crude oil. The price of North Sea Brent (NSB), the main international crude oil benchmark, increased by 8.5% to US\$18.72 per barrel in the first seven months of 1996 from US\$17.26 per barrel registered in the corresponding period of 1995. Similarly, the price of Western Texas Intermediate (WTI) increased by 10.2% to US\$20.57 per barrel, from US\$18.66 per barrel during the same period. Moving in tandem with international crude oil prices, the weighted average price of Malaysian crudes increased by 10.8% to

US\$20.61 per barrel during the first seven of 1996 compared to US\$18.60 per barrel during the same period of 1995.

With the completion of Malaysian Liquefied Natural Gas 1 & 2 (MNLG 1 & MLNG 2), with a combined capacity of 16 million tonnes, the export volume of LNG is expected to increase significantly by 42.3% to 14.12 million tonnes in 1996. In consonance with the favourable crude oil prices, the export unit value of LNG is expected to increase by 3.3% to RM330 per tonne. With the significant increase in export volume, export receipts from LNG are envisaged to increase by 46.9% to RM4,659.6 million in 1996. For the first seven months of 1996, earnings from LNG amounted to RM2,411.8 million, due to an increase of 46.2% in export volume to 7.4 million tonnes and a 8% increase in unit price to RM352.26 per tonne. Japan is the largest importer of LNG, with a share of 72.7% or 4,561.4 million tonnes, followed by South Korea and Taiwan.

Tin

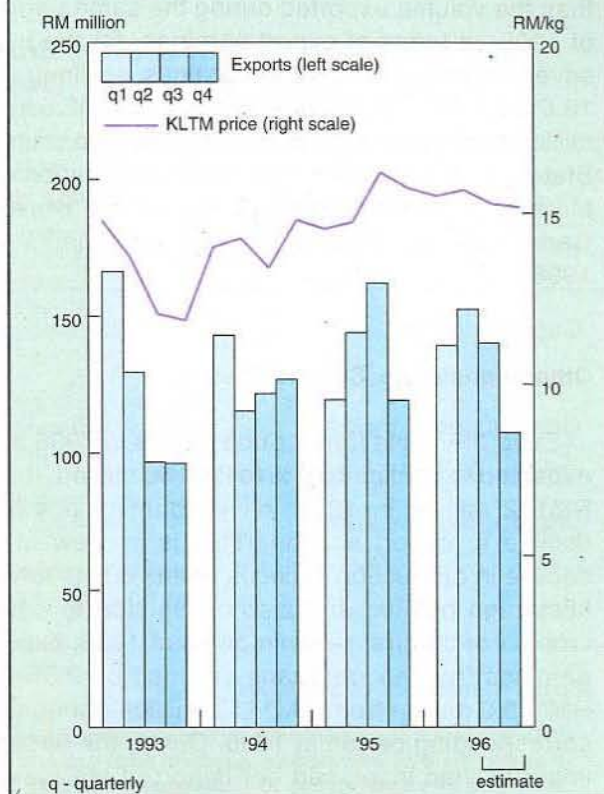
Export earnings from tin are expected to increase marginally by 0.5% to RM547.6 million in 1996, due to favourable prices as a result of improved global demand and lower global tin stocks. For the first seven months of 1996, export earnings increased by 1.4% to RM319.8 million due to better tin price. The average price of tin in Kuala Lumpur Tin Market (KLTM) during the first seven months of 1996 increased by 5% to RM15.58 per kilogramme, from RM14.84 per kilogramme recorded during the same period of 1995.

During the first six months of 1996, Germany, Japan, Netherlands and South Korea are the main importers of Malaysia's tin, with their combined offtake of 10,646 tonnes constituting 60.3% of Malaysia's tin exports.

Imports of Goods

Reflecting the softening in the growth of domestic demand and output, gross imports of goods valued with costs, insurance and freight (c.i.f.), are envisaged to increase at a significantly slower rate of 1.8% in 1996 to RM197.8 billion (1995:24.6%). On a disaggregated basis, the growth of the import of intermediate goods is

Chart 7.6
Tin - Exports and Price



expected to decelerate to 3.8% in 1996 to RM126.3 billion (66.3% of the total value of gross imports), against an increase of 27.7% in 1995. The sharp slowdown in the imports of intermediate inputs reflects mainly the slower growth in demand from industries for parts and accessories of capital goods and for transport equipment; industrial supplies, both primary and processed; and food and beverages, primary and processed. On the other hand, imports of capital goods are expected to decline to 6.9% in 1996 to RM36.4 million (1995:29.6%), reflecting a slower rate of capital formation in the economy. Imports of consumption goods are also expected to increase at a slower rate of 2.4% to RM12.3 billion in 1996, reflecting the impact of recent measures to discourage excessive consumption and promote savings. As such, Malaysia's retained imports in 1996 are expected to increase to RM190.5 billion, representing an increase of 1.8% compared to 26.4% in 1995. Imports for re-exports are expected to continue to be small, constituting 3.7% of total gross imports.

Table 7.7
Imports by End Use - Broad Economic Categories (BEC)
(January-July)

	Value (RM billion)		Annual change (%)		Share (%) ¹	
	1995	1996	1995	1996	1995	1996
Capital goods	22.3	20.7	44.2	-7.1	20.6	18.2
Intermediate goods	69.5	75.5	26.7	8.6	64.2	66.3
Consumption goods	6.5	7.1	7.1	9.7	6.0	6.2
Others (including dual use goods)	5.4	6.3	70.6	16.9	5.1	5.6
Imports for re-exports	4.4	4.2	-6.5	-5.6	4.1	3.7
TOTAL	108.1	113.8	28.3	5.2	100.0	100.0

Source: Department of Statistics

¹ Disaggregation of gross imports by end use - Broad Economic Categories by the Department of Statistics recently indicates that the share of intermediate goods to total value of gross imports is significantly higher than earlier estimated while the share of capital goods to total value of imports is significantly lower than earlier estimated.

During the first seven months of 1996, gross imports expanded by 5.2% to RM113.8 billion, indicating a significant deceleration in growth compared with the 28.3% increase during the corresponding period of 1995 (see Table 7.7). Intermediate goods constituted the largest proportion, accounting for RM75.5 billion or 66.3% of the total imports.

Capital Goods

During the first seven months of 1996, imports of **capital goods** declined sharply by 7.1% compared to an increase of 44.2% in the corresponding period of 1995, reflecting a lower rate of growth of capital expenditure by major sectors of the economy, including the public sector. Imports of capital goods (except transport equipment) constitute 85.7% of the total, while transport equipment for industrial use account for 14.3% of total imports of capital goods during the first seven months of 1996. On the annualised basis, imports of capital goods (except transport equipment) declined by 3.5%, following a growth

of 30.5% in the same period of 1995 (see Table 7.8). Imports of transport equipment declined

Table 7.8
Imports of Capital Goods by End Use -
BEC Categories
(January-July)

	Value (RM billion)		Annual change (%)	
	1995	1996	1995	1996
Capital goods (except transport equipment)	18.4	17.8	30.5	-3.5
Transport equipment, industrial	3.9	3.0	186.4	-24.2
TOTAL	22.3	20.8	44.2	-7.1

Source: Department of Statistics

by 24.2% to RM3.0 billion during the first seven months of 1996, after recording an increase of 186.4% in the same period of 1995.

Intermediate Goods

Imports of **intermediate goods** expanded at a slower pace of 8.6% to RM75.5 billion in the first seven months of 1996 (January-July 1995:26.7%) in line with the slower pace of domestic economic activities compared to 1995. The growth of imports of raw materials and components used by the food and beverages sector expanded by 7.9% to RM0.8 billion during the first seven months of 1996, following a growth of 4.1% during the same period of 1995 (see Table 7.9). Imports of raw materials for industrial supplies, and parts and accessories of capital goods (except transport equipment) decelerated to 17.9% and 15.4%, respectively compared to a relatively high growth of 27.7% and 26.3%, respectively during the same period of 1995. The lower rate of growth in imports of raw materials and components for these industries reflected the slower pace of output growth of manufacturing sector, particularly of processed food and beverages. Imports for processed food and beverages decelerated to 5.0% to RM0.9 billion during the first seven months of 1996, against the growth of 26.3% during the same period of 1995. The import of processed industrial supplies declined by 2.6% to RM26.0 billion during first seven months of 1996, compared with a growth of 29.9% in 1995. This is attributed to the expected greater degree of domestic sourcing for components in the manufacturing sector and the Government's policy requiring 60% local sourcing for new construction projects.

On the other hand, imports of primary processed fuel and lubricants recorded a significant high growth of 33.1% and processed by 21.9%, during the first seven months of 1996. Import of primary fuel and lubricants, increased to RM0.4 billion, following a growth of 5.0% during the same period of 1995. Similarly, the import of processed fuel and lubricants increased to RM1.7 billion in 1996, following a growth of 17.3% in 1995.

Table 7.9

Imports of Intermediate Goods by End Use - BEC Categories (January-July)

	Value (RM billion)		Annual change (%)	
	1995	1996	1995	1996
Food & beverages, primary, mainly for industry	0.7	0.8	4.1	7.9
Food & beverages processed, mainly for industry	0.9	0.9	26.3	5.0
Industrial supplies, n.e.s, primary	2.4	2.8	27.7	17.9
Industrial supplies, n.e.s. processed	26.6	26.0	29.9	-2.6
Fuel & lubricants, primary	0.4	0.4	5.0	33.1
Fuel & lubricants, processed	1.4	1.7	17.3	21.9
Parts & accessories of capital goods (except transport equipment)	35.3	40.8	26.3	15.4
Parts & accessories for transport equipment	1.8	2.1	12.6	13.6
TOTAL	69.5	75.5	26.7	8.6

Source: Department of Statistics

Consumption Goods

Imports of **consumption goods** expanded at a higher rate of 9.7% to RM7.1 billion during the first seven month of 1996 (January-July 1995:7.1%). Liberalisation of import of foods items through the abolition and reduction of imports duties to contain inflationary pressures has led to an acceleration in the growth of import of food items for household consumption, primary and processed, that is by 13.4% and 31.0% to RM1.0 billion and RM1.8 billion, respectively in the first seven months of 1996, against a growth of 10.9%

and 0.2% respectively, in the corresponding period of 1995. (see Table 7.10).

Imports of transport equipment, non-industrial, on the other hand, recorded a decline of 35.7% to RM0.1 billion in the first seven months of 1996, compared to an increase of 25.1% in the corresponding period of 1995. This reflects the impact of a slower growth in disposable incomes coupled with policy measures introduced since October 1995 to curb excessive consumption and to promote savings as well as expansion of domestic production capacity.

Imports of other consumer goods decelerated to 3.5% to RM4.2 billion, after increasing by 8.2% in the corresponding period of 1995. Among the consumer goods that recorded decline in imports were non-durables goods which fell by 3.9% (January-July 1995: 11.1%) and durables goods 0.9% (January-July 1995: 20.9%). However, consumer items that recorded increases in imports were semi-durables goods by 15.2% to RM1.6 billion (January-July 1995: -1.6%).

Other imports (including dual use goods) recorded a more moderate growth of 16.9% during the first seven months of 1995 to RM6.3 billion, against a sharp growth of 70.6% in the corresponding period of 1995. The increase in dual use goods, which comprised fuel and lubricants, processed motor spirit, and transport equipment, and passenger motorcars, decelerated by 8.0% to RM3.3 billion in the first seven months of 1996, compared to 51.6% during the corresponding period of 1995 (Please see Table 7.11).

Imports for re-export declined by 5.6% in the first seven months of 1996 to RM4.2 billion, compared with a decline of 6.5% in the same period of 1995. Imports for re-export continued to remain a small proportion of total imports, contributing 3.7% of the total value of gross imports. After discounting imports for re-exports, retained imports during the first seven months of 1996 rose to RM109.6 billion, compared with RM103.7 billion in the corresponding period of 1995. Thus, retained imports accounted for 96.3% of gross imports during the first seven months of 1996.

Table 7.10

Imports of Consumption Goods by End Use - BEC Categories (January-July)

	Value (RM billion)		Annual change (%)	
	1995	1996	1995	1996
Food & beverages, primary, mainly for household consumption	0.8	1.0	10.9	13.4
Food & beverages, processed, mainly for household consumption	1.4	1.8	0.2	31.0
Transport equipment, non-industrial	0.2	0.1	25.1	-35.7
Consumer goods, n.e.s	4.1	4.2	8.2	3.5
Durables	1.0	1.0	20.9	-0.9
Semi-durables	1.4	1.6	-1.6	15.2
Non-durables	1.7	1.6	11.1	-3.9
TOTAL	6.5	7.1	7.1	9.7

Source: Department of Statistics

Table 7.11

Other Imports by End Use-BEC Categories (January-July)

	Value (RM billion)		Annual change (%)	
	1995	1996	1995	1996
Dual use goods	3.1	3.3	51.6	8.0
Fuels & lubricants, processed, motor spirit	0.7	0.8	15.8	12.1
Transport equipment, passenger motor cars	2.4	2.5	66.2	6.8
Others	2.3	3.0	172.7	30.4
TOTAL	5.4	6.3	70.6	16.9

Source: Department of Statistics

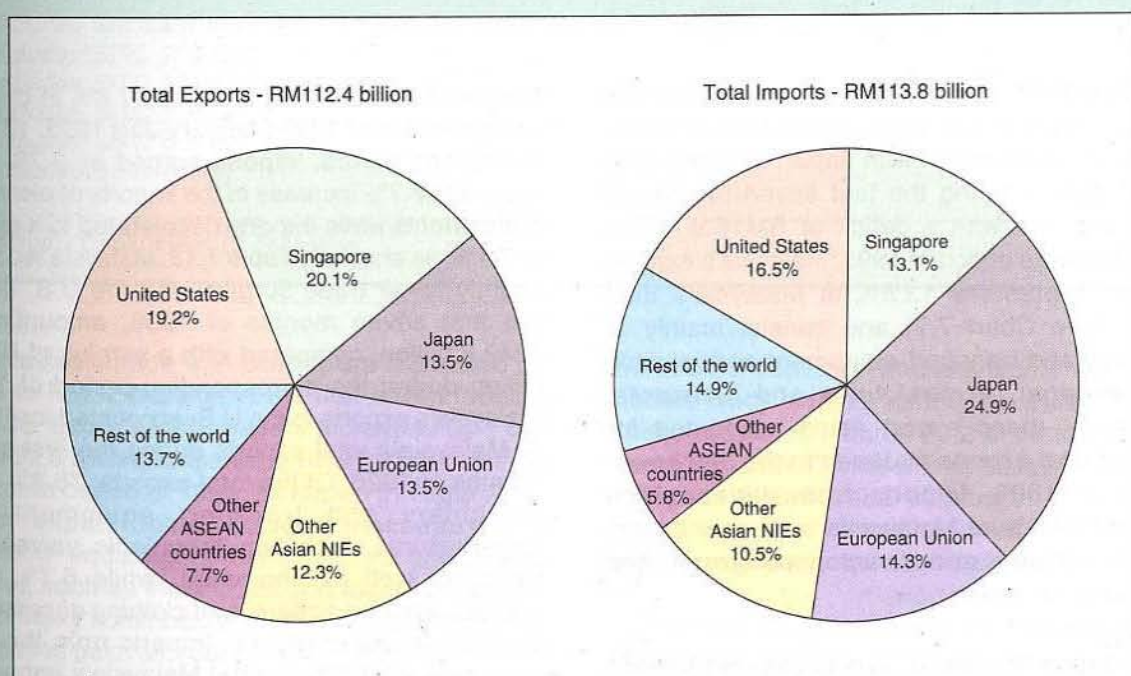
Direction of Trade

In the first seven months of 1996, Malaysia's total trade increased by 8.0% to RM226.2 billion (January-July 1995: RM209.4 billion). Exports accounted for 49.7% while imports represented 50.3% of Malaysia's total trade. Growth of gross exports, valued at f.o.b., decelerated moderately at 11.0% to RM112.4 billion (January-July 1995: 20.8%) while that of gross imports, valued at c.i.f., slowed down significantly at 5.2% to RM113.8 billion (January-July 1995: 28.3%). As a result, Malaysia's balance of trade in the first seven months of 1996 recorded a smaller deficit of RM1.4 billion compared to RM6.9 billion in the corresponding period of 1995. Japan, the United States, Singapore and the European Union continues to be Malaysia's major trading partners. Together, these countries accounted for 67.6% of Malaysia's **total trade** valued at RM153.0 billion during the first seven months of 1996 compared with a share of 69.4% in the corresponding period

of 1995. The structure of trade with these major trading partners generally remains unchanged, with imports into Malaysia constituting largely of intermediate and investment goods while exports constituted mainly manufactured goods such as electronic and electrical products, textiles and clothing, resource-based products as well as primary commodities. Trade with the Newly Industrialising Economies of Hong Kong, Taiwan and the Republic of Korea continues to expand and accounted for 11.4% of total trade during the first seven months of 1996, compared to 8.9% in the corresponding period of 1995.

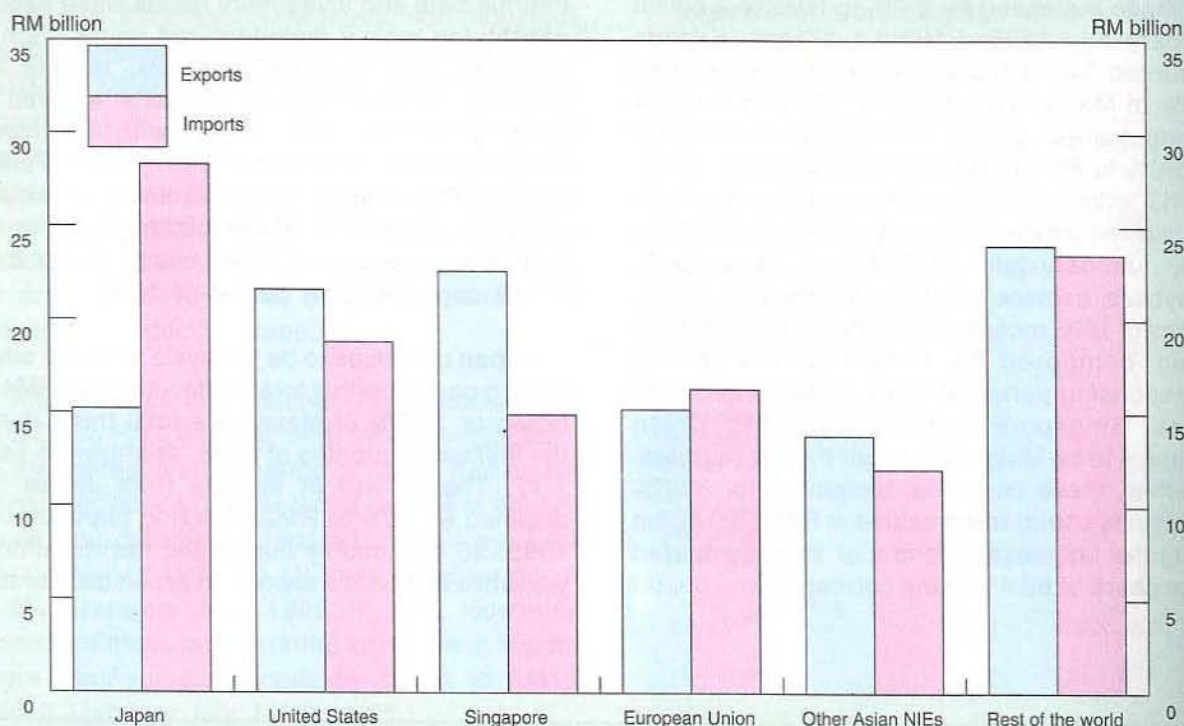
Japan continues to be Malaysia's largest single trading partner with a total trade valued at RM43.6 billion or 19.3% of Malaysia's total trade during the first seven months of 1996, as shown in Table 7.12. The growth in imports from Japan has declined at 4.6% to RM28.3 billion (January-July 1995: 30.4%) mainly due to the depreciation of yen while Malaysia's exports to Japan decelerated,

Chart 7.7
Direction Of Trade
(January - July 1996)



Figures in diagram refer to percentage of total
Source : The Department of Statistics.

Chart 7.8
Balance Of Trade
(January - July 1996)



Source : The Department of Statistics.

at 18.8% to RM15.2 billion in the first seven months of 1996 (January-July 1995: 26.5%). As a result, Malaysia's trade deficit with Japan decreased to RM13.1 billion during the first seven months of 1996 compared with a deficit of RM16.9 billion during the same period of 1995. Malaysia's exports to Japan represents 13.5% of Malaysia's total exports (see Chart 7.7) and consist mainly of machinery and transport equipment and inedible crude material, mineral fuels and lubricants. Collectively, these export items accounted for 75.1% of total exports to Japan in the first seven months of 1996. Imports from Japan which represent 24.9% of Malaysia's total imports are mainly machinery and transport equipment and manufactured goods.

The United States (U.S) is Malaysia's second largest trading partner, with a total trade of RM40.4 billion or a share of 17.8% of Malaysia's global trade in the first seven months of 1996. Malaysia's

trade with the U.S. expanded by 7.8% in the first seven months of 1996 (January-July 1995: 16.5%). During the period, imports surged by 8.7% as a result of 67.7% increase in the imports of electronic components while exports decelerated to a growth of 7.1%, as shown in Table 7.13. Malaysia recorded slightly lower trade surplus with the U.S. during the first seven months of 1996, amounting to RM2.8 billion, compared with a surplus of RM2.9 billion during the corresponding period of 1995. Malaysia's exports to the U.S. accounted for 19.2% of Malaysia's total exports during the first seven months of 1996. Of the total exports, 76.8% were machinery and transport equipment and manufactures, including thermionic valves and tubes as well as photocells, while 6.7% were textiles, wearing apparel and clothing accessories as well as rubber gloves. Imports from the U.S. represented 16.5% of total Malaysia's imports in the first seven months of 1996, with electronic components accounting for 21.9% of total Malaysia imports from the U.S.

Table 7.12
Trade with Japan
(January-July)

	<i>Exports</i>				<i>Imports</i>			
	<i>Value (RM billion)</i>		<i>Annual change (%)</i>		<i>Value (RM billion)</i>		<i>Annual change (%)</i>	
	1995	1996	1995	1996	1995	1996	1995	1996
Food beverages, tobacco, oils and fats ¹	0.7	0.6	36.7	-16.5	0.05	0.05	-27.2	-6.7
Inedible crude material, mineral fuels and lubricants ²	4.5	4.6	11.2	3.8	0.2	0.2	19.8	-1.0
Manufactured goods, intermediate ³	1.7	2.0	56.3	9.5	6.4	5.8	32.6	-9.9
Machinery and transport equipment ⁴	4.8	6.7	32.4	40.1	20.8	20.0	30.0	-3.8
Manufactured goods, final products ⁵	1.0	1.2	25.2	25.6	1.5	1.3	9.8	-14.5
Miscellaneous ⁶	0.1	0.1	80.8	29.4	0.7	0.9	139.5	42.6
TOTAL	12.8	15.2	26.5	18.8	29.7	28.3	30.4	-4.6

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

Malaysia's trade with **Singapore** increased by 9.0% to RM37.6 billion in the first seven months of 1996. Exports to Singapore increased by 7.6% to RM22.6 billion compared to RM21.0 billion during the same period of 1995, as shown in Table 7.14. Major export items included machinery and transport equipment, manufactured goods and articles such as electronics and electrical goods, and primary commodities such as crude petroleum, processed palm oil, rubber, sawn timber and cocoa beans. On the other hand, imports from Singapore valued at RM14.9 billion surged by 11.3%, after recording an increase of 10.3% during the same period of 1995. Major import items from Singapore

included machinery and transport equipment, inedible crude material, mineral fuels and lubricants. These items constitute 60.2% of total imports from Singapore. On the whole, Malaysia registered a slightly higher trade surplus of RM7.7 billion with Singapore compared with RM7.6 billion registered during the same period of 1995.

Malaysia's total trade with the **European Union (E.U)** expanded by 2.1% to RM31.5 billion or 13.9% of total trade during the first seven months of 1996. Total exports to the E.U increased by 8.3% to RM15.2 billion while imports decreased by 3.0% to RM16.3 billion during the same period

Table 7.13
Trade with the United States
(January-July)

	<i>Exports</i>				<i>Imports</i>			
	<i>Value</i>		<i>Annual change</i>		<i>Value</i>		<i>Annual change</i>	
	<i>(RM billion)</i>		<i>(%)</i>		<i>(RM billion)</i>		<i>(%)</i>	
	1995	1996	1995	1996	1995	1996	1995	1996
Food beverages, tobacco, oils and fats	0.3	0.3	3.5	-13.1	0.5	0.8	76.6	60.7
Inedible crude material, mineral fuels and lubricants	0.5	0.5	10.4	15.0	0.3	0.5	-5.4	52.8
Manufactured goods, intermediate	0.9	1.0	14.3	15.9	1.9	2.3	30.2	22.9
Machinery and transport equipment	15.7	16.6	15.3	5.6	13.2	13.5	19.1	2.4
Manufactured goods, final products	2.6	3.1	1.0	18.4	1.0	1.1	5.8	19.8
Miscellaneous	0.2	0.1	759.7	-40.2	0.4	0.6	19.8	19.0
TOTAL	20.2	21.6	13.8	7.1	17.3	18.8	19.9	8.7

Source: Department of Statistics

of 1996, as indicated in Table 7.15. Malaysia's trade deficit with E.U narrowed slightly to RM1.1 billion from RM2.7 billion in the same period of 1995. Exports to the E.U comprised mainly of primary commodities such as rubber, tin, cocoa beans, palm oil and manufactured exports, especially office and telecommunications equipment, textiles, clothing and electronic components. On the other hand, imports from the E.U were mainly machinery and transport equipment and manufactured goods. Among the E.U countries, trade with the **United Kingdom (U.K)** and **Germany** remained significant. Exports to both these countries increased by 2.8% to RM7.5 billion which constituted 49.1% of Malaysia's total exports to the E.U. Meanwhile, imports from these two countries declined by 3.2% to RM7.7 billion, representing 47.5% of total imports from the E.U, after recording a 25.5% increase in the corresponding period of 1995. With the U.K,

Malaysia's exports rose by 2.4% to RM4.1 billion while imports declined by 9.7% to RM2.9 billion, registering a trade surplus of RM1.2 billion. Exports to Germany increased by 3.3% to RM3.4 billion while imports increased by 1.4% to RM4.8 billion, resulting in a trade deficit of RM1.4 billion. Among the E.U countries, U.K was the largest importer of Malaysian goods during the period under review.

Trade with the **Newly Industrialised Economies (NIEs)** of Asia (excluding Singapore) expanded by 39.1% to RM25.8 billion or 11.4% of Malaysia's total trade during the first seven months of 1996. Exports grew by 41.6% to RM13.8 billion while imports grew by 36.3% to RM12.0 billion, as indicated in Table 7.16. On aggregate, Malaysia recorded a trade surplus valued at RM1.8 billion with the NIEs during the period under review. The major exports were machinery and transport equipment and manufactured goods while major

Table 7.14
Trade with Singapore
(January-July)

	<i>Exports</i>				<i>Imports</i>			
	<i>Value (RM billion)</i>		<i>Annual change (%)</i>		<i>Value (RM billion)</i>		<i>Annual change (%)</i>	
	1995	1996	1995	1996	1995	1996	1995	1996
Food beverages, tobacco, oils and fats	1.6	1.5	11.1	-6.7	0.1	0.1	11.7	24.1
Inedible crude material, mineral fuels and lubricants	1.8	1.5	6.0	-15.0	1.9	2.1	12.9	12.3
Manufactured goods, intermediate	2.1	2.4	4.7	16.1	1.8	1.8	18.9	2.9
Machinery and transport equipment	13.5	15.0	27.4	10.3	8.1	9.6	4.8	11.8
Manufactured goods, final products	1.4	1.6	-0.4	16.0	0.6	0.6	5.0	-1.5
Miscellaneous	0.6	0.6	177.7	2.3	0.9	1.3	56.5	27.1
TOTAL	21.0	22.6	21.6	7.6	13.4	14.9	10.3	11.3

Source: Department of Statistics

import items were machinery and transport equipment, manufactured goods, inedible crude materials, mineral fuels and lubricants. Exports to Hong Kong were RM2.6 billion while imports, RM2.2 billion. On net basis, Malaysia registered a trade surplus of RM0.4 billion with Hong Kong. Exports to Taiwan amounted to RM5.6 billion while imports amounted to RM5.5 billion, giving a trade surplus of RM0.1 billion. In the first seven months of 1996, the trade surplus with South Korea was RM0.1 billion, with exports registering RM5.6 billion and imports RM5.5 billion.

Malaysia's trade with **ASEAN** countries (excluding Singapore) surged by 25.4% to RM15.4 billion or 6.8% of Malaysia's total trade during the first seven months of 1996. Exports to the five ASEAN countries of Brunei, Indonesia, the Philippines, Thailand and Vietnam increased by 25.9% to RM8.7 billion. The main export items

were manufactured goods, textiles, clothing, food, beverages, tobacco, oils and fats. Imports, which include final consumer products, mineral fuels and lubricants expanded by 24.8% to RM6.6 billion. As a result, Malaysia recorded a trade surplus of RM2.1 billion with these five ASEAN countries during the first seven months of 1996, that is slightly higher than the RM1.6 billion recorded in the same period of 1995. Among the ASEAN countries, Malaysia experienced a trade deficit only with Indonesia, amounting to RM0.3 billion during the first seven months of 1996.

Malaysia's total trade with the **People's Republic of China** (P.R. of China) declined by 33.3% during the first seven months of 1996. The decline was due to a 50.9% fall in exports to RM2.6 billion, particularly as a result of lower exports of beverages and tobacco and food items. Imports, however, increased by 5.4% to RM2.5

Table 7.15
Trade with the European Union
(January-July)

	<i>Exports</i>				<i>Imports</i>			
	<i>Value (RM billion)</i>		<i>Annual change (%)</i>		<i>Value (RM billion)</i>		<i>Annual change (%)</i>	
	1995	1996	1995	1996	1995	1996	1995	1996
Food beverages, tobacco, oils and fats	1.2	1.3	3.1	7.1	0.5	0.6	22.7	14.0
Inedible crude material, mineral fuels and lubricants	1.4	1.1	19.2	-18.3	0.3	0.2	41.3	-20.0
Manufactured goods, intermediate	1.3	1.3	15.2	1.1	3.3	3.2	10.9	-0.5
Machinery and transport equipment	8.1	9.4	24.4	15.5	11.2	10.9	66.5	-2.7
Manufactured goods, final products	1.8	2.0	-2.8	9.4	0.6	0.8	23.7	15.5
Miscellaneous	0.3	0.1	425.1	-43.7	0.9	0.6	23.9	-34.1
TOTAL	14.1	15.2	17.6	8.3	16.8	16.3	51.0	-3.0

Source: Department of Statistics

billion. As a result, Malaysia's trade with P.R. of China recorded a smaller surplus of RM0.1 billion, against a surplus of RM2.9 billion in the corresponding period of 1995. Malaysia's exports to P.R. of China comprised mainly primary commodities such as sawlogs, rubber and palm oil as well as manufactured goods, while imports from P.R. of China were mainly manufactured goods, glassware, medicinal and pharmaceutical items.

Total trade with **Australia** expanded by 9.4% to RM4.8 billion while that with **New Zealand** by 37.7% to RM0.9 billion in the first seven months of 1996. Malaysia continued to record trade deficit with both Australia and New Zealand, during the first seven months of 1996. Exports to Australia increased by 3.9% to RM1.7 billion while imports expanded by 12.6% to RM3.1 billion. The rapid

growth in imports from Australia has resulted in a higher trade deficit, amounting to RM1.5 billion, (January-July 1995: RM1.2 billion). On the other hand, exports to New Zealand grew by 52.2% to RM0.4 billion while imports grew by 29.1% to RM0.5 billion. Despite this surge in exports, the trade balance remained in favour of New Zealand. Nevertheless, the trade deficit with New Zealand declined to RM0.1 billion during the first seven months of 1996 from a deficit of RM0.2 billion during the corresponding period of 1995. Australia and New Zealand remains as the major sources of Malaysia's imports of dairy products, wheat and meat while Malaysia's exports to both countries are mainly palm oil, rubber, tin, crude petroleum and sawn timber.

Malaysia's total trade with **West Asia** increased by 2.7% during the first seven months of 1996

Table 7.16
Trade with the Newly Industrialising Economies of Asia¹
(January-July)

	Exports				Imports			
	Value (RM billion)		Annual change (%)		Value (RM billion)		Annual change (%)	
	1995	1996	1995	1996	1995	1996	1995	1996
Food beverages, tobacco, oils and fats	0.6	0.1	13.8	-82.1	0.1	0.1	-9.6	11.1
Inedible crude material, mineral fuels and lubricants	2.1	0.2	3.5	-88.1	0.1	0.2	15.3	86.0
Manufactured goods, intermediate	2.3	3.4	30.5	48.7	2.7	3.6	11.2	34.8
Machinery and transport equipment	4.1	8.2	9.2	98.9	4.9	6.6	40.6	34.0
Manufactured goods, final products	0.5	0.8	5.3	57.9	0.6	0.8	12.9	19.1
Miscellaneous	0.1	1.1	44.7	1,485.4	0.3	0.7	60.5	108.8
TOTAL	9.7	13.8	12.4	41.6	8.7	12.0	27.3	36.3
¹ Comprising South Korea, Taiwan and Hong Kong only.								
Source: Department of Statistics								

to RM3.0 billion. Total exports to West Asia declined by 6.5% to RM2.1 billion while imports expanded by 39.1% to RM1.0 billion. Hence, Malaysia's trade with West Asia countries registered a surplus of RM1.3 billion during the period under review. Exports to West Asia were mainly palm oil, food items and electrical items. On the other hand, imports from West Asia were mainly fuel oils, lubricants and inedible crude materials. Major trading partners in the group during the first seven months of 1996 were United Arab Emirates, Saudi Arabia, Iran, Kuwait and Jordan which together accounted for 86.2% of Malaysia's total trade with the West Asian countries.

Total trade with **Central and Eastern Europe** was valued at RM0.4 billion during the first seven months of 1996, drop of 17.6% over the

corresponding period of 1995. This was attributable to a 17.5% decline in imports to RM0.2 billion and a 17.7% decline in exports to RM0.2 billion. In total, Malaysia registered a slightly lower trade deficit of RM31 million compared with a higher deficit of RM34 million during the same period of 1995. Main exports to these countries were machinery and transport equipment, crude materials and manufactured goods while imports were mainly manufactured goods, machinery and transport equipment and food items.

Malaysia's trade with several other countries, namely Cambodia, Myanmar, Laos PDR, South Africa and countries in Central and South America has also increased during the period under review. Nevertheless, trade with these countries continues to account for a small proportion of Malaysia's

Table 7.17

Direction of Trade with other Trading Partners
(January-July)

	Exports				Imports				Balance of trade (RM million)	
	Value (RM billion)		Annual change (%)		Value (RM billion)		Annual change (%)			
	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996
ASEAN (including Singapore)	6.9	8.7	25.6	25.9	5.3	6.6	37.3	24.8	1.6	2.1
China	5.3	2.6	82.5	-50.9	2.4	2.5	18.8	5.4	2.9	0.06
Australia	1.6	1.7	47.5	3.9	2.8	3.1	16.1	12.6	-1.2	-1.5
New Zealand	0.3	0.4	54.8	52.2	0.4	0.5	1.2	29.1	-0.2	-0.2
West Asia	2.3	2.1	38.6	-6.5	0.6	1.0	14.2	39.1	1.7	1.3
Central & Eastern Europe	0.2	0.2	46.2	-17.7	0.2	0.2	62.4	-17.5	-0.03	-0.03
Other minor trading partners	5.1	0.8	-18.5	56.8	6.9	7.7	11.6	12.8	-1.8	0.2
TOTAL	21.7	23.7	19.7	20.0	18.6	21.6	20.0	16.1	3.1	2.1
(Share to total exports or imports)	18.4	21.7			17.3	18.4				

Source: Department of Statistics

total trade. To assist Malaysian exporters to penetrate these non-traditional markets, the Government has initiated the bilateral payments arrangement (BPA), whereby normal credit risks are converted to sovereign risks. To date, Malaysia has concluded BPAs with fifteen developing countries, including Zimbabwe, Mexico, Chile and Peru.

Balance of Payments

The **balance of payments** position is expected to strengthen in 1996, with the current account deficit envisaged to record a lower deficit. The

growth in merchandise imports is expected to decelerate significantly to less than the growth in merchandise exports, thereby resulting in a higher merchandise account surplus. Nevertheless, the services account deficit is expected to widen, reflecting the lack of capability of the services sector to export services and meet adequately domestic demand as well as the increasing net payments on investment income, largely due to increasing foreign investment. With the smaller current account deficit, the basic balance is expected to register a marginally smaller deficit in 1996, due to the increasing net payments by the Federal Government to reduce external

borrowing as well as lower net borrowing by the NFPEs and higher investments by Malaysians abroad which more than offset the strong gross inflow of foreign direct investment. The overall balance of payments, however, is expected to record a surplus, after taking into account short-term capital movements and errors and omissions. Consequently, the net international reserves of the Central Bank are expected to increase by RM1.2 billion to RM65.0 billion at the end of 1996, which is sufficient to finance 4.1 months of retained imports.

Current Account

Merchandise exports, valued at free-on-board (f.o.b.), are expected to increase by 4.2% to RM187.0 billion in 1996. This rate of increase, however, is lower compared with the growth of 20.9% recorded in 1995, reflecting mainly the decline in the export of agricultural commodities as a result of weaker commodity prices as well as slower growth in manufactured exports. On the other hand, the growth of merchandise imports is expected to decelerate significantly at 1.7% to RM182.4 billion in 1996 (1995: 24.5%), reflecting softening in domestic demand as well as expansion of domestic production capacity. The lower growth in merchandise imports also reflects the lesser number of aircrafts and ships purchased by the national airlines and shipping companies in 1996. Consequently, the merchandise account is envisaged to record a larger surplus of RM4.6 billion in 1996 against a surplus of RM0.2 billion in 1995.

The **services account** deficit, on the other hand, is envisaged to widen further by 2.0% to RM19.4 billion from RM19.0 billion in 1995. Gross services payments are envisaged to increase by 6.4% (1995: 13.2%) to RM58.2 billion in 1996, while gross receipts expected to increase by 8.7% (1995:14.0%) to RM38.8 billion. The widening in the services deficit is attributed mainly to the higher outflows of investment income, payments for contract and professional charges and freight and insurance. Nevertheless, as a percentage of GNP, the deficit in the services account has narrowed from 9.2% of GNP in 1995 to 8.3% in 1996, as a result of stronger growth in earnings from exports of services of 8.7% compared with the growth services payments of 6.4%.

The **investment income** outflow continues to be the largest component contributing to the services account deficit. The gross payment for investment income due to repatriation of profit and dividends and interest payments is expected to increase from RM16.8 billion in 1995 to RM17.8 billion in 1996. Profits and dividends are expected to increase to RM13.2 billion (1995:RM12.4 billion), as a result of expansion in the stock of foreign investment. Interest payment is also expected to increase by 4.2% to RM4.6 billion, mainly as a result of borrowings by the NFPEs and the private sector which offset the decline in the interest payment by the Federal Government from RM0.9 billion in 1995 to RM0.7 billion in 1996. On the other hand, inflows of investment incomes, which include receipts on the external assets of mainly the Central Bank and income from Malaysian corporate and banking sector investment abroad, are expected to increase moderately by 1.7% to RM6.4 billion in 1996. Profits and dividends receipt are expected to increase by 8.4% to RM1.7 billion in 1996, with the profits and dividends accrued to corporate sector envisaged to increase by 20.0% to RM1.2 billion, reflecting the impact of higher level of Malaysian overseas investment. Interest receipts, on the other hand, are expected to moderate to RM4.7 billion in 1996, mainly due to the lower earnings from the external assets of Bank Negara Malaysia. As a result, the net investment income payment is expected to increase by 8.2% in 1996 to RM11.4 billion, representing 58.8% of total net payments on the services account (1995: 55.5%)

Net payment on **freight and insurance** is expected to increase by 1.1% to RM9.1 billion in 1996 to account for 47.0% of total net services payments (1995: 49.9%). Gross payment for freight and insurance, which constituted 20.2% of gross total services outflow, is estimated to grow by 6.0% to RM11.8 billion (1995:RM11.6 billion). As in the previous year, higher payments for freight and insurance are partly due to the insufficient capacity of the domestic shipping and insurance industries to meet the demands for their services in line with higher volume of international trade. On the receipt side, earnings by the domestic shipping lines, the national airline and insurance industries rose by 4.1% (1995:24.2%) to RM2.7 billion, in line with the expansion in the capacity undertaken by these industries in recent years to cater for increased volume of cargo handled.

The **'other services'** deficit is expected to narrow slightly from RM4.3 billion in 1995 to a RM4.5 billion in 1996. This is due to a higher rate of growth of gross receipts of 7.7% to RM13.1 billion, against an expected increase in gross payments of 7.0% to RM17.6 billion. The stronger increase in gross receipts is underpinned by 14.0% increase in the earnings on contract and professional services, agency fees and non-merchandise insurance to RM4.9 billion, which represents 37.3% of total gross receipt of other services. The increase in gross payment is largely due to the increase in payments to non-resident contractors for contract and professional services, in line with the implementation of a number of large projects in the country. Together with payments of rents and royalties and agency fees, contract and professional charges, gross payments on 'other services' are expected to amount to RM7.9 billion (1995: RM6.5 billion), representing 44.7% of total gross payments in 1996.

The **travel account** is expected to record a net receipt of RM4.8 billion in 1996, an improvement compared with the net receipt of RM4.1 billion registered in 1995. This is mainly due to the higher income generated from tourism. In 1996, the number of tourists visiting Malaysia is expected to increase by 16.0% to RM8.7 million (1995: RM7.5 million), generating an earning of RM10.3 billion. Continuous promotional efforts both in the traditional and new tourist markets, including Japan, Taiwan and the Latin American countries, to promote Malaysia as a tourist destination with a variety of products to offer such as eco-tourism as well as international convention centre, have helped to generate greater inflow of tourists into Malaysia. In terms of tourist arrivals, those arriving from ASEAN countries are expected to remain the largest, contributing almost 75% of total arrivals. Tourist arrivals from Singapore are expected to contribute to 60% of the total number of tourist arrivals in Malaysia. Other non-ASEAN tourist arrivals include from Japan, which is expected to contribute 4.4% of total tourist arrivals, Taiwan 3.9%, United Kingdom 2.2%, Hong Kong 2.0% and Australia 1.8%. On the payment side, it is expected to increase at a slower rate of 8.5% to RM6.3 billion (1995: 10.8%), reflecting the impact of the Government's effort to encourage Malaysian students, especially those sponsored by the Government to study locally as well as the

expansion in the number of private colleges offering tertiary education through twinning programmes. Nevertheless, payments due to leisure travel abroad by Malaysians are expected to increase steadily, underpinned by higher level of disposable income.

In 1996, **'other transportation'** account which covers passenger fares, port and airport disbursement, bunker and charter fees, is expected to record a surplus of RM0.9 billion. Gross receipts in 'other transportation' are expected to surge by 18.3% to RM5.3 billion in 1996, from RM4.4 billion in 1995, mainly due to capacity expansion by the Malaysian Airlines which has enabled increase in flight frequencies of Malaysia Airlines as well as coverage of new routes. Increase in the number of foreign mainlines calling at Malaysian ports, especially Port Klang has also helped to contribute to higher receipts from port-related services. However, gross payment for 'other transportation' is also expected to increase sharply by 18.0% from RM3.7 billion in 1995 to RM4.4 billion in 1996. This is a result of higher airport and port charges paid by the national carrier and shipping lines which are envisaged to increase the call frequency at more foreign airports and ports due to recent expansion of capacity.

The **government transactions** account is expected to record a smaller net deficit of RM10 million in 1996 compared to a deficit of RM23 million in 1995. Gross payments abroad are attributable mainly to expenditure incurred by Malaysian embassies abroad and technical assistance provided by the Government to Third World countries under Malaysian Technical Cooperation Programme. At the same time, total government transactions receipts are expected to increase by 6.6% to RM0.3 billion in 1996, as a result of higher expenditure by foreign embassies in Malaysia.

With the improvement in the surplus of the merchandise account which will more than offset the increase in net payment on services, the **current account** of the balance of payments, after taking into account net unrequited receipts of RM9 million, is expected to record a smaller deficit of RM14.8 billion or 6.3% of GNP in 1996, compared with a deficit of RM18.7 billion or 9.0% of GNP in 1995.

Table 7.18

Current Account of the Balance of Payments
(RM million)

	1995			1996 ^e		
	+	-	Net	+	-	Net
Merchandise account (Exports & imports fob)	179,491	179,258	233	187,020	182,377	4,643
Services account	35,703	54,744	-19,041	38,817	58,240	-19,423
Freight and insurance	2,552	11,580	-9,028	2,657	11,786	-9,129
Other transportation	4,443	3,697	746	5,257	4,362	895
Travel	9,939	5,796	4,143	11,064	6,288	4,776
Investment income	6,259	16,821	-10,562	6,367	17,797	-11,430
Government transactions	319	342	-23	340	350	-10
Other services	12,191	16,508	-4,317	13,132	17,657	-4,525
Goods and services account	215,194	234,002	-18,808	225,837	240,617	-14,780
Unrequited transfers	944	826	118	809	800	9
Current account	216,138	234,828	-18,690	226,646	241,417	-14,771

^e Estimate

Capital Account

The long-term **capital account** is expected to register a lower net inflow of RM12.4 billion in 1996 compared with RM16.2 billion in 1995. The lower net inflow is due to expected higher level of investments abroad by Malaysians, increase in net payments by the Federal Government to reduce external loans and lower net external borrowings by the NFPEs which as a whole are envisaged to more than offset a larger gross inflow of foreign direct investment.

The **official long-term capital** is expected to record a net inflow of RM1.6 billion in 1996, against RM5.8 billion in 1995. This is due to higher net

payments by the Federal Government to reduce external loans and the lower net external borrowing by the NFPEs. In 1996, the Federal Government is expected to borrow RM0.8 billion but repay RM2.7 billion, resulting a net repayment of RM1.9 billion, against a net payment of RM1.6 billion in 1995. Similarly, in the case of external borrowing guaranteed by the Federal Government, the net repayment for 1996 is expected to be higher at RM1.3 billion compared with a net borrowing of RM0.6 billion in 1995. Net borrowing by NFPEs is expected to decline to RM3.4 billion (1995 : RM7.5 billion), as a result of lower gross borrowing and steady repayment by NFPEs. Gross inflow of private long-term capital is expected to increase by 7.9% to RM18.1 billion which is more than

sufficient to finance the expected deficit in the current account. This inflow reflects the continued strong confidence of foreign investors in Malaysia as an investment centre in the region. However, due to increases in reverse investment abroad undertaken by Malaysians from RM6.4 billion in 1995 to RM7.3 in 1996, the net inflow of private long-term capital is estimated at RM10.8 billion in 1996 (1995: RM10.3 billion).

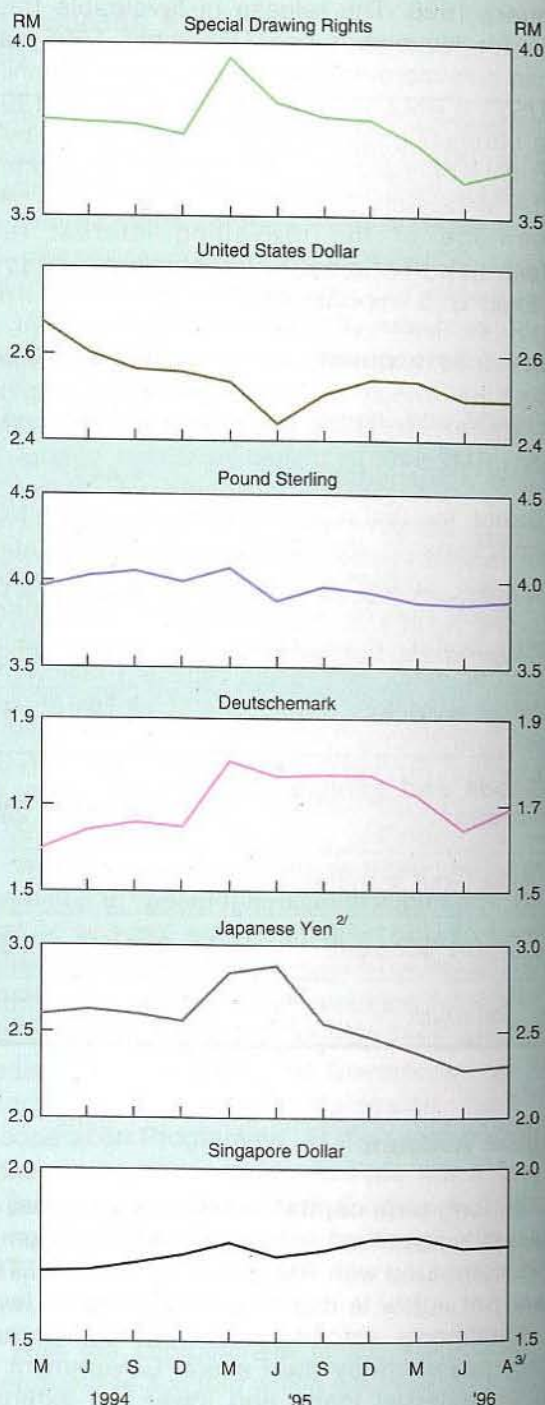
With the anticipated net long-term capital inflow of RM12.4 billion insufficient to offset the expected current account deficit of RM14.8 billion, the **basic balance** is expected to record a deficit of RM2.4 billion in 1996 (1995: deficit of RM2.5 billion). This is the third consecutive year the basic balance is in deficit, which necessitates further efforts to be taken to promote national savings and, at the same time, ensure the level of domestic investment as well as reverse investment undertaken by Malaysian is compatible with the availability of national resources. However, after taking into account the short-term capital movement as well as errors and omissions of RM3.6 billion, the **overall balance** of payments position is expected to record a surplus of RM1.2 billion, against a deficit of RM4.4 billion in 1995. Consequently, the nation's net international reserves held by the Central Bank are expected to increase by RM1.2 billion to RM65.0 billion at the end of 1996, sufficient to finance about 4.1 months of retained imports.

Foreign Exchange Market

During the first eight months of 1996, the ringgit appreciated against all the major currencies in the foreign exchange market. The ringgit appreciated by 7.3% against the Japanese yen, 4.6% against the deutschmark, 1.8% against the United States (US) dollar, 1.3% against the Singapore dollar and 1.2% against the pound sterling. Against the composite basket, which comprises currencies of Malaysia's major trading partners, the ringgit recorded an appreciation of 2.8%. In terms of the Special Drawing Rights (SDR) of the International Monetary Fund (IMF), the ringgit appreciated by 3.9%.

The ringgit began the year on a bearish note arising from renewed concern over the sustainability of the balance of payments' current account deficit, following the release of trade statistics for October 1995 and the stronger performance of the United

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 1996

↑ Appreciation of the Malaysian Ringgit
↓ Depreciation of the Malaysian Ringgit

States dollar. The downward pressure was, however, temporary and the ringgit turned around, stabilising at US\$1 = RM2.5615 at the end of January 1996. The release of favourable trade data for November and December 1995 saw sentiments improving, with the ringgit strengthening to US\$1 = RM2.5368 by the end of March 1996. The stronger ringgit was also underpinned by a net inflow of foreign funds for portfolio investment in the Malaysian stock market as well as to take advantage of the prevailing interest rate differentials. The ringgit strengthened further to trade at US\$1 = RM2.4930 by the end of April and has since then stabilised within the range of US\$1 = RM2.48-RM2.49. As at end of August 1996, the ringgit remained strong against the US dollar at US\$1=RM2.4945 (end-1995: US\$1=RM2.5405).

During the first eight months of 1996, the total transactions in the foreign exchange market amounted to RM533.9 billion, of which 84.8% was dominated by the exchange of the **United States dollar**. Movements of the ringgit against the other major currencies reflected mainly the movement of the United States dollar against these currencies in the international foreign exchange markets. The ringgit appreciated marginally by 0.1% against the United States dollar from its end-1995 level of US\$1=RM2.5405 to US\$1=RM2.5368 at the end of first quarter of 1996. The ringgit then strengthened 1.9% to reach a level of US\$1=RM2.4930 by the end of April 1996 after which it stabilised within a narrow range to close 1.8% higher against the United States dollar at US\$1=RM2.4945 at end of August 1996. The strengthening of the ringgit against the United States dollar reflects improvements in the fundamentals of the Malaysian economy.

During the first eight months of 1996, the ringgit continued to appreciate against the **Japanese yen (¥)**. Given the continued weakening of the Japanese yen in the international foreign exchange markets against the United States dollar, which

is the currency of transaction in the local foreign exchange market, the ringgit, as reflected in the cross-rates, continued to close higher against the Japanese yen during the first eight months of 1996. Reflecting the significant strengthening of the United States dollar against the Japanese yen, the ringgit appreciated markedly by 7.3% against the Japanese yen to ¥100=RM2.3011 at end of August 1996 from ¥100=RM2.4689 at end of 1995.

In the first quarter of 1996, the ringgit weakened against the **Singapore dollar (S\$)**, reflecting mainly the strengthening of the Singapore dollar in the international foreign exchange markets. The ringgit depreciated by 0.3% against the Singapore dollar from its end-1995 level of S\$1=RM1.7958 to S\$1=RM1.8020 at the end of March 1996. However, since April 1996, the ringgit has strengthened against the Singapore dollar in line with the release of favourable Malaysian macroeconomic data which improved the overall market sentiments on the ringgit. The ringgit strengthened by 1.3% against the Singapore dollar to S\$1=RM1.7728 at the end of August 1996 from S\$1=RM1.7958 at the end of 1995.

Against the **pound sterling (£)**, the ringgit appreciated during the first eight months of 1996. The ringgit was firmer by 1.7% against the pound sterling from its end-1995 level of £1=RM3.9302 to £1=RM3.8632 at the end of June 1996. The ringgit appreciated further by 1.2% against the pound sterling from its end-1995 level to £1=RM3.8834 at end August, 1996. Similarly, the ringgit appreciated against the **deutschmark (DM)** during the first eight months of 1996. It closed higher by 2.7% against the deutschmark to DM1=RM1.7205 at the end of March 1996, compared with DM1=RM1.7673 at the end of 1995. The ringgit continued to appreciate by 4.6% against the deutschmark from its end-1995 level to reach the level of DM1=RM1.6894 at end August 1996.

Special Data Dissemination Standard

The purpose of the Special Data Dissemination Standard (SDDS) is to assist member countries to relay to the public, comprehensive, timely, accessible and reliable economic and financial statistics. In an increasingly globalised financial market, the need for accurate economic and financial data to be accessed by the public becomes increasingly important. The Mexican financial crisis of late 1994 clearly demonstrated that the size, speed and impact of a financial crisis could be tremendous given a more open and integrated world economy. To prevent such financial crisis from escalating on a world wide level, the international community agreed that enhanced surveillance of economies was required. The quality of surveillance in turn, depends critically on the availability of timely and reliable data from countries. Through the International Monetary Fund (IMF), member states advocated the introduction of the Special Data Dissemination Standard.

In April 1996, the Interim Committee of the IMF adopted the SDDS which is now open to members that have, or seek access to international capital markets. The goal of the SDDS, participation in which is voluntary, is to encourage the timely publication of economic data used by market participants in evaluating a country's policies and prospects. It has four dimensions:-

(i) **Coverage, Periodicity, and Timeliness.**

The SDDS focuses on crucial basic data that shed light on economic performance and policy in the real, fiscal, financial, and external sectors. The standard specifies the minimum coverage necessary, but countries are encouraged to disseminate other relevant data. The minimum coverage includes a comprehensive statistical framework - national accounts for the real sector, government operations for fiscal data, analytical accounts of the banking system for financial data and balance of payments accounts for external transaction;

(ii) **Access by the Public.** Ready and equal access to data is a principal requirement for the public, including market participants. To support such access, the SDDS prescribes advance dissemination of release calendars and simultaneous release of data to all interested parties;

(iii) **Integrity.** To assist users in assessing the integrity of these data, the SDDS prescribes certain assurances for users, including: dissemination of terms and conditions under which official statistics are produced, including those relating to the confidentiality of individually identifiable information; identification of internal government access to data before release; identification of ministerial commentary on the occasion of statistical release; and provision of information about revision and advance notice of major changes in methodology; and

(iv) **Quality.** Although quality is difficult to judge, monitorable proxies, designed to focus on information the user needs to judge quality, can be useful. To assist users in assessing quality, the SDDS prescribes dissemination of documentation on methodology and sources used in preparing statistics; and dissemination of component details, reconciliations with related data, and statistical frameworks that support statistical cross-checks and provide assurance of reasonableness.

As at 19 September 1996 when the IMF launched the Dissemination Standards Bulletin Board or DSBB on the INTERNET, 34 out of the IMF's 181 member countries had subscribed to the SDDS. The group comprises a good mix of industrial countries and developing and transition economies. Malaysia subscribed to the SDDS on 21 August 1996. Other ASEAN countries that have joined are Singapore, Thailand and the Philippines. Many of the 34 participating countries are expected to take up to two years to fully implement all of the current SDDS provisions. The launch on 19 September will in fact, begin a two-year phase in which the IMF and its member states will review and perhaps revise standards agreed to earlier in 1996 to address broad concerns about data transparency.

The DSBB contains "metadata" information about the data disseminated and dissemination procedures of each subscribing member country. The IMF is currently working towards providing the DSBB with a hyperlink facility which will enable users to move directly from a country's metadata on the DSBB to actual country economic and financial data. Hyperlinks will be introduced from the DSBB to country data sites on the INTERNET for the countries that wish to have such links, at the same time taking into account country-specific circumstances in setting a date for the provision of such hyperlinks.