7 External Trade, Balance of Payments and Foreign Exchange Market

Export Performance

Malaysia's overall export earnings are expected to increase by 6% to RM208.9 billion in 1997, compared with a 6.5% growth valued at RM197.0 billion in 1996. The slower export growth is attributed to the slower growth in the export earnings of manufactured goods as a result of decline in export prices due to worldwide competition despite strong volume offtake, and lower crude petroleum export earnings. Exports of manufactured goods are estimated to increase at a slower rate of 6% to RM169 billion in 1997 (1996: 8.1%), accounting for 80.9% of total export earnings. The slower growth is attributed to the drop in export prices, especially electrical and electronics products. Exports of the major agriculture commodities are expected to increase marginally by 0.9% to RM19.8 billion (1996: -9.6%), reflecting the higher export volume of palm oil and palm kernel oil. Due to lower export volume, export earnings from crude petroleum are expected to decline by 1.7% to RM7.1 billion in 1996 (1996: 7.6%). Nevertheless, export earnings of the mining sector is expected to increase by 15.3% to RM14.1 billion in 1997 (1996: 18.3%), underpinned by an expected 45.9% increase in export of Liquefied Natural Gas. Consequently, the total export earnings of major primary commodity is expected to increase by 6.5% to RM33.8 billion to account for 16.2% of total exports earnings (1996: 16.1%).

Exports of Manufactured Goods

Manufactured exports are anticipated to register a slower rate of growth of 6% in 1997 (1996: 8.1%). The lacklustre performance is largely attributed to continued declines in global prices for semiconductors and audio visual products due to world wide excess manufacturing capacity despite strong volume off-take for semiconductors and higher earnings from exports of chemical and chemical products. The slowdown in the growth of export earnings from manufactured goods also reflects the large export base that has been built up in recent years, especially in 1994 and 1995 when manufactured exports increased by 33.9% and 22.9% respectively.

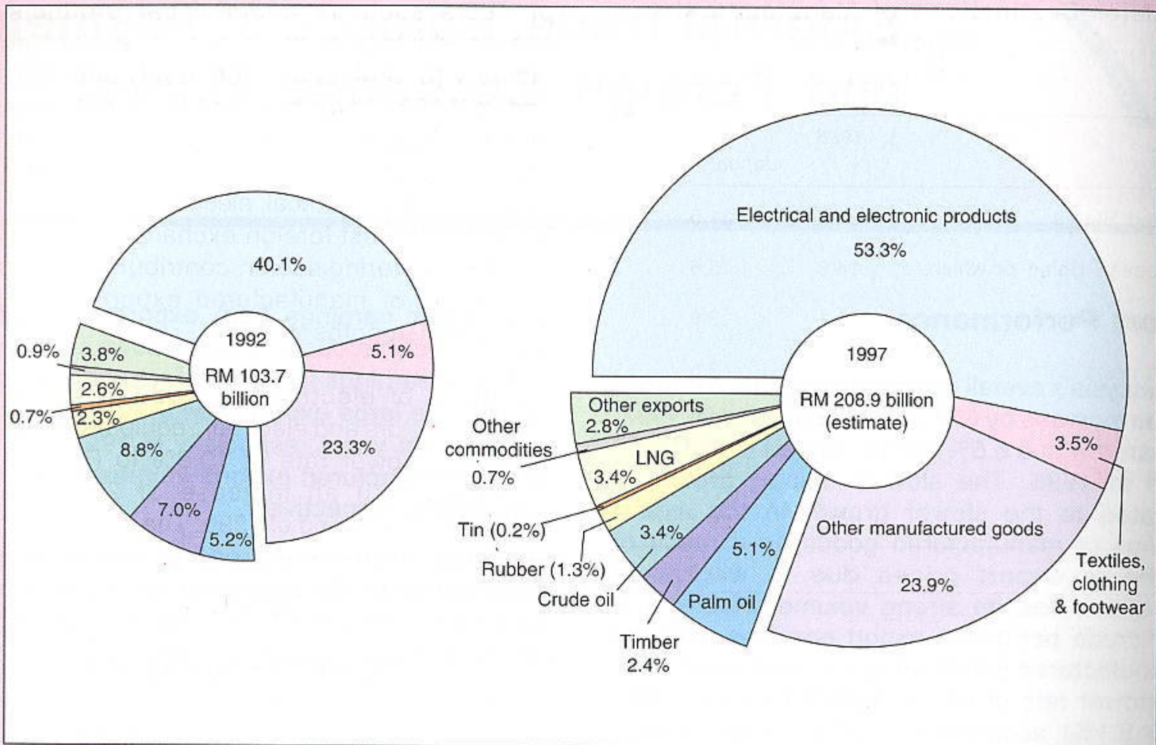
Table 7.1

Manufacturing Exports

Year	1996 % Share	% Change 1996 (January-July)	1997 (January-July)
Electrical, electronics and machinery	65.4	17.2	2.2
Textiles, apparel and footwear	4.5	11.2	0.4
Food, beverages and tobacco	2.4	7.6	–1.0
Wood products	4.8	17.5	11.8
Rubber products	2.3	16.7	2.0
Petroleum products	2.1	11.6	1.9
Chemicals and chemical products	5.2	8.4	13.8
Non-metallic mineral products	1.1	5.7	–1.3
Iron and steel, and metal products	3.4	17.8	–7.3
Transport equipment	2.9	–5.0	–11.9
Others	5.9	17.9	–3.7
TOTAL	100	15.1	1.8

Source: Department of Statistics

Chart 7.1
Exports Structure



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

During the first seven months of 1997, exports of manufactured goods increased marginally by 1.8% (January-July 1996: 15.1%) to RM92.9 billion accounting 80.2% of total exports. Almost all categories of exports, except chemicals and chemical products, recorded slower or negative growth during the period under review. Electronics and electrical products and rubber products registered a marked slowdown in the growth of export earnings to 2.2% and 2% respectively during the first seven months of 1997 as against 17.2% and 16.7% achieved during the corresponding period of 1996. Exports of food products, metallic products, non-metallic mineral products, and transport equipment registered negative growth. However, exports of chemicals and chemical products increased significantly by 13.8% (January-July 1996: 8.4%) and wood products increased by 11.8% (January-July 1996: 17.5%).Exports of textile, apparel and footwear industry increased marginally by 0.4% (January-July 1996: 11.2%).

Exports of electronics and electrical products continued to contribute the largest share that is 66%, to total manufactured exports during the first seven months of 1997, followed by chemicals and chemical products 5.5%, wood products 4.9% and textile, apparel and footwear 4.3%.

In terms of export markets for manufactured goods, Singapore, the United States (US), European Union (EU) and Japan continued to dominate. Together, these countries accounted for over 70% of total manufactured exports during the first seven months of 1997. During the same period, exports to Singapore increased by 5.4%, with a share of 22.6%, while exports to the EU increased by 9.7% with a share of 15.6%. Exports to the US declined by 7.6%, accounting for 21.5% and exports to Japan fell by 1.9% with a share of 10.9% to total exports.

Electrical, Electronics and Machinery

Exports of **electrical, electronics and machinery** expanded at a significantly slower rate of 2.2% to RM61.2 billion in the first seven months of 1997 (January-July 1996: 17.2%).

Table 7.2

Major Destinations of Manufactured Exports[1]
(% of total)

	1996	1997 January-July
United States	22.5	21.5
European Union of which:	14.8	15.6
United Kingdom	4.1	3.8
Germany	3.5	3.5
Japan	11.1	10.9
Singapore	22.4	22.6
Others	29.2	29.4
TOTAL	100.0	100.0

[1] Includes SITC 1,5,6,7 and 8

Source: Department of Statistics

Although output was strong during the same period, growth in export value was affected by the decline in export prices. Prices of electrical consumer products such as audio-visual products and semiconductors such as digital random access memory (DRAM) chips were badly affected since end of 1995. The sharp fall in global prices for these products was due worldwide to excess production capacity in this sector. Nevertheless, as a group, the electrical, electronics and machinery is still the largest foreign exchange earner within the manufacturing sector, contributing 66% of the total value of manufactured exports during the first seven months of 1997.

Exports of **electronics products** comprising semiconductors and electronic equipment and parts rose at a slower rate of 10.9% to RM41 billion compared with an increase of 29.4% in the corresponding period of 1996. The growth of export earnings from electronics products was underpinned by the expansion in earnings of the electronics equipment and parts which include automatic data processing machine, printed circuits,

Korea · Hong Kong · Taiwan

Table 7.3

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

Country	*1996*		*1997*		
	RM Million	*% share*	*RM Million*	*% share*	*Annual Change %*
United States	6,114	28.9	5,040	24.0	–17.6
Singapore	5,219	24.7	5,568	26.5	6.7
Netherland	254	1.2	1,151	5.5	353.1
Japan	2,158	10.2	1,793	8.5	–16.9
Hong Kong	1,512	7.1	1,489	7.1	1.5
Taiwan	1,711	8.1	2,182	10.4	27.5
Others	4,200	19.8	3,778	18.0	–10.0
TOTAL	21,168	100.0	21,001	100.0	–0.8

Source: Department of Statistics

resistors, and transformers. Exports of these products grew by 26.6% to RM20 billion (January-July 1996: 36%). The US, Singapore, Japan and Taiwan continued to be the major importers of Malaysian electronics products. The export of **semiconductors**, however, declined significantly by 0.8% to RM21 billion (January-July 1996: 24.9%) due to lower prices of these products in the world market. Nevertheless, semiconductors continued to be the country's largest export earner, with total earnings of RM21.2 billion, accounting for 22.8% of the total manufactured export earnings.

Exports of **consumer electrical products** which include television receivers, radio broadcast receivers and sound recorders and reproducers dipped further by 17.4% (January-July 1996: -4.9%). These products suffered from both declining export volume and prices due to stiff competition from low-cost producers.

Similarly, exports of **household electrical appliances** including refrigerators, rice cookers, washing machines, fans and other appliances also declined by 7.3% (January-July 1996: 21.6%) due to falling prices and lower external demand. Weak demand and prices have also contributed to the decline in the export of the electrical industrial machinery and equipment by 21% to RM4.2 billion (January-July 1996: 1.9%). In the case of industrial and commercial electrical products, exports of office machines declined by 8.4% while exports of telecommunications equipment increased by 7.3% on account of sustained exports to US, Japan and Singapore.

Textiles, Apparel and Footwear

During the first seven months of 1997, exports of **primary textiles** increased marginally by 0.5% compared with an increase of 8.1% recorded during the same period of 1996. Except for exports of woven cotton fabrics and synthetic fabrics which increased by 6.1% and 12.1% respectively, exports of all other types of textile products declined. The largest export component of textiles, that is textile yarn, fell by 4.5%, while knitted or crocheted fabrics declined by 1.7%, tulles, lace, ribbons and other trimmings fell by 4.5%. Exports of articles of textile materials dropped by 12.1% and floor coverings 11.6%. The marked slowdown in these exports is attributed to lower external demand for primary textiles as comparable products are available from low cost competitors. In response to this, textile producers have moved into higher value added products, while some have relocated their plants offshore.

Table 7.4

Exports of Textiles, Apparel and Footwear
(RM million)

Year	*1996*	*1996 (January-July)*	*1997 (January-July)*
Textiles	3,276.0	1,908.6	1,918.9
Apparel	3,408.5	1,839.6	1,876.8
Footwear	278.6	169.2	156.9
Others (fibres)	131.7	82.5	58.6
TOTAL	7,094.8	3,999.9	4,011.2

Source: Department of Statistics

Exports of **apparel and clothing accessories** increased marginally by 2% (January-July 1996: 1.9%) to RM1.9 billion during the first seven months of 1997. In the case of ladies' and girls' woven garments, the export earnings dropped by 8.7% and knitted garments by 9.8%. Exports of clothing accessories also dipped by 10.2%. The stagnation of exports of apparel and clothing accessories is in line with declining production trends as some production units were moved offshore. Exports of **footwear** declined by 7.3% (January-July 1996: 5.4%), following a decrease in demand for leather footwear. Collectively, the export of **textile, apparel and footwear** industry rose marginally by 0.4%(January-July 1996:11.2%).

During the first seven months of 1997, the US remained the largest export market for apparel and clothing accessories, with a share of 42.7% of the total value of apparel and clothing accessories exported, followed by the EU, 32.6%. Exports to the quota markets of the US, EU, Canada and Norway increased by 2.9% to RM1.5 billion, accounting for 78.6% of total exports. Exports to non quota markets dipped marginally by 1.2 % to RM401.9 million, accounting for 21.4% of total apparels and clothing accessories exported.

Table 7.5

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

Year	1996	1996 (January-July)	1997 (January-July)	Annual Change (%)
United States	1,656.1	774.2	802.0	3.5
European Union	1,476.3	592.9	612.7	3.3
Hong Kong	1,048.5	40.8	35.3	−13.5
Singapore	662.9	168.6	150.5	−10.7
Japan	382.3	119.8	114.6	−4.3
Others	1,458.4	143.2	161.7	12.9
TOTAL	6,684.5	1,839.5	1,876.8	2.0

Source: Department of Statistics

Wood Products

Export earnings of **wood products** in the first seven months of 1997 recorded an increase of 11.8% compared with an increase of 17.5% recorded during the corresponding period of 1996. The double digit rate of growth in export earnings was due to the increase in price of veneer and plywood and increase demand for furniture. This raised the sector's contribution to total manufactured exports to 4.9% against a share of 4.8% during the same period of 1996.

Exports of **veneer and plywood** which accounted for 69.6% of exports of wood products grew by 9.7% (January-July 1996 : 15.6 %) to RM3.2 billion. The increase in the export of plywood was mainly due to the increase in the price as well as continued demand from overseas markets particularly from East Asia, especially Japan and Hong Kong. Japan's housing activity which has increased by 4% or 1.6 million units led to larger volume of exports to the country. Price of veneer has also increased due to favourable demand from markets such as China, Japan, South Korea and Taiwan.

Furniture and furniture components are gaining importance as manufactured exports from Malaysia. It constituted 30.4% of the total export of wood products during the first seven months of 1997. Exports of this sector increased by 16.7% to RM1.4 billion during the period. The US, Japan and Singapore continued to be the major export markets for Malaysian furniture, especially the ready-to-assemble products. The US imported the largest amount of Malaysia's wooden furniture, that is, with a share of 39%, followed by Japan with 22% share.

Rubber Products

Exports of **rubber products** rose marginally by 2% to RM2.1 billion during the first seven months of 1997 (January - July 1996 : 16.7%). The lacklustre performance was mainly due to the keen competition from other lower-cost producers especially for latex-based products. However, the contribution of rubber products to total manufactured exports still maintained its same level (2.3%) as recorded during the same period of 1996.

Exports of **rubber gloves** (surgical and non-surgical gloves) which accounted for 70.8% of the total rubber products exported, increased at a significantly lower rate of 0.7% to RM1.5 billion compared with a growth of 27.5% registered during the corresponding period of 1996. The lacklustre performance was due to greater competition from other low-cost producing countries such as Indonesia and Thailand. In addition, output has slowed down as a result of shortage of raw materials due to reduced production of rubber as well as other constraints such as labour shortage. Major export destinations for Malaysian rubber gloves are the US, Japan and Europe. Exports of **tyres and tubes** recorded a decline of 9.5% to RM108 million during the period under review (January-July 1996: 37.1%) mainly due to greater domestic consumption for the products as well as slower demand from traditional importing countries. In comparison, export earnings from **articles of rubber** increased by 6.9% to RM176 million (January-July 1996: 7.3%).

Latex-based products, such as surgical and non-surgical gloves, still form the bulk (70.8%) of the total rubber exports in 1997. As such, there is a need to diversify the range of products with higher value added. Furthermore, with the prevailing tight labour market situation and continued competition from low-cost producers, efforts need to be directed towards increasing higher value added products in order to sustain Malaysia's competitive advantage in rubber products.

Food, Beverages and Tobacco

Exports of **food, beverages and tobacco** declined by 1% to RM2.2 billion during the first seven months of 1997 (January-July 1996: 7.6%). The decline was attributable to lower exports of food items and beverages. The sector's contribution to total export earnings remained stable at 2.3%.

Exports of **food** items, which accounted for 81.8% of the sector's total exports, declined by 2.6% to RM1.8 billion during the first seven months of 1997 (January-July 1996: 0.9%) due to the decline in the export of majority of food items such as flour (-17.9%), prepared animal feeds (-32.2%) and fat and oil (-16.8%). However, exports of dairy products surged by 34.8% (January-July 1996: -0.8%) in particular due to larger exports of milk products to Singapore and Hong Kong. Exports earnings from **beverages** which constituted alcoholic and non-alcoholic drinks declined by 5.9% to RM131 million (January-July 1996: 12.7%) on account of lower demand from Hong Kong and Singapore. In contrast, exports of **tobacco** increased by 17.7% to RM223 million (January-July 1996: 188%) due to steady overseas sales orders.

Petroleum Products

Growth in the export of petroleum products comprising refined petroleum products (gasoline, fuel oil, diesel and kerosene), residual products and gases slowed down to 1.9% or RM2 billion during the first seven months of 1997 as against an increase of 11.6% during the corresponding period in 1996. The slowdown is on account of 0.6% decline in the export of refined petroleum products which accounted for 75.2% of total export of petroleum products, due to their greater usage for domestic purposes as well as lower crude oil production during the first seven months of 1997 which has affected production and exports of petroleum products. Nevertheless, exports of residual products increased by 15.9%, while exports of propane and butane increased by 54.4% and natural gas by 12.3%.

Chemicals and Chemical Products

The total export of **chemicals and chemical products** surged by 13.8% during the first seven months of 1997 (January-July 1996: 8.4%), supported by expansion in production capacity and rising external demand. The growth was generated by strong expansion in exports of organic chemicals (58.9%), inorganic chemicals (49.7%), plastics in primary forms (26.8%), and plastics in non-primary forms (38%) and manufactured fertilizers (10.1%). Exports of pigments, paints, varnishes and related materials as well as soap, cleansing and polishing preparations registered moderate growth of 4.3% and 12.2% respectively. However, exports of medicinal and pharmaceutical products declined by 20.3%. Major contributors in terms of value were organic chemicals, plastic in primary forms and plastic in non-primary forms with shares of 21.6%, 15.6% and 6% respectively. Singapore remained the largest market for chemicals and chemical products followed by Japan, Hong Kong and South Korea.

Non-Metallic Mineral Products

The export earnings of **non-metallic mineral products** declined by 1.3% to RM974 million during the first seven months of 1997 (January-July 1996: 5.7%). The lower level of exports was largely due to the decline in exports of lime, cement, fabricated construction materials and other non-metallic mineral manufactures on account of sustained strong demand from the domestic construction sector.

During the first seven months of 1997, exports of **lime, cement and fabricated contruction materials** declined further by 8.1% after a decline of 9.2% in the corresponding period of 1996. This was mainly due to increased domestic consumption of cement by the construction sector. Although production capacity has increased, total production was still insufficient to meet the shortage in the domestic market. Therefore, substantial amount of cement valued at RM327 million had to be imported during the first seven months of 1997 to cater for domestic shortages.

In contrast, exports of clay and refractory construction materials improved by 6.9% to RM109 million during the first seven months of 1997 (January-July 1996: 3.1%), with ceramic tiles being the major item exported. Growth in the export of **glass and glassware** accelerated by 47.4% to RM405.6 million during the first seven months of 1997 (January-July 1996: 22.4%), underpinned by increased overseas sales order for glass products. Major destinations for exports of glass and glassware were Singapore and Japan. Exports of **pottery** which dropped by 28.5% recovered with an increase of 5.1% to RM77 million during the first seven months of 1997 following recovery in external demand.

Iron and Steel and Metal Products

In view of high domestic demand for **iron and steel products**, the iron and steel and metal products industry is very much domestic-oriented with limited capacity for export. The industry's contribution to total manufactured exports was 3.2% in the first seven months of 1997. The principal export markets for these products were Thailand, Singapore and China.

During the first seven months of 1997, export earnings of **iron and steel and metal products** as a group declined by 7.3% (January-July 1996: 17.8%) to RM3 billion. This was due to decline in exports of most iron and steel products, with the exception of flat-roll products which continued to expand although more moderately at 13.6% (January-July 1996: 42.7%). Exports of tubes, pipes, hollow profiles and fittings of iron and steel fell sharply by 36.7%, a sharp contrast with 102.9% growth achieved during the same period of 1996. Exports of iron and steel bars, rod, section and shapes also fell by 61.2% due to capacity constraint and high domestic demand in the construction sector as well as slowdown in construction starts in importing countries.

The export of **non-ferrous metal** products grew by 5.8% (January -July 1996: 3.7%). The growth was attributed to increased overseas demand of nickel, aluminium, copper, lead and zinc. In the case of **fabricated metal products**, export earnings declined marginally by 2.1% (January-July 1996: 14.5%). The slower growth was due to decline in the demand of manufactures of base metal and office metal furniture.

Transport Equipment

Exports of **transport equipment** which include road vehicles, railway vehicles, aircraft, ships, boats, floating structures and associated equipment and parts and accessories declined by 11.9% to RM 2.7 billion during the first seven months of 1997, against a 5% decline in the corresponding period of 1996. The decline is attributed to a 17.5% drop in the export of non-road vehicles. Exports of road transport equipment increased by 5.6% to RM832 million, underpinned by 9.6% increase in the export of passenger cars and 17.3% increase in the export of motorcycles following increased domestic production capacities. Exports of the national car, PROTON increased by 5.6% to 15,364 units during the first seven months of 1997 as against 14,548 units during the same period of 1996. The United Kingdom continued as the major destination for PROTON cars with 7,555 units, followed by Germany 2,928 units and Australia 2,759 units. PERODUA exported a total of 374 units during the period under review. The UK emerged as the main destination for PERODUA vehicles, followed by Brunei, Cyprus, Malta and Mauritius.

Other Manufactured Goods

During the first seven months of 1997, total exports of **other manufactured goods,** comprising paper and pulp, leather goods, professional and scientific instruments, photographic equipment, musical instruments, watches, clocks, toys, sports goods, jewellery and other miscellaneous items accounted for 5.5% of total manufactured exports. Exports of these products declined by 3.7% (January-July 1996: 17.9%) to RM5.1 billion following sharp declines of 36.2% in the export of toys and sports goods and 12.9% in the export of printing materials.

Major Primary Commodity Exports

Export earnings from major primary commodities are expected to increase by 6.5% (1996: -0.6%) to RM33,827.5 million in 1997. The increase is expected to be largely driven by a 15.3% increase in export earnings by the **mining sector** to RM14,072.1 million (1996: RM12,202.8 million), as a result of stronger external demand of Liquefied Natural Gas (LNG) from South Korea, Japan and Taiwan. Export earnings by the **agriculture sector** are envisaged to increase by 0.9% to RM19,755.4 million (1996: RM19,570 million or -9.6%), mainly on account of higher exports of palm oil and palm kernel oil.

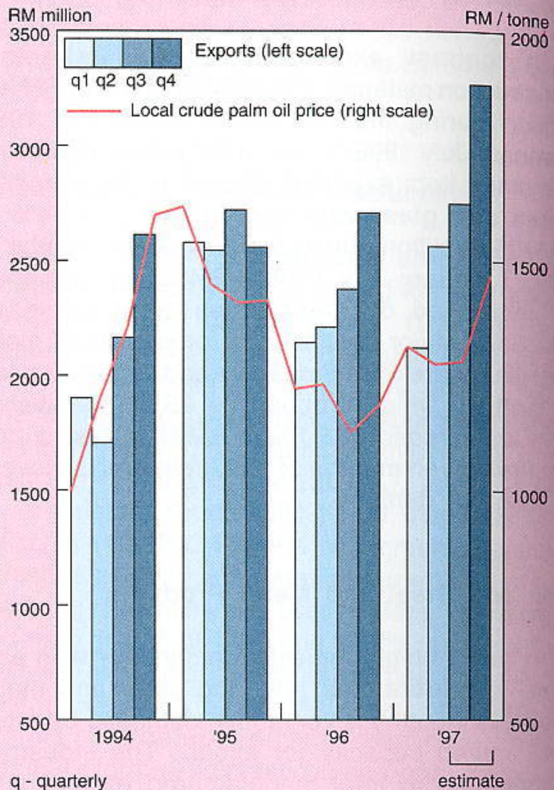
Palm Oil and Palm Kernel Oil

Export earnings from palm oil (crude and processed palm oil and palm stearin) are expected to increase by 13.4% to RM10,703.9 million (1996: -9.2%, RM9,435.1 million). Underpinned by the strong external demand from traditional markets such as Bangladesh, India, the European Community and Turkey, the export volume is expected to increase by 5.7% from 7.29 million tonnes in 1996 to 7.70 million tonnes in 1997. Strong external demand, boosted partly by cheaper ringgit, in the face of generally tight global oils and fats supply situation is expected to push palm oil export unit value by 7.4% in 1997.

In the first seven months of 1997, export earnings from palm oil increased by 11.2% to RM5,656.5 million, from RM5,086.9 million during the same period of 1996. Export volume rose by 10.6% to 4.250 million tonnes (1996: 3.843 million tonnes), while export unit value increased by 0.5% to RM1,330.82 per tonne. The average local delivery price of crude palm oil for the first quarter of 1997 was quoted at RM1,313.87/tonne or 7.6% higher than the same period in 1996 (January-March 1996: RM1,221.50/tonne). The average local delivery price quoted during the second quarter declined from the first quarter to RM1,275.58/tonne, which, nevertheless, was 3.6% higher than the corresponding period of 1996. During the third quarter, the average price rose to an average of RM1,283 per tonne. On 22 September 1997, it closed at a 24-month high of RM1,514.50 when ringgit depreciated to RM3.1330.

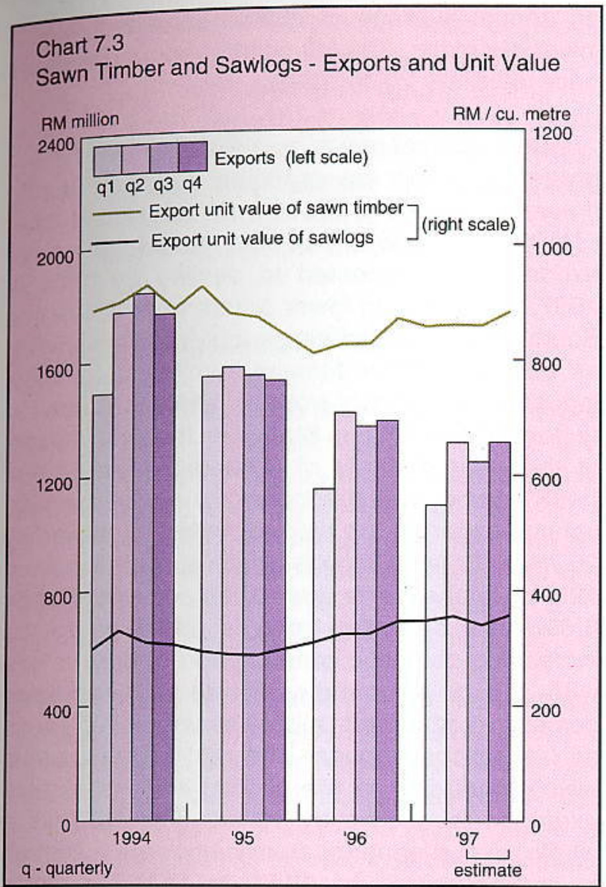
In the first seven months of 1997, export earnings of palm kernel oil declined by 3.7% to RM501.6 million from RM520.9 million in the corresponding period of 1996. The decline was attributed to lower export volume of 256,642 tonnes, compared to 264,171 tonnes during the corresponding period of 1996. For the whole of 1997, export earnings of **palm kernel oil** are expected to increase by 2% in 1997 to RM1,061.5 million due to anticipated 1.9 % increase in export volume to 550,000 tonnes (1996: 539,524 tonnes) and 0.1 % increase in unit price to RM1,930.

Chart 7.2
Palm Oil - Exports and Price



Timber

During the first seven months of 1997, total export earnings of **sawlogs** increased by 6.3% to RM1,310.4 million, underpinned by 10.5% increase in export unit value to RM352.4 per cubic metre. The higher export unit value was attributed to strong demand from Japan as well as increased domestic demand for downstream activities. Due to stronger domestic demand, the volume of sawlogs exported dropped by 3.8 % to 3.72 million cubic metres from 3.86 million cubic metres in the corresponding period of 1996. The export volume of **sawn timber** was also affected by increased domestic demand for downstream processing. Despite a 5.1% increase in export unit value to RM860 per cubic metre, export earnings from sawn timber declined by 8.6% to



RM1,611.6 million, following a 13% decline in export volume to 1.87 million cubic metres (January-July 1996: 2.16 million cubic metres). For 1997 as a whole, total receipts from the export of sawlogs and sawn timber in 1997 is anticipated to decline further by 6.7% to RM4,966.1 million due to lower export volume of 9.6 million cubic metres, despite higher export unit value.

Rubber

During the first seven months of 1997, export receipts from rubber recorded a significant decline of 19.7% to RM1,671.1 million (Jan.-July 1996: RM2,081.0 million) due to 20.4% decline in export unit value. Export volume during the period registered a slight increase of 0.9% to 547,557 tonnes (Jan.- July 1996: 542,764 tonnes).

During the first seven months of 1997, the price of RSS1 dropped by 23.9 % to average 285.53 sen/kg, from an average of 375.26 sen/kg during the corresponding period of 1996. The weak rubber

Table 7.6

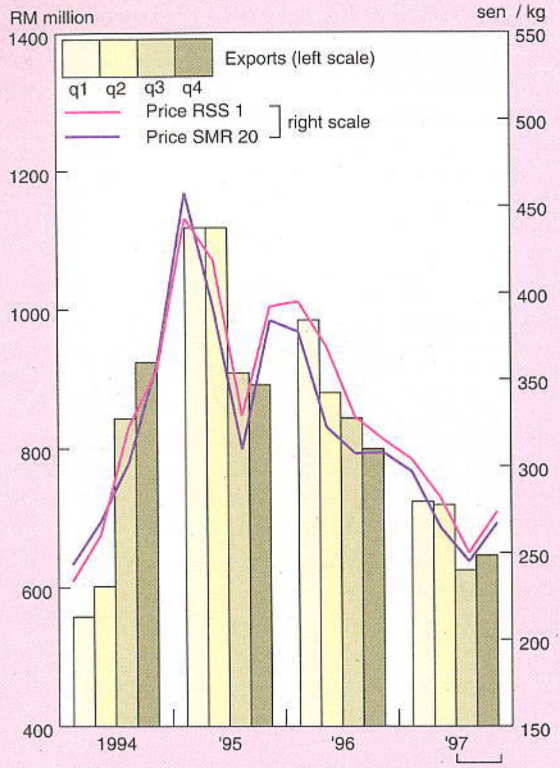
Primary Commodity Exports

	1997[e]	*% Change*	*1997 January-July*	*% Change*
Palm oil[1]				
Volume ('000 tonnes)	7,700	5.7	4,250.4	10.6
Unit value (RM/tonne)	1,390	7.4	1,330.8	0.5
Value (RM million)	10,703.9	13.4	5,656.5	11.2
Palm Kernel Oil				
Volume ('000 tonnes)	550	1.9	256.6	–2.9
Unit value (RM/tonne)	1,930	0.1	1,954.4	–0.9
Value (RM million)	1,061.5	2.0	501.6	–3.7
Sawlogs				
Volume ('000 cubic metres)	6,500	–6.9	3,719	–3.8
Unit value (RM/cu. metre)	350	7.1	352.4	10.5
Value (RM million)	2,275.0	–0.3	1,310.4	6.3
Sawn timber				
Volume ('000 cubic metres)	3,110	–14.9	1,874	–13.0
Unit value (RM/cu. metre)	865.3	4.1	860.0	5.1
Value (RM million)	2,691.1	–11.4	1,611.6	–8.6
Rubber				
Volume ('000 tonnes)	920	–6.2	547.6	0.9
Unit value (RM/tonne)	295	–17.6	305.2	–20.4
Value (RM million)	2,714.0	–22.7	1,671.1	–19.7
Pepper				
Volume ('000 tonnes)	19.6	–3.9	12.6	34.6
Unit value (RM/tonne)	8,700	38.5	8,538.9	45.6
Value (RM million)	170.5	33.1	107.7	96.0
Cocoa				
Volume ('000 tonne)	41	–3.5	22.4	–28.7
Unit value (RM/tonne)	3,400	6.3	3,404.4	6.0
Value (RM million)	139.4	2.5	76.3	–24.4
Crude oil				
Volume ('000 tonnes)	16,540.1	–5.5	8,825	–15.7
Unit value (RM/tonne)	428.66	2.0	425.9	8.5
Value (RM million)	7,090.1	–1.7	3,759.3	–8.6
Liquefied Natural Gas (LNG)				
Volume ('000 tonnes)	15,600	18.8	9,112	25.0
Unit value (RM/tonne)	416.9	22.8	418.2	19.8
Value (RM million)	6,503.0	45.9	3,810.2	49.7
Tin				
Volume ('000 tonnes)	32	–6.7	19.3	–4.4
Unit value (RM/tonne)	14,969	–3.6	14,406	–8.9
Value (RM million)	479.0	–10.1	278.6	–12.9
TOTAL VALUE	33,827.5	6.5	18,783.3	5.4

[1] Include crude palm oil, processed palm oil, and palm stearin
[e] Estimate

Source: Department of Statistics

Chart 7.4
Rubber - Exports and Price



q - quarterly

price during the first seven months of the year was attributed to an oversupply of rubber in the world market, the generally weak demand from China and Korea, strikes in the Goodyear plant in the United States in the first quarter of 1997 and the release of about 41,000 tonnes of natural rubber since February by the US Defence Logistics Agency from its stockpile. Following the depreciation of the ringgit in the third quarter of the year, the price of RSS 1 firmed to average 240.64 sen/kg in July and improved further to average 250.35 sen/kg in August and to average 262.63 sen/kg in September, giving a third quarter average price of 251.21 sen/kg. This trend is expected to continue into the fourth quarter where RSS 1 price is projected to average 273.83 sen/kg. For the year as a whole, the average price of RSS 1 is estimated to be 277.61 sen/kg. Despite improved prices towards the end of the year, the average annual price of RSS 1 is projected to be 20.8% lower than the 1996 average RSS 1 price of 350.40 sen/kg. In tandem with the RSS 1 price movement, SMR 20 is expected to average 255.61 sen/kg in the second half of 1997, giving an annual average of 268.44 sen/kg or 18.5% lower than the 329.55 sen/kg annual average price of SMR 20 in 1996.

Due to weaker prices, exports of all three major grades of rubber are expected to decline during the year. Exports of Standard Malaysian Rubber (SMR), which account for 80% of the total volume exported, are expected to decline by 0.9% in 1997.This is due to lower orders from China and South Korea and declining supply of raw materials as well as the slow demand from the automotive industries because of workers' strike in Goodyear factory in the United States in the first quarter of this year. Exports of Ribbed Smoke Sheets (RSS) rubber which account for 4% of the total volume exported are also expected to decline by 25.7% while latex exports, which account for about 12% of total exports, are expected to decline by 3.6%. The declining trend is attributed to the increasing domestic consumption of latex in line with the government's efforts to encourage domestic production of rubber-based products such as latex-dipped goods. The rest of the grades, which amounted to 4% of total exports, is also expected to decline by 13.5%. For 1997 as a whole, export earnings from rubber are expected to decline sharply by 22.7% to RM2.714 billion (1996: RM3.509 billion) on account of a decline in both export volume, by 6.2% to 920,000 tonnes (1996: 980,000 tonnes), and a drop in unit value by 17.6% to 295 sen/kg. (1996: 358 sen/kg).

Other Agriculture Commodities

Export receipts from **cocoa beans** are expected to increase by 2.5% to RM139.4 million (1996: RM136.0 million), due to 6.3% increase in the unit value to RM3,400 per tonne in 1997 from RM3,200 per tonne. The increase in export unit value is attributed to low world stocks as a result of strong demand in the face of declining world production. Export volume is expected to be 3.5% lower, that is at 41,000 tonnes (1996: 42,532 tonnes). For the first seven months of 1997, the export receipts from this commodity declined by 24.4% to RM76.3 million, with export volume declining further by 28.7% to 22,414 tonnes (1996: RM100.9 million from 31,421 tonnes).

For the first seven months of 1997, export earnings from **pepper** rose by 96% to RM107.7 million, underpinned by 34.6% increase in output to 12,615 tonnes. The average price of pepper during the period rose by 45.6 % to RM8,539 per tonne, from RM5,864 per tonne during the corresponding period of 1996 due to strong demand. With prices expected to remain favourable, export earnings from pepper are envisaged to increase by 33.1% to RM170.5 million in 1997 (1996: 25.8% to RM128.1 million).

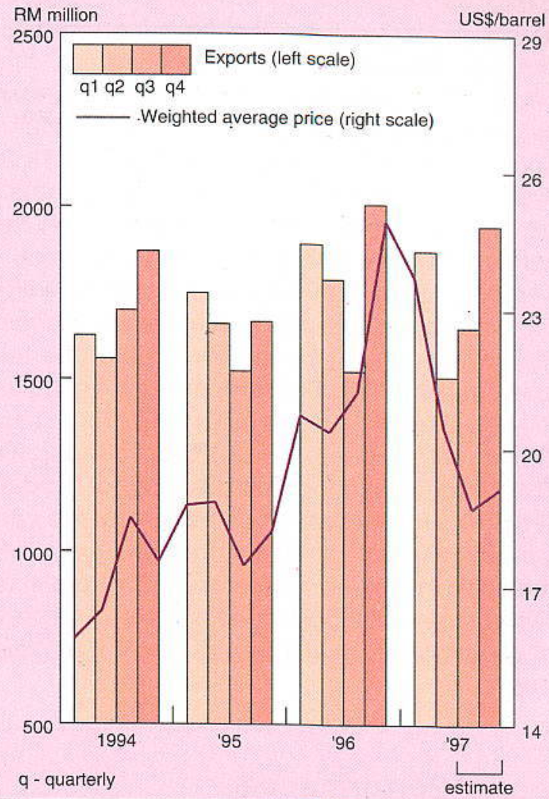
Crude Oil and Liquefied Natural Gas

During the first seven months of 1997, export earnings from crude oil declined by 8.6% to RM3,759.3 million from an export volume of 8.83 million tonnes (January-July 1996: RM4,110.9 million from 10.47 million tonnes). However, the export unit value for crude oil for this period was RM425.99 per tonne in 1997, an increase of 8.5% over the 1996 unit value of RM392.60 per tonne.

In line with world crude oil prices, the weighted average price (WAP) based on export prices of all Malaysian crudes increased by 14.5% from US$20.71 per barrel in the first quarter of 1996 to US$23.72 per barrel in the same period of 1997. This was due to the strong demand following the severe winter season in the northern hemisphere. In the second quarter of 1997, crude oil price increased marginally by 0.5% to US$20.46 per barrel from US$20.36 per barrel in the same period of 1996. This reflected the impact of slow demand for crude oil due to the temporary shutdown of the refinery plant in Europe for maintenance work. In the third quarter, world demand of crude oil rose slightly as consumer countries started to prepare for the coming winter and as maintenance work on the refineries in Europe was completed. Nevertheless, due to increase in supply of world crude oil, partly due to supply from Iraq which has been allowed to export US$2 billion worth as part of the "oil-for-food" exchange programme, oil price during the third quarter dropped to an average of US$18.70 per barrel. With expected increase in world demand for crude oil during the winter season, the price of crude oil is expected to increase to US$19.14 per barrel in the fourth quarter. Hence, for 1997 as a whole, WAP is estimated to average at US$20.50 per barrel or a decline of 6% from 1996 WAP price of US$21.81 per barrel.

In the light of increasing domestic consumption, the export volume of crude oil is estimated to be

Chart 7.5
Crude Oil - Exports and Price



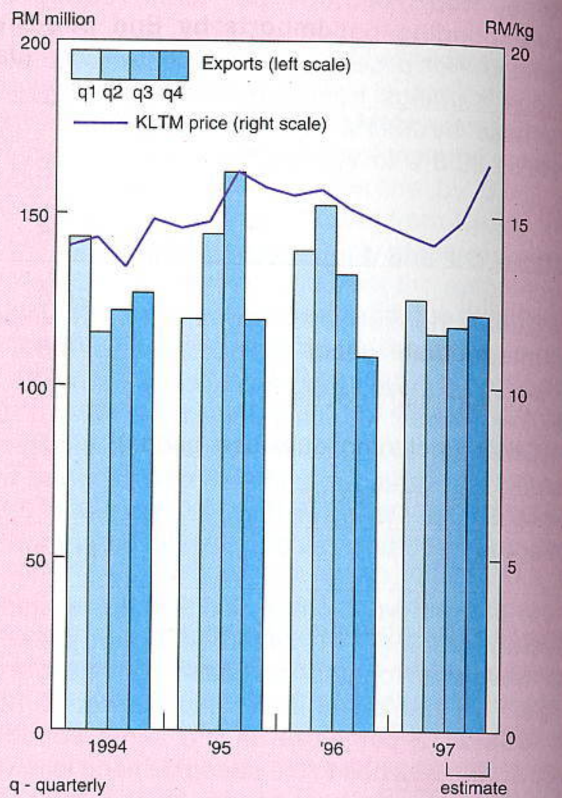
lower in 1997, at 16.54 million tonnes compared to 17.49 million tonnes exported in 1996. This, coupled with the softening of prices in the second half of the year, is envisaged to contribute to a 1.7% decline in export earnings to RM7,090.1 million in 1997, from an earnings of RM7,211.8 million in 1996.

During the first seven months of 1997, export receipts from LNG rose by 49.7% to RM3,810.2 million (January-July 1996: RM2,545.3 million), with export volume of 9.11 million tonnes (January-July 1996: 7.29 million tonnes). Countries representing major importers of Malaysia's LNG in the first seven months were Japan, Korea and Taiwan. For 1997 as a whole, the export volume of LNG is expected to increase by 18.8% in 1997 to 15.6 million tonnes (1996: 13.13 million tonnes). With the unit value per tonne of LNG estimated at RM416.86 per tonne, the envisaged total export receipts from LNG for the whole of 1997 is to increase by 45.9% to RM6,503 million (1996: RM4,458.3 million).

Tin

Export earnings from tin are expected to decline by 10.1% in 1997 to RM479 million, from RM532.7 million in 1996, mainly due to lower tin price during the first seven months of 1997. The average price of tin in the Kuala Lumpur Tin Market (KLTM) during this period dropped by 8.9% to RM14.20/kg from RM15.58/kg during the seven months of 1996. The lower tin price was due to excess supply worldwide, partly due to the decision of the Association of Tin Producing Countries (ATPC) to put on hold the Supply Rationalisation Scheme (SRS). However, the price picked up in the third quarter, especially in September reaching a peak of RM18.13/kg on 30 September 1997. As a result, the average tin price for the third quarter was RM14.93/kg. Assuming that the tin price holds at RM16.52/kg for the last three months of the year, the average price of tin for the whole of 1997 would be RM14.97/kg. Therefore, with a projected export volume of 32,000 tonnes, the total earnings from tin export is envisaged at RM479.0 million in 1997.

Chart 7.6
Tin - Exports and Price



Imports Performance

Led by strong growth in imports of capital goods (including bulky items), gross imports, valued with costs of insurance and freight (c.i.f.), are expected to increase by 6.6% to RM210.4 billion in 1997 (1996:1.5%). Imports of capital goods, which account for 21% of total imports, are expected to increase by 19.8% in 1997, after recording a decline of 5.7% in 1996. The strong rebound in the import of capital goods is mainly due to the significantly higher imports of bulky items, particularly aircraft and ships which will help to boost the nation's future export earnings from services as well as save foreign exchange through the substitution of imported services. Meanwhile, imports of intermediate goods, which account for 63.7% of total imports, are expected to expand at a slower rate of 2.3% in 1997 (1996:3.6%), reflecting the slower growth in demand for imported intermediate goods by the construction and the manufacturing sector as well as lower prices of electronics intermediate goods. Imports of consumption goods are also expected to increase at a slower rate of 4% to RM13.2 billion in 1997 (1996: 6%), reflecting the impact of slower growth in disposable income as well as deferment of spending due to the depreciation of the ringgit and sharp decline in share prices during the second half of the year. As such, Malaysia's retained imports in 1997 are expected to increase by 6% to RM202.4 billion, a slightly higher growth when compared with a growth of 2% recorded in 1996. Imports for re-exports which include aircraft and ships brought in for repair or on leases are expected to remain relatively small, accounting for 3.8% of total gross imports in 1997.

During the first seven months of 1997, gross imports expanded at a slower rate of 4.7% to RM119.1 billion, compared with an annualised growth rate of 5.2% during the corresponding period of 1996. As in previous years, the bulk of the import were capital and intermediate goods, which constituted 85.7% of total imports during the first seven months of 1997. The trends of gross imports by Broad Economic Classification (BEC) for the first seven months of 1997 are shown in Table 7.7.

Table 7.7

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

	Value (RM billion)		Annual Change (%)		Share (%)	
	1996	1997	1996	1997	1996	1997
Capital goods	20.6	25.0	–7.7	21.4	18.1	21.0
Intermediate goods	75.9	77.1	9.3	1.6	66.8	64.7
Consumption goods	7.1	7.5	9.6	5.6	6.2	6.3
Other (including dual use goods)	5.9	6.0	8.5	1.7	5.2	5.0
Imports for reexports	4.2	3.5	–5.3	–16.7	3.7	2.9
TOTAL	113.7	119.1	5.2	4.7	100.0	100.0

Source: Department of Statistics

Capital Goods

During the first seven months of 1997, imports of **capital goods** expanded strongly by 21.4% after recording a decline of 7.7% in the corresponding period of 1996. This was due to a 83.3% surge in the import of transport equipment during the period under review following a decline of 24.1% in the corresponding period of 1996. Transport equipment that recorded strong import increases during the first seven months of 1997 were railway vehicles and parts which rose by 305.6% in line with the rapid development of railway projects in Kuala Lumpur, ships, boats and floating structures (33.2%) and aircraft (59.1%). Imports of transport equipment constituted 22% of the import of capital goods during the first seven months of 1997 (see Table 7.8).

Table 7.8

Imports of Capital Goods by End USe - BES Categories
(January-July)

	Value (RM billion)		Annual change (%)	
	1996	1997	1996	1997
Capital goods (except transport, equipment)	17.6	19.5	–4.2	10.8
Transport equipment industrial	3.0	5.5	–24.1	83.3
TOTAL	20.6	25.0	–7.7	21.4

Source: Department of Statistics

Imports of capital goods (except transport equipment), which accounted for the remaining 78% of total imports of capital goods, recorded a growth of 10.8% to RM19.5 billion during the first seven months of 1997 compared with a drop of 4.2% in the same period of 1996. Items which recorded strong import growth rates were heating and cooling equipment (92.8%) and automatic data processing (44.5%). However, imports of machinery and equipment specialised for particular industries, which accounted for 21.6% of total imports of capital goods, declined by 6% during the first seven months of 1997 (January-July 1996: 2.8%).

Intermediate Goods

Reflecting largely the impact of lower prices of imports, especially electronics components and partly the slowdown in domestic production of manufactured goods experienced by some industries as well as slower construction starts, the growth import in the **intermediate goods** slowed down to 1.6% to RM77.1 billion during the first seven months of 1997 (January-July 1996: 9.3%). Imports of thermionic valves and tubes which accounted for 31% of total imports of intermediate goods, declined by 4.4% during the first seven months of 1997 (January-July 1996: 19.%). Simirlarly, imports of processed materials and components used by food and beverages industry recorded a decline of 11.1%, while imports of primary fuel and lubricants declined by 1.3% (see table 7.9). Other intermediate goods which recorded a drop in imports during the period were parts and accessories of capital goods for non-transport equipment such as equipment for civil engineering (-18.5%) and household electrical and non-electrical equipment (-24.4%). At the same time, growth in imports of parts and accessories for transport equipment decelerated significantly to 2.9% (January-July 1996: 13.8%), reflecting the greater use of local components by the domestic automobile industry. Similar trend was also observed in the import of raw materials and components for industrial supplies, with growth decelerating from 18.1% during the first seven months of 1996 to only 3.5% during the corresponding period of 1997. Imports of raw materials used by food and beverages industry grew at a slower rate of 7.2% during the first seven months of 1997 (January-July 1996: 7.8%), reflecting largely a sharp deceleration in the growth of domestic production of beverages, from a growth of 20.8% during the first seven months of 1996 to 1.5% during the same period in 1997. In contrast, imports of processed fuel and lubricants continued to expand at a slower rate of 17.6% during the period under review from a growth of 21.9% in the corresponding period of 1996. This reflects rising domestic demand due to the expanding population of motor vehicles in the country. Similarly, imports of processed industrial supplies which comprised mainly semi-manufactured gold and cooper recorded an increase of 5% during the first seven months of 1997, following a decline of 2% registered in the same period of 1996.

Table 7.9

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

	Value (RM billion)		*Annual change (%)*	
	1996	*1997*	*1996*	*1997*
Food & beverages, primary, mainly for industry	0.8	0.8	7.8	7.2
Food & beverages, processed, mainly for industry	0.9	0.8	5.0	-11.1
Industrial supplies, primary	2.8	2.9	18.1	3.5
Industrial supplies, processed	26.1	27.4	-2.0	5.0
Fuel & lubricants, primary	0.4	0.4	33.1	-1.3
Fuel & Lubricans, processed, other	1.7	2.0	21.9	17.6
parts & accessories of capital goods (except transport equipment)	41.1	40.6	16.4	-1.2
Parts & accessories for transport equipment	2.1	2.1	13.8	2.9
TOTAL	75.9	77.1	9.3	1.6

Source: Department of Statistics

Consumption Goods

With the moderation in the growth of disposable income, growth in imports of **consumption goods** decelerated to 5.6% or RM7.5 billion during the first seven months of 1997 (January-July 1996: 9.6%). This reflects a slowdown in the growth of import of processed food items for household consumption such as grounded barley, cheese and curd to 5.6% (RM1.9 billion) against a growth of 31.3% in the corresponding period of 1996.

Similarly, imports of primary food items such as rice, vegetables and fruits grew at a slower rate of 11.1% to RM1.0 billion, following from a growth of 13.4% (RM0.9 billion) recorded during the same period of 1996. On the other hand, imports of non-industrial transport equipment declined by 5.8% to RM0.1 billion in the first seven months of 1997,following a decline of 35.7% during the corresponding period of 1996. This is partly attributed to the expansion of domestic production capacity as well as moderation in income growth.

Imports of other consumer goods recorded a stronger growth of 7.3% to RM4.5 billion during the first seven months of 1997, from a growth of 3.3% (RM4.2 billion) in the same period of 1996. This is mainly due to a significant increase of 11.8% in imports of consumer non-durable goods, after declining by 3.7% in the corresponding period of 1996. Imports of semi-durable goods, however, recorded a slower rate of increase at 6.3% during the first seven months of 1997, against an increase of 15% during the same period of 1996. The slower growth in imports of semi-durables goods was partly attributed to a 3.7% decline in the import of clothing and wearing apparel. Imports of durable items, on the other hand, dropped further by 10% during the first seven months of 1997, against a decline of 1.7% during the same period in 1996.

Growth in **other imports** (including dual use goods) decelerated to 1.7% during the first seven months of 1997, against a growth of 8.5% in the corresponding period of 1996. In particular, the import value of dual use goods, which comprised processed fuel and lubricants, motor spirit and transport equipment and passenger motorcars declined by 2.9% to RM3.3 billion in the first seven months of 1997, compared with a growth of 7.9% during the corresponding period of 1996. The decline was attributed to 15.4% decline in the import of passenger motorcars and equipment during the first seven months of 1997 (January-July 1996: 8.7%), reflecting partly the increasing market share of locally produced passenger cars in the domestic automobile market (please see Table 7.11) in the face of slower growth in demand.

Imports for re-export declined sharply by 15.9% in the first seven months of 1997 to RM3.5 billion, compared with a decline of 5.8% in the same period of 1996. Imports for re-export, however, remained relatively very small, representing 3% of the total value of gross imports during the period under review. After discounting for imports for re-exports, retained imports increased by 5.6% during the first seven months of 1997 to RM115.6 billion (January-July 1996: RM109.5 billion).

Table 7.10

Imports of Consumption Goods by End Use - BEC Categories

(January-July)

	Value (RM billion)		*Annual change (%)*	
	1996	*1997*	*1996*	*1997*
Food & beverages, primary, mainly for household consumption	0.9	1.0	13.4	11.1
Food & beverages, processed, mainly for household consumption	1.8	1.9	31.3	5.6
Transport equipment, non-industrial	0.1	0.1	–35.7	–5.8
Other Consumer goods,	4.2	4.5	3.3	7.3
Durables	1.0	0.9	–1.9	–10.0
Semi-durables	1.6	1.7	15.0	6.3
Non-durables	1.7	1.9	–3.7	11.8
TOTAL	7.1	7.5	9.6	5.6

Source: Department of Statistics

Direction of Trade

During the first seven months of 1997, Malaysia's total trade value increased by 3.7% to RM234.7 billion (January-July 1996: 8%). Growth in gross exports, valued at f.o.b., decelerated sharply to 2.7% or RM115.5 billion (January-July 1996:11%)

to account for 49.2% of total trade while growth in gross imports, valued at c.i.f., decelerated slightly to 4.7% to RM119.1 billion (January-July 1996: 5.3%) to constitute 50.8% of total trade. With imports higher than exports, Malaysia's balance of trade in the first seven months of 1997 recorded a moderately higher deficit of RM3.6 billion when compared with a deficit of RM1.3 billion recorded during the corresponding period of 1996. Japan, the United States, Singapore and the European Union remained as Malaysia's major trading partners. Trade with these countries amounted to RM154.8 billion, accounting for 65.9% of Malaysia's **total trade** in the first seven months of 1997, compared with a share of 67.7% in the corresponding period of 1996. Trade with the Newly Industrialising Economies of Hong Kong, Taiwan and the Republic of Korea continued to expand and accounted for 12.4% of total trade during the first seven months of 1997, compared to 12.8% in the corresponding period of 1996.

Japan maintained its position as Malaysia's largest single trading partner with a total trade

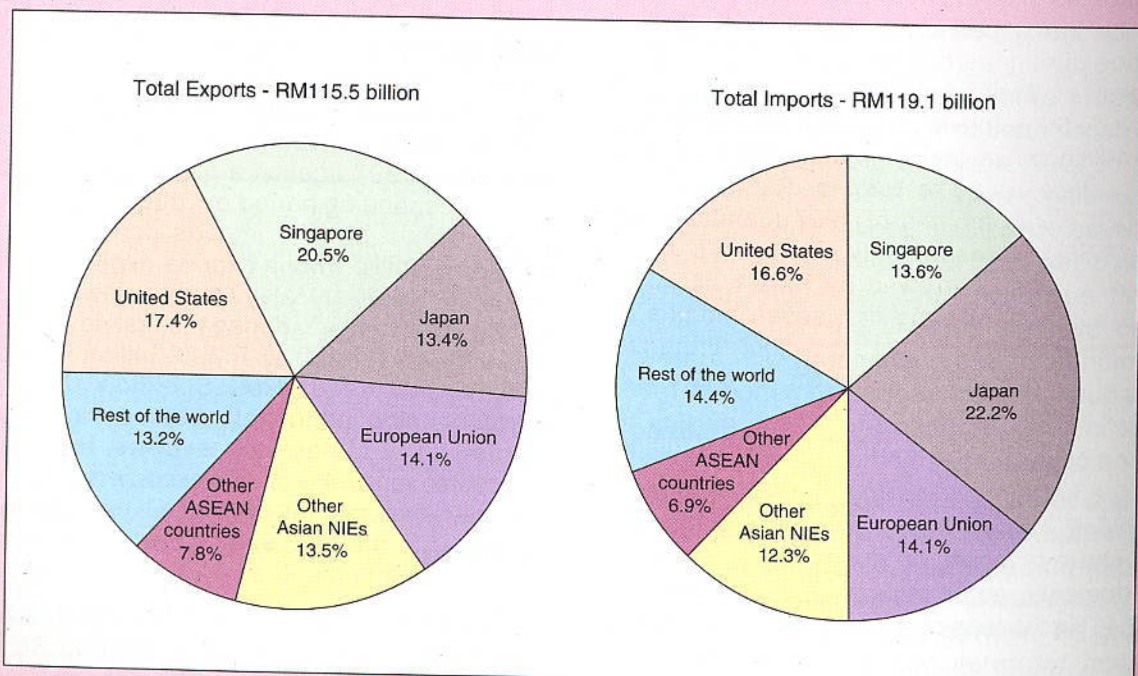
Table 7.11

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

	Value (RM billion)		*Annual change (%)*	
	1996	*1997*	*1996*	*1997*
Dual use goods	3.4	3.3	7.9	-2.9
Fuels & lubricants, processed, motor spirit	0.8	1.0	12.1	25.0
Transport equipment, passenger motor cars	2.6	2.2	6.7	-15.0
Others	2.5	2.7	8.7	8.0
TOTAL	5.9	6.0	8.5	1.7

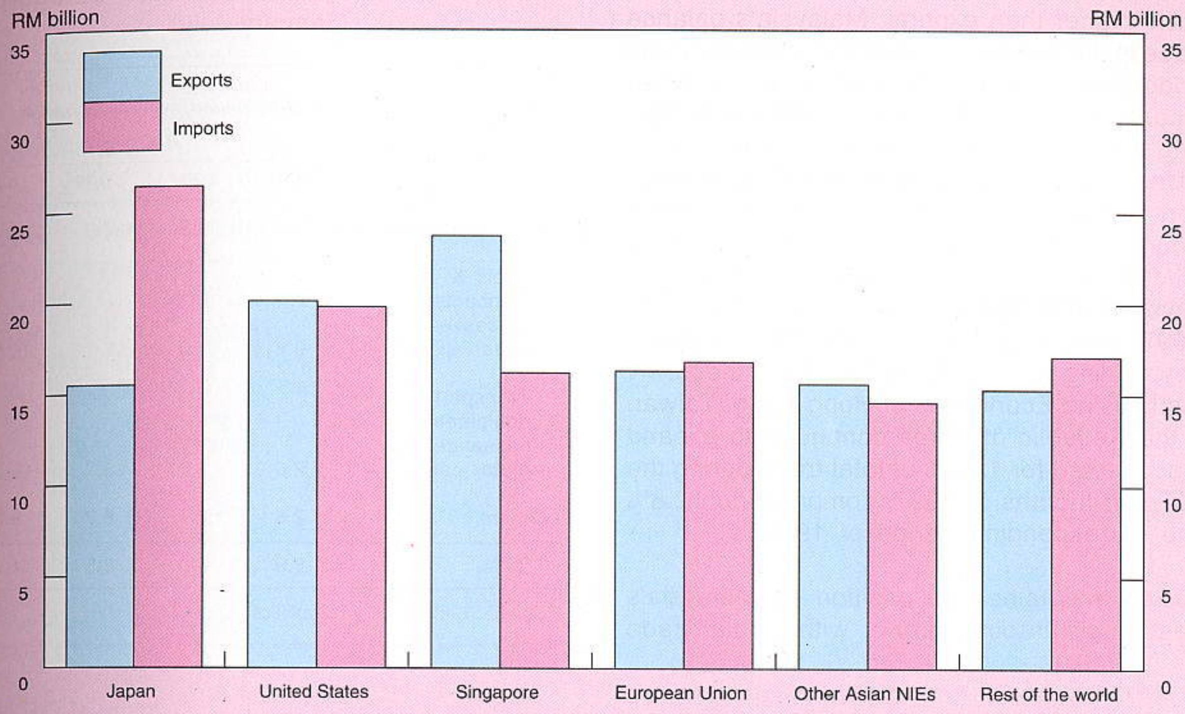
Source: Department of Statistics

Chart 7.7
Direction Of Trade
(January - July 1997)



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

Chart 7.8
Balance Of Trade
(January - July 1997)



Source : The Department of Statistics.

valued at RM41.9 billion or 17.9% of Malaysia's total trade during the first seven months of 1997, as shown in Table 7.12. Imports from Japan declined by 6.7% to RM26.4 billion (January-July 1996: -4.7%), while growth in Malaysia's exports to Japan decelerated to 1.3% or RM15.5 billion in the first seven months of 1997 (January-July 1996: 19.5%). Consequently, Malaysia's trade deficit with Japan narrowed by RM2.1 billion to RM10.9 billion during the first seven months of 1997, from a deficit of RM13.0 billion during the same period of 1996. As shown in chart 7.7, Malaysia's exports to Japan represented 13.4% of Malaysia's total exports, which consisted mainly of manufactured goods, machinery and transport equipment, inedible crude material, mineral fuels and lubricants. Together, these export items accounted for 88.4% of total exports to Japan in the first seven months of 1997. Imports from Japan accounted 22.2% of Malaysia's total imports during the period under review. A total of 90.5% of Malaysia's imports from Japan consisted of machinery and transport equipment and manufactured goods.

The **United States (U.S)** remained as Malaysia's second largest trading partner (17% of total trade) in the first seven months of 1997 with a total trade of RM39.9 billion. Malaysia's total trade with the **U.S** declined by 1.2% in the first seven months of 1997 against a growth of 7.7% during the corresponding period of 1996. During the first seven months of 1997, imports increased by 5.9% to RM19.8 billion while exports declined by 6.5% to RM20.1 billion. Malaysia recorded lower trade surplus with the U.S. during the first seven months of 1997, amounting to RM0.3 billion, compared with a surplus of RM2.8 billion during the corresponding period of 1996, as indicated in Table 7.13. Malaysia's exports to the U.S. accounted for 17.4% of total export earnings during the first seven months of 1997. Of the total exports to the U.S market, 90% were machinery and transport equipment as well as manufactured goods, including thermionic valves and textile products. Imports from the U.S. represented 16.6% of total Malaysia's imports in the first seven months of 1997, with machinery and transport equipment including aircraft accounting for 83.3% of total imports from the U.S.

Table 7.12

Trade with Japan
(January-July)

	Exports				Imports			
	Value (RM billion)		Annual change (%)		Value (RM billion)		Annual change (%)	
	1996	*1997*	*1996*	*1997*	*1996*	*1997*	*1996*	*1997*
Food beverages, tobacco, oils and fats[1]	0.6	0.6	–16.3	0.3	0.05	0.06	–7.0	20.0
Inedible crude material, mineral fuels and lubricants[2]	4.6	5.1	2.2	10.9	0.2	0.2	–0.8	5.5
Manufactured goods, intermediate[3]	1.9	2.4	5.5	26.3	5.8	5.4	–9.4	-6.9
Machinery and transport equipment[4]	6.7	6.2	39.6	–7.5	20.1	18.5	–3.4	-8.0
Manufactured goods, final products[5]	1.2	1.1	20.0	–8.3	1.3	1.4	–13.3	7.7
Miscellaneous[6]	0.08	0.1	6.6	25.0	0.8	0.9	14.3	12.5
TOTAL	15.3	15.5	19.5	1.3	28.3	26.4	–4.7	-6.7

[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** expanded by 6.1% to RM39.9 billion in the first seven months of 1997, accounting for 17% of Malaysia's total trade. Exports to Singapore increased at a slower rate of 4.9% to RM23.7 billion compared to 7.6% recorded during the same period of 1996, as shown in Table 7.14. Major exports 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 increased at a higher rate of 8.7% to RM16.2 billion (January-July 1996: 4.9%). Major import items from Singapore included machinery and transport equipment, intermediate goods for manufactured, mineral fuels and lubricants. Collectively, these items constituted 85.8% of total imports from Singapore. With the export earnings being higher than the value of imports, Malaysia registered a smaller trade surplus of RM7.5 billion with Singapore in the first seven months of 1997 (January-July 1996:RM7.7 billion).

Table 7.13

Trade with the United States
(January-July)

	Exports				*Imports*			
	Value (RM billion)		*Annual change (%)*		*Value (RM billion)*		*Annual change (%)*	
	1996	*1997*	*1996*	*1997*	*1996*	*1997*	*1996*	*1997*
Food beverages, tobacco, oils and fats	0.3	0.3	–12.8	–5.4	0.8	0.8	60.0	–7.1
Inedible crude material, mineral fuels and lubricants	0.5	0.6	15.0	20.0	0.6	0.5	50.0	–16.7
Manufactured goods, intermediate	1.0	1.0	11.1	0.7	2.3	2.3	21.1	1.1
Machinery and transport equipment	16.6	15.2	5.7	–8.4	13.5	14.2	3.1	5.2
Manufactured goods, final products	3.0	2.9	15.4	–3.3	1.1	1.5	10.0	36.4
Miscellaneous	0.07	0.07	–65.4	–10.8	0.4	0.5	–40.2	25.0
TOTAL	21.5	20.1	5.9	–6.5	18.7	19.8	5.6	5.9

Source: Department of Statistics

Reflecting the increasing bilateral trade among the member states, Malaysia's trade with **ASEAN** countries (excluding Singapore) increased at a relatively faster rate of 9.5% to RM17.3 billion, or 7.4% of Malaysia's total trade, during the first seven months of 1997. Nevertheless, exports to Brunei, Indonesia, Philippines, Thailand, Laos, Myanmar and Vietnam declined by 0.6% to RM9.1 billion during the period under review (January-July 1996: 24%). The major items exported were manufactured goods, machinery and transport equipment. Imports, which included manufactured goods, machinery and transport equipment, mineral fuels and lubricants registered a marked increase of 21.9% to RM8.2 billion (January-July 1996: 24.1%). Consequently, Malaysia recorded a smaller trade surplus of RM0.9 billion with the ASEAN countries (excluding Singapore) during the first seven months of 1997 (January-July 1996: RM2.4 billion). Malaysia experienced a trade deficit with Indonesia amounting to RM0.4 billion and with Thailand amounting to RM0.06 billion during the first seven months of 1997. However, Malaysia recorded trade surplus with new ASEAN members (Laos, Myanmar and Vietnam), although the size of the trade was relatively small, accounting for 2.2% of Malaysia's total trade with ASEAN (including Singapore).

Malaysia's trade with the **European Union (EU)** expanded by 4.8% to RM33.3 billion or 14.2% of total trade during the first seven months of 1997. Total exports to the EU increased by 7.9% to RM16.4 billion while imports increased by 3% to RM16.9 billion during the same period of 1997, as indicated in Table 7.15. Malaysia, therefore, registered a trade deficit with EU amounting to RM0.4 billion (January-July 1996: RM0.5 billion). Exports to the EU comprised mainly machinery and transport equipment, manufactured good especially office and telecommunications

Table 7.14

Trade with Singapore
(January-July)

	Exports				Imports			
	Value (RM billion)		*Annual change (%)*		*Value (RM billion)*		*Annual change (%)*	
	1996	*1997*	*1996*	*1997*	*1996*	*1997*	*1996*	*1997*
Food beverages, tobacco, oils and fats	1.5	1.5	–6.7	0.4	0.1	0.1	25.0	5.0
Inedible crude material, mineral fuels and lubricants	1.5	1.5	–16.7	–1.5	2.1	2.4	10.5	14.3
Manufactured goods, intermediate	2.4	2.4	14.3	–0.8	1.8	2.0	3.7	11.1
Machinery and transport equipment	15.0	15.9	11.1	6.0	9.1	9.5	12.3	4.4
Manufactured goods, final products	1.6	1.7	14.3	6.3	0.6	0.7	–0.8	16.7
Miscellaneous	0.6	0.6	–5.0	13.4	1.2	1.4	20.0	16.7
TOTAL	22.6	23.7	7.6	4.9	14.9	16.2	4.9	8.7

Source: Department of Statistics

equipment, textiles, clothing and electronic components as well as mineral fuels. On the other hand, imports from the EU were mainly machinery and transport equipment and intermediate goods for manufacturing. Among the EU countries, Malaysia's trade with the **United Kingdom (UK)** declined by 2.8% to RM6.9 billion or 20.7% of Malaysia total trade with the EU. Malaysia's exports to UK declined by 7.3% to RM3.8 billion while imports from UK grew by 3.3% to RM3.1 billion. With export value being higher than import, Malaysia recorded a trade surplus of RM0.7 billion (January-July 1996: RM1.1 billion). At the same time, Malaysia's trade with **Germany** increased marginally by 1.2% to RM8.3 billion, amounting to 24.9% of Malaysia's total trade with EU. Exports to Germany also declined marginally by 0.2% to RM3.4 billion while Malaysia's imports from Germany increased by 2.1% to RM4.9 billion, resulting in a trade deficit of RM1.5 billion. Among the EU countries, Germany was the largest importer of Malaysian goods during the period under review.

The **Newly Industrialised Economies (NIEs)** of Asia (excluding Singapore) of Taiwan, South Korea and Hong Kong have increasingly become Malaysia's important trading partners, accounting for 12.9% of Malaysia's total trade during the first seven months of 1997 (January-July 1996: 13.3%). Trade with the NIEs of Asia (excluding Singapore) expanded by 9% to RM30.2 billion (January-July 1996: RM27.7 billion). Exports to NIEs comprising mainly machinery and transport equipment, mineral fuels and manufactured goods surged by 12.9% to RM15.7 billion. Imports from NIEs comprising manufactured goods, machinery and transport equipment expanded by 5.1% to RM14.5 billion. This has resulted in a trade surplus of RM1.2 billion compared with a surplus of RM0.1

Table 7.15

Trade with the European Union
(January–July)

	Exports				*Imports*			
	Value (RM billion)		*Annual change (%)*		*Value (RM billion)*		*Annual change (%)*	
	1996	*1997*	*1996*	*1997*	*1996*	*1997*	*1996*	*1997*
Food beverages, tobacco, oils and fats	1.3	1.1	8.3	–5.4	0.6	0.5	20.0	–16.7
Inedible crude material, mineral fuels and lubricants	1.1	1.1	–26.7	–7.0	0.2	0.3	–33.3	50.0
Manufactured goods, intermediate	1.3	1.4	–7.7	7.7	3.3	3.4	0.05	3.0
Machinery transport equipment	9.4	10.5	14.6	11.7	11.0	11.3	–1.8	2.7
Manufactured goods, final products	2.0	2.1	5.3	5.0	0.8	0.8	14.3	4.7
Miscellaneous	0.1	0.2	–53.5	100.0	0.5	0.6	–44.4	20.0
TOTAL	15.2	16.4	4.8	7.9	16.4	16.9	–3.0	3.0

Source: Department of Statistics

billion recorded during the corresponding period in 1996. On country basis, Malaysia's trade with Taiwan was the highest in terms of value, that is 36.4% of total trade with NIES, followed by South Korea (32.8%) and Hong Kong (30.8%). Trade with Taiwan expanded by 12.2% to RM11.0 billion on account of exceptionally strong export growth of 28.6% to RM5.4 billion, while imports from Taiwan increased marginally by 0.2% to RM5.6 billion. Consequently, Malaysia's trade with Taiwan has resulted in a smaller deficit of RM0.2 billion during the first seven months of 1997 (January-July 1996: -RM1.4 billion). Meanwhile, trade with South Korea grew by 11.2% to RM9.9 billion in the same period (January-July 1996: RM8.9 billion). Exports to South Korea expanded by 12.1% to RM3.7 billion while imports increased by 10.7% to RM6.2 billion. With this, Malaysia's recorded a trade deficit of RM2.5 billion with South Korea in the first seven months of 1997 (January-July 1996: -RM2.3 billion). Trade with Hong Kong rose by 2.2% to RM9.3 billion in the first seven months of 1997 (January-July 1996: RM9.1 billion). Malaysia registered a trade surplus with Hong Kong amounting to RM3.7 billion, with exports increasing by 0.1% to RM6.5 billion and imports increasing by 7.7% to RM2.8 billion.

Malaysia's total trade with the **People's Republic of China** (P.R. of China), excluding Hong Kong, increased by 15.7% to RM 5.9 billion during the first seven months of 1997. The increase was due to a 32% rise in imports to RM3.3 billion, particularly as a result of higher imports of manufactured goods. Malaysia's exports to P.R. of China, however, increased marginally by 0.4% to RM2.6 billion. As a result, Malaysia's trade with P.R. of China recorded a deficit of RM0.7

Table 7.16

Trade with the Newly Industrialising Economies of Asia[1]
(January–July)

	Exports				Imports			
	Value (RM billion)		*Annual change (%)*		*Value (RM billion)*		*Annual change (%)*	
	1996	*1997*	*1996*	*1997*	*1996*	*1997*	*1996*	*1997*
Food beverages, tobacco, oils and fats	0.9	0.9	12.5	7.8	0.1	0.1	–12.7	26.8
Inedible crude material, mineral fuels and lubricants	2.5	3.1	19.0	24.0	0.3	0.2	50.0	–33.3
Manufactured goods, intermediate	3.3	3.6	26.9	9.1	3.4	3.3	–5.6	–2.9
Machinery transport equipment	6.5	7.3	32.7	12.3	8.2	9.4	24.2	14.6
Manufactured goods, final products	0.6	0.7	4.0	16.7	0.8	9.4	24.2	–7.1
Miscellaneous	0.1	0.1	4.7	32.4	1.0	0.8	14.2	–20.0
TOTAL	13.9	15.7	25.2	12.9	13.8	14.5	15.0	5.1

[1] Comprising South Korea, Taiwan and Hong Kong only.

Source: Department of Statistics

billion, against a surplus of RM0.1 billion in the corresponding period of 1996. Malaysia's exports to P.R. of China comprised mainly primary commodities such as sawlogs, rubber and palm oil as well as manufactured goods.

During the first seven months of 1997, total trade with **Australia** increased by 2.1% to RM4.9 billion while with **New Zealand** declined by 6.2% to RM0.9 billion. Exports to Australia grew by 11.7% to RM1.9 billion while imports fell by 3.2% to RM3.0 billion. With imports exceeding exports, Malaysia's recorded a trade deficit with Australia, amounting to RM1.1 billion, (January-July 1996: -RM1.4 billion). In the case of New Zealand, exports fell by 25% to RM0.3 billion while imports grew by 20% to RM0.6 billion. Consequently, Malaysia recorded a trade deficit of RM0.3 billion with New Zealand, slightly higher than the RM0.1 billion deficit recorded during the corresponding period of 1996. Malaysia's exports to both Australia and New Zealand comprised mainly palm oil, rubber, tin, crude petroleum and sawn timber, while Malaysia's imports consisted largely of dairy products, wheat and meat.

Malaysia's total trade with **West Asia,** which accounted for only 1.3% of Malaysia's total trade, rose by 6.9% to RM3.1 billion during the first seven months of 1997. Total exports to West Asia increased by 4.8% to RM2.2 billion while imports expanded by 12.5% to RM0.9 billion. With this, Malaysia's trade with West Asian countries registered a surplus of RM1.3 billion during the period under review. Exports to West Asian were mainly palm oil, food items and electrical items.

Table 7.17

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

		Exports					*Imports*			
		Value (RM billion)		*Annual change (%)*		*Value (RM billion)*			*Annual change (%)*	
		1996	*1997*	*1996*	*1997*	*1996*		*1997*	*1996*	*1997*
ASEAN (including Singapore	31.7	31.7	12.4	0.02	21.7	24.4	15.4	12.4	10.0	7.3
China	2.6	2.6	−16.1	0.4	2.5	3.3	4.2	32.0	0.1	−0.7
Australia	1.7	1.9	6.3	11.7	3.1	3.0	10.7	−3.2	−1.4	−1.1
New Zealand	0.4	0.3	33.3	−25.0	0.5	0.6	25.0	20.0	−0.1	−0.3
West Asia	2.1	2.2	−8.7	4.8	0.8	0.9	33.3	12.5	1.3	1.3
Central & Eastern Europe	0.2	0.2	−17.5	−1.1	0.2	0.2	−17.6	21.0	−0.003	−0.05
Other minor trading partners	2.0	2.4	−9.1	20.0	1.7	2.0	6.3	17.6	0.3	0.4
Total	40.7	41.3	6.8	1.5	30.5	34.4	13.8	12.8	10.2	6.9
Share to total exports or imports	36.2	35.8			26.8	28.9				

Source: Department of Statistics

On the other hand, imports from West Asian were mainly fuel oils, lubricants and inedible crude materials. Among the West Asia countries, United Arab Emirates registered the highest trade value, amounting to RM1.1 billion or 35.5% of Malaysia's total trade with West Asia, followed by Saudi Arabia(32.3%) and Jordan (9.7%).

Malaysia's total trade with **Central and Eastern Europe** was valued at RM0.4 billion during the first seven months of 1997, representing an increase of 10% over the corresponding period of 1996. With total exports to Central and Eastern Europe declining by 1.1% to RM0.2 billion and imports increasing by 21% to RM0.2 billion, the trade balance registered a deficit of RM0.05 billion. The 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.

Balance of Payments

The current account deficit of the balance of payments is expected to narrow further from 5.2% of GNP in 1996 to 5% of GNP in 1997. Nevertheless, in absolute terms, the deficit is expected to widen slightly by less than RM1.0

billion to RM13.1 billion, against a deficit of RM12.3 billion in 1996, largely as a result of higher imports of capital goods, particularly commercial aircraft and ships which have moderately affected the merchandise account surplus. Underpinned by a 13.3% increase in the export of tradeable services (services exports excluding investment income), the deficit in the overall services account is envisaged to narrow for the first time since 1990. The inflow of long-term capital especially net long term corporate investment is anticipated to remain strong in 1997. This net inflow of long-term capital is expected to be more than sufficient to finance the current account deficit. As a result, the basic balance is envisaged to record a larger surplus. With the short-term capital expected to register a net outflow in 1997, largely due to the volatility in the financial markets during the third quarter, the overall position of the balance of payments is expected a record an overall deficit of RM8.2 billion in 1997. Consequently, the net international reserves of the Central Bank is expected to decline to RM61.8 billion at the end of 1997, which is sufficient to finance 3.8 months of retained imports, from RM70.0 billion (4.6 months of retained imports) as the end of 1996. If revaluation gains as a result of ringgit depreciation is taken into account, the level of external reserves as at the end of 1997 would the higher.

Current Account

Merchandise exports, valued at free-on-board (f.o.b.), are expected to grow at a slower rate of 6% to RM204.7 billion in 1997 (1996: 7.6%). The slowdown in the growth of merchandise exports is mainly due to slower growth in earnings from manufactured exports which are being affected by global declines in prices especially for semi-conductors and audio-visual products, as well as lower receipts for agriculture and petroleum exports. **Merchandise imports** are expected to increase at a faster rate of 6.6% to RM195.0 billion in 1997 (1996: 2%), reflecting largely the impact of higher imports of lumpy items such as commercial aircraft and ships which were needed to expand the capability of the transportation services sector to export services and substitute imported services. With merchandise imports increasing relatively faster than exports, the merchandise account is envisaged to register a smaller surplus of RM9.7 billion in 1997, against a surplus of RM10.2 billion recorded in 1996.

The **services account** is expected to improve in 1997, with its deficit envisaged to decline from RM19.5 billion in 1996 to RM19.0 billion in 1997. This is mainly due to the continued rapid rate of increase in earnings from the export of tradeable services which exceeded the rate of increase in the import of tradeable services. In 1997, exports of tradeable services are expected to increase by 13.3% (1996:25.7%) to RM42.0 billion while imports are envisaged to increase at relatively slower rate of 9.4% (1996: 16.9%) to RM49.1 billion. Consequently, the tradeable services account is expected to record a smaller deficit of RM7.1 billion in 1997 (1996: RM7.8 billion). The smaller deficit is attributed to past investments in developing the capability of the services sector to export services as well as to substitute imported services such as freight and insurance, port services, other transportation, tourism and education as well as professional services. In 1997, the travel and other transportation particularly air transportation accounts are expected to record larger surpluses while the freight and insurance account is expected to record a smaller net outflow. After taking into account net investment income payments of RM12.0 billion estimated for 1997 (1996: RM11.7 billion), the services account (including investment income) is expected to record a deficit of RM19.0 billion, which is a smaller deficit compared to a deficit of RM19.5 billion recorded in 1996.

Net **investment income** outflow remains as the major source of the services deficit. Total gross payment for investment income is expected to increase by 5.5% to RM19.0 billion in 1997 (1996: RM18.0 billion), mainly due to higher interest payments as a result of the increase in borrowings by the Non-Financial Public Enterprises (NFPEs) and the private sector, as well as the impact of the recent slide of the ringgit in the foreign exchange market. However, profits and dividends repatriated by foreign investors operating in Malaysia are expected to slow down in line with the slower growth in export earnings, particularly from manufacturing exports. At the same time, investment income receipts are expected to increase to RM7.0 billion in 1997 compared with RM6.4 billion recorded in 1996, partly due to steady increases in investment by Malaysians abroad.

The net outflow on **freight and insurance** is expected to decline slightly from RM8.52 billion in 1996 to RM8.5 billion in 1997. Gross payments for freight and insurance is estimated to grow at a slower rate of 2.6% to RM11.7 billion in 1997

(1996: RM11.4 billion) as a result of the moderate growth of imports and the less dependence on foreign ships and reinsurance services. Nevertheless, total freight and insurance earnings are estimated to increase at a faster rate of 14.3% to RM3.2 billion compared with RM2.8 billion in 1996, reflecting mainly the impact of expansion in the capacity of domestic shipping companies and airlines. Nevertheless, these earnings are still inadequate to offset the total payments on freight and insurance.

Similarly, the **other services** deficit is expected to widen further from RM5.5 billion in 1996 to RM6.1 billion in 1997. Total payments for other services, such as payments for contract and professional charges, management and agency fees, royalty payments, franchise fees, commissions, salaries and allowances to non-residents, are estimated to increase to RM26.1 billion in 1997 (1996: RM22.8 billion). The increase in gross payments is attributed to the large inflows of foreign investment in recent years and partly due to the on-going implementation of several large infrastructural projects as well as investment in oil and gas sector. Total receipts from other services are expected to increase from RM17.3 billion in 1996 to RM20.1 billion in 1997, reflecting partly higher earnings from contract and professional charges due to increasing Malaysian investment abroad, as well as earnings from merchanting trade.

The **travel account** is expected to improve further, registering a larger surplus of RM5.1 billion in 1997 compared with a surplus of RM4.8 recorded in 1996. With an estimated 9.5 million tourists visiting Malaysia in 1997, total travel receipts are expected to increase to RM11.9 billion, 5.3% higher than the RM11.3 billion registered in 1996. However, if the problem associated with haze prolonged, this expectation may not be fully realised. Tourist arrivals from ASEAN countries are expected to remain the largest, contributing 73% of total arrivals. In particular, tourist arrivals from Singapore are expected to represent to 55% of the total number of tourist arrivals in Malaysia during the year. For the non-ASEAN countries, tourist arrivals from Japan are expected to represent 4.5% of total tourist arrivals, Taiwan 3.3%, United Kingdom 2.3%, Hong Kong 2% and Australia 2.1%. Gross payments for travel, however, are expected to increase at a slower rate of 5% to RM6.8 billion (1996: 11.8%), reflecting partly the positive impact of import substitution effect resulting from the expansion of capacities of domestic tertiary educational institutions including private colleges offering tertiary education for Malaysian students, as well as slower increase in the number of Malaysians travelling abroad mainly for purpose of leisure due to the depreciation of the ringgit.

Other transportation, which comprises passenger fares, port and airport disbursement, bunker and charter fees, is expected to record a larger surplus of RM2.4 billion in 1997 when compared with a surplus of RM1.5 billion in 1996. Gross receipts on other transportation are expected to surge by 20.4% to RM6.5 billion in 1997 (1996: RM5.4 billion), mainly due to significant capacity expansion by the Malaysian Airlines following the purchase of seven new additional aircraft as well as increase in flight frequencies and new routes. Furthermore, receipts from port-related services, especially Port Klang are expected to increase further in 1997. On the other hand, gross payments for other transportation are expected to record a slower growth of 4.5% to RM4.1 billion in 1997 (1996: 6%), in line with the expectation of less Malaysians travelling abroad during the second half of the year following the ringgit depreciation.

The **government transactions** account is expected to register a deficit of RM35 million in 1997 compared with a deficit of RM36 million in 1996. Gross payments are expected to increase marginally by 1.4% to RM365 million, largely attributed to the slightly higher expenditure incurred by the Malaysian embassies abroad and technical assistance provided by the Government to Third World countries under the Malaysian Technical Cooperation Programme. On the other hand, total government transaction receipts are expected to increase to RM330 million in 1997, 1.9% higher when compared with RM324 million recorded in 1996, after taking into account the positive impact of depreciation of the ringgit on the costs of operation of foreign government agencies in Malaysia.

With the larger net inflows in the travel and the other transportation accounts, the deficit in the services account is expected to decline from RM19.5 billion (8.2% of GNP) in 1996 to RM19.0 billion (7.3% of GNP) in 1997. Nevertheless, the surplus in the merchandise account is insufficient to offset the services deficit. After taking into consideration the continued higher net outflow of unrequited transfers of RM3.7 billion due to larger

Table 7.18

Current Account of the Balance of Payments
(RM million)

	1996			1997^e			1998^f
	+	–	Net	+	–	Net	Net
Merchandise account (Eksports & imports fob)	193,127	182,973	10,154	204,701	195,031	9,670	10,858
Services account	43,443	62,913	–19,470	49,011	68,060	–19,049	–18,351
Freight and insurance	2,832	11,354	–8,522	3,215	11,710	–8,495	–8,598
Other transportation	5,411	3,919	1,492	6,493	4,095	2,398	3,533
Travel	11,264	6,478	4,786	11,925	6,805	5,120	6,156
Investment income	6,362	18,047	–11,685	6,998	18,980	–11,982	–12,748
Government transactions	324	360	–36	330	365	–35	–13
Other services	17,250	22,755	–5,505	20,050	26,105	–6,055	–6,681
Goods and services account	236,570	245,886	–9,316	253,712	263,091	–9,379	–7,693
Unrequited transfers	2,000	4,936	–2,936	2,245	5,950	–3,705	–3,798
Current account	238,570	250,822	–12,252	255,957	269,041	–13,084	–11,291

^e Estimate

^f Forecast

remittances by foreign workers, the deficit of the **current account** of the balance of payment is expected to register a slightly larger deficit of RM13.1 billion compared with RM12.3 billion in 1996. In terms of GNP, this is an improvement, with the deficit declining from 5.2% of GNP in 1996 to 5% of GNP in 1997.

Capital Account

Net inflow of long-term capital is expected to remain strong in 1997, increasing to RM18.8 billion, which is more than sufficient to finance the current account deficit. Consequently, the basic balance is envisaged to remain in surplus, that is amounting to RM5.7 billion (1996: RM1.3 billion). This is attributed to a **large net inflow of long-term private investment amounting** to RM13.2 billion (1996:RM12.8 billion) and **net official long-term capital inflow** of RM5.6 billion (1996: RM0.8 billion). Gross inflow of long-term private investment is expected to increase to RM21.9 billion, (1996: RM19.4 billion), reflecting largely the impact of large amount of foreign investment approved by MIDA since 1994 as well as investment in the oil and gas sector and services sector. About 42% of this long-term private investment capital inflow is estimated to be in the form of retention of profits by foreign companies for reinvestment, while the remaider is in the form of new inflows. However, this gross inflow is expected to be partly offset by increased Malaysian investment overseas. This reverse investment is expected to increase from RM6.6 billion in 1996 to RM8.7 billion. As a result, the net private long-term capital is estimated at RM13.2 billion for 1997.

The **official long-term capital** is expected to record a higher net inflow of RM5.6 billion in 1997 (1996: RM0.8 billion). This is due mainly to the higher net external borrowing by the Non-Financial Public Enterprises (NFPEs) amounting to RM7.0 billion (1996: RM2.8 billion). Gross borrowings by the NPFEs are expected to increase from RM8.1 billion in 1996 to RM9.1 billion in 1997 as a result of the large bond issues and offshore loans raised by Tenaga Nasional Berhad, Petronas and Telekom Malaysia Berhad. On the other hand, gross payments by the NFPEs are estimated at RM2.0 billion (1996: RM5.3 billion) due to prepayments by Petronas during the year. In 1997, the Federal Government is expected to borrow RM0.4 billion while repayment amounting to RM1.9 billion, resulting in a net payment of RM1.5 billion (1996: -RM2.2 billion). The Federal Government is expected to make prepayments amounting to RM0.9 billion during 1997.

Although the basic balance is expected to record a surplus of RM5.7 billion, the **overall position** of the balance of payments is expected to record a deficit of RM8.2 billion. This is attributed to expected net outflow of private short-term capital estimated at RM13.9 billion (including errors and omissions), following volatility in the financial markets which was triggered by speculative activity on the Thai baht since mid-May 1997. As a result, **net international reserves** held by Bank Negara Malaysia (excluding revaluation gains from the depreciation of the ringgit) is, therefore, expected to decline to RM61.8 billion at the end of 1997, which is sufficient to finance 3.8 months of retained imports.

Foreign Exchange Market

The ringgit which began the year strongly came under pressure in the third quarter of 1997 as speculative activity on regional currencies triggered by developments in Thailand since mid-May took centre stage in the foreign exchange market. The ringgit, which appreciated against most of the major currencies during the first quarter of 1997, began to depreciate thereafter as with most of the regional currencies which came under heavy selling pressure. The ringgit appreciated by 2.0% against the **United States (US) dollar** from its end-1996 level of US$1 = RM2.5279 to US$1 = RM2.4790 at the end of March 1997 on account of a narrowing current account deficit in 1996 and an improvement of the trade account in the first quarter of 1997. In the second quarter, the ringgit was traded between RM2.51 - RM2.52 and closed 0.2% higher at US$1 = RM2.5235 at the end of June 1997.

Subsequently, the ringgit depreciated against the major currencies reflecting the outflow of short-term capital in April, the appreciation of the US dollar and speculative pressure brought about by developments in the region. Since May, the developments specific to Thailand acted as a catalyst to intensify speculative pressures on the currencies of the region. In this environment, the ringgit has experienced a greater degree of volatility reflecting international, regional and domestic developments.

In the international foreign exchange markets, the US dollar and the pound sterling strengthened significantly during the greater part of 1997. This occurred despite large current account deficits experienced by both of these countries. The strength of these currencies was attributed to the strong recovery in their domestic economies in an environment in which the European economies and Japan experienced a relatively slow recovery. In addition, the uncertainty concerning the European Monetary Union, and the fragility of the Japanese financial sector reinforced this trend. Following these developments, a shift in strategy by international fund managers to increase the proportion of their investments in the United States and United Kingdom has resulted in the favourable performance of capital markets in these countries and a strengthening of their currencies.

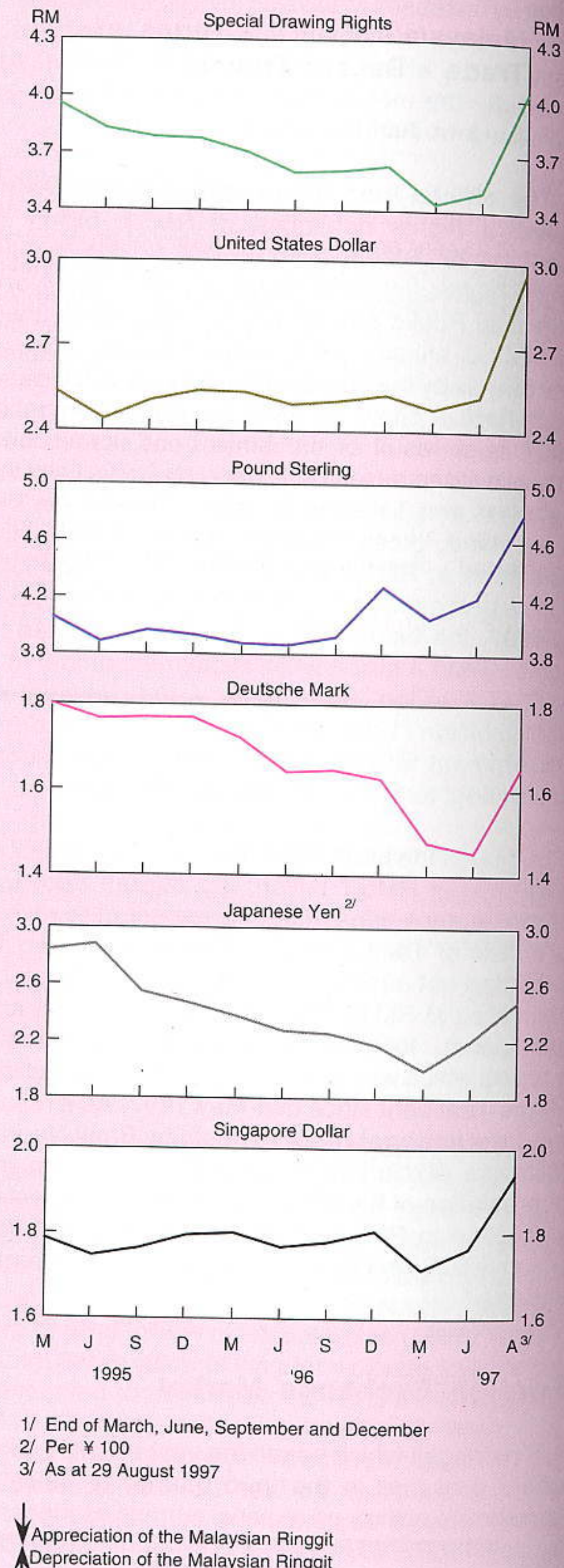
Overall, the contagion effects of regional currency instability only became significant after the second quarter. Following the global developments and trends emerging specific to Thailand, the Thai baht was floated on July 2. The developments in Thailand triggered speculative activity in the currency markets of the neighbouring countries, including the ringgit. As at 19 September, the ringgit depreciated by 16.7% against the US dollar to US$1=RM3.0355 compared with the end-1996 level (US$1=RM2.5279). The depreciation of the ringgit was lower than the depreciation of the Thai baht (28.3%), the Philippine peso (20.8%) and the Indonesia rupiah (19.5%). The Singapore dollar recorded a depreciation of 7.8%.

In order to maintain orderly conditions in the foreign exchange market, Bank Negara Malaysia introduced a US$2 million limit on non-commercial related ringgit offer side swap transactions with foreign customers, effective 4 August 1997. Other measures announced by the Government to stabilise the ringgit included the decisions to defer a number of large major infrastructure projects, to undertake a 2.0% across the board cutback in the Government's expenditure, to review the purchase of large foreign goods by Government agencies, to provide only Proton cars to members of the administration and eligible public officials as well as to increase the usage of local materials in privatised projects. Nevertheless, market sentiments towards the ringgit continued to remain weak and the ringgit closed at US$1 = RM3.1975 on 30 September 1997.

The ringgit appreciated against the **pound sterling** in the first six months of 1997 and depreciated thereafter. The ringgit appreciated by 1.8% at the end of June 1997 to reach the level of £1=RM4.1989 from the level recorded at the end of 1996. Thereafter, the ringgit depreciated. As a result, the ringgit recorded a depreciation of 12.4% against the pound sterling as at 19 September, compared with the level prevailing at end-1996. The movement of the ringgit against the other major currencies showed a similar trend, appreciating in the first half-year, and depreciating thereafter. In the period 1 January - 19 September 1997 as a whole, the ringgit depreciated by 4.7% against the **Deutsche Mark**, 9.6% against the **Singapore dollar** and 12.4% against the **Japanese yen**.

The total transactions in the foreign exchange market amounted to RM822.4 billion during the first eight months of 1997. Of this total, 91.3% was dominated by the exchange of the US dollar, followed by the Deutsche Mark, Japanese yen and the Singapore dollar.

Chart 7.9
Exchange Rates of the Malaysian Ringgit[1/]



1/ End of March, June, September and December
2/ Per ¥ 100
3/ As at 29 August 1997

FEATURE ARTICLE 2

Malaysia's External Terms of Trade - Recent Trends

I. Introduction

During the period 1987 - 1995, Malaysia's export earnings increased at a rapid pace, averaging 20.2% per annum. This high rate of growth was underpinned by robust growth in manufactured exports, averaging 28.6% during the period. As a result of the strong growth of exports from the manufacturing sector, the share of manufactured exports to total exports increased from 45.0% in 1987 to 79.7% in 1995. However, since 1996, the growth of export earnings has slowed down significantly to 6.3% in 1996 and 2.7% during the first seven months of 1997. This slowdown is largely attributed to a significant slowdown in the growth of earnings from manufactured exports, that is from 22.9% in 1995 to 8.1% in 1996 and 1.8% during the first seven months of 1997. This sharp deceleration is due to a significant drop in the export prices of manufactured goods such as dynamic random access memory (DRAM) chips and audio-visual products, as a result of intense global competition. Consequently, despite strong export volume, growth in earnings from manufactured exports has been sluggish since 1996. The purpose of this article is, therefore, to analyse the trend of export prices and compare it with that of prices of imported goods, in order to establish recent trends in Malaysia's external terms of trade.

II. Export Price Index and Its Relationship With Exchange Rate Movements

The average weighted price of all goods exported by Malaysia or Overall Export Price Index, as shown in Table 1, increased steadily since 1987 through 1995, except for a slight drop of 1.5% in 1992. The cumulative increase in the Overall Export Price Index since 1987 through 1995 was 49%, with the index increasing from 100 in 1987 (base year of computation) to 149

Table 1

Export Price Indices By Major Sectors, 1987-1997*

Indices (1987=100)

	1987	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
Agriculture	100.0	120.0	112.6	100.9	108.1	111.9	131.6	148.7	169.2	161.3	160.2
Mining	100.0	92.2	108.7	133.3	128.4	114.4	106.2	95.8	100.00	114.2	125.0
Manufacturing	100.0	109.3	118.9	121.7	127.2	126.7	133.7	145.9	156.2	156.7	145.9
Overall Export	100.0	109.3	114.7	117.2	121.2	119.3	127.4	136.5	149.0	149.5	146.3

Annual Rate of Change (%)

	1987	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1987-95*	*1996-97*
Agriculture	15.8	20.0	–6.2	–10.4	7.2	3.5	17.6	13.0	13.8	–4.7	0.7	7.8	–2.7
Mining	17.2	–7.8	17.9	22.7	–3.7	–10.8	–7.2	–9.8	4.4	14.2	9.4	1.8	11.8
Manufacturing	5.6	9.3	8.8	2.3	4.6	–0.4	5.5	9.1	7.1	0.3	–6.9	5.7	–3.4
Overall Export	11.1	9.3	5.0	2.2	3.4	–1.5	6.7	7.2	9.1	0.4	–2.1	5.8	–0.9

*** For 1997, the index refers to the first seven months of the years**

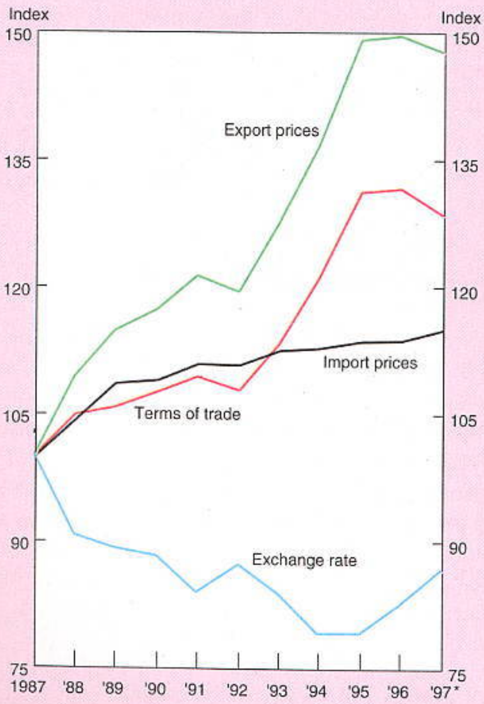
in 1995 while the average annual rate of increase during the period was 5.8%. During the period 1987-1995, the average export price of agriculture commodities recorded the sharpest increase, that is by an annual rate of 7.8% or a cumulative total of 69.2%, with its Export Price Index rising from 100 in 1987 to 169.2 in 1995. Among the agriculture export commodities that experienced strong price increases during the period were palm kernel, with an average annual increase of 13.2%, palm oil 9.3%, sawn timber 8.8%, and rubber 7.4%, while pepper price dropped by 4.7% and cocoa 3.9%).

In the case of manufactured exports, the average export price rose by an average of 5.7% per annum during 1987-1995 or a cumulative total increase of 56.2%. Primary commodities from the mining sector, on the average, recorded the slowest price increase, that is by an average of 1.8% per annum during 1987-1995. Crude petroleum recorded an annual average increase of 2.2%, liquefied natural gas 1.4% and tin a decline of 0.4% during the same period.

However, the rate of increase in the Overall Export Price Index decelerated significantly from

Chart 1

Terms of Trade and Exchange Rate Trends



* For 1997, the index refers to the first seven months of the year

9.1% in 1995 to 0.4% in 1996. In the first seven months of 1997, the index declined by 2.1%. The average rate of change in Overall Export Price Index during 1996 and the first seven months of 1997 was a decline of 0.9%. The decline was attributed to export price index of agriculture commodities declining by an average of 2.7% per annum and manufactured goods by an average of 3.4% per annum, while the export price of commodities from the mining sector rose by an annual average of 11.8% during 1996 and the first seven months of 1997.

Chart 1 indicates the Overall Export Price Index rose steadily since 1987 through 1995 before stagnating in 1996 and declining during the first seven months of 1997. It can be seen from Chart 1 and Table 2 that there is a direct inverse relationship between the trend of the Overall Export Price Index and the trade-weighted exchange rate of ringgit. Table 2 indicates during the period 1987 through 1995, the trade weighted exchange rate of ringgit depreciated steadily, except for 1992, from an exchange rate index of 100 in 1987 (base year) to 79.1 in 1995, that is by a cumulative depreciation of 20.9% or an annual average of -3.2%. However, since 1996 through the first seven months of 1997, the average exchange rate of ringgit appreciated by annual monthly average of 4.2% during the period. It can be seen from Chart 1 and Table 2, when ringgit depreciated steadily during the period 1987 - 1995 except for 1992, the Overall Export Price Index increased steadily during the same period except for 1992. During 1996 and 1997 when ringgit appreciated, the Overall Export Price Index declined.

Chart 2 and Table 3 indicate that during 1987 - 1995 period, the strong growth in export earnings had been attributed to a steady increase in export price and strong export volume growth. In 1992, lower export price had moderated the growth of export earnings. In 1996 and during the first seven months of 1997, growth in export earnings was affected by a stagnation in export price in 1996 and a decline in export price during the first seven months of 1997. Chart 3 indicates the impact on movement of export price and export volume of manufactured goods on overall export earnings as well as that of manufactured goods.

III. Import Price Index and Its Relationship With Exchange Rate Movements

The average import price, reflected by the Producer Price Index of imports compiled by the

Table 2

Terms of Trade and Exchange Rate Trends 1987-1997*

Indices (1987=100)

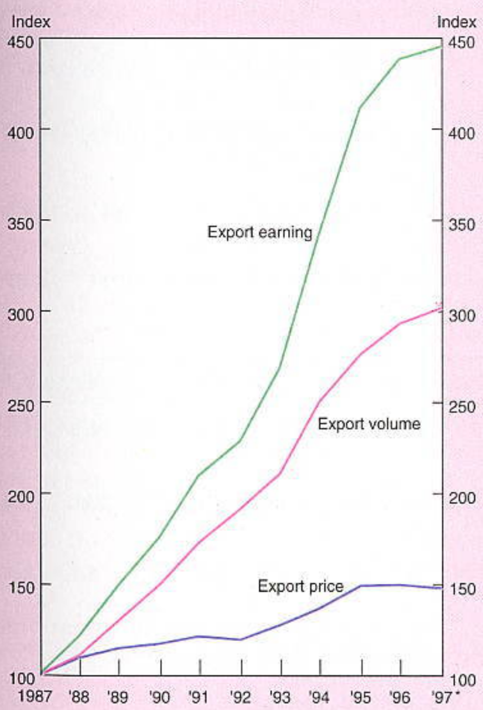
	1987	*988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
Export Prices	100.0	109.3	114.7	117.2	121.2	119.3	127.4	136.5	149.0	149.5	146.3
Import Prices	100.0	104.3	108.6	109.0	110.9	110.8	112.5	112.8	113.6	113.7	115.0
Terms of Trade	100.0	104.8	105.7	107.5	109.3	107.7	113.2	121.0	131.1	131.5	127.3
Exchange Rate	100.0	90.6	89.1	88.2	83.9	87.2	83.8	79.1	79.1	82.5	85.9

Annual Rate of Change (%)

	1987	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1987-95*	*1996-97*
Export Prices	11.1	9.3	5.0	2.2	3.4	–1.5	6.7	7.2	9.1	0.4	–2.1	5.8	-0.9
Import Prices	1.2	4.3	4.1	0.4	1.7	–0.1	1.6	0.3	0.7	0.1	1.1	1.6	0.6
Terms of Trade	9.8	4.8	0.8	1.8	1.7	–1.4	5.1	6.9	8.4	0.3	–3.2	4.1	–1.5
Exchange Rate	–5.3	–9.4	–1.6	–0.9	–4.9	4.0	–3.9	–5.7	0.0	4.3	4.1	–3.2	4.2

*** For 1997, the index refers to the first seven months of the years**

Chart 2
Export, Price and Earning Indices



* For 1997, the index refers to the first seven months of the year

Department of Statisitics, has been relatively stable since 1987 through the first seven months of 1997. As shown in Table 2, Import Price Index, which is based on Producer Price Index, increased by a cumulative total of only 15% since 1987 through the first seven months of 1997 or an average of only 1.4% per annum. The relatively stable import price reflects largely the low rate of inflation among Malaysia's major trading partners. Exchange rate movement did not seem to influence significantly the movement in import price, as shown in Chart 1 and Table 2.

IV. Terms Of Trade

As a result of relatively stronger rate of increase in export price during the period 1987 - 1995 when compared to import price, except for 1992, the terms of external trade had been in Malaysia's favour during the period except for 1992. As shown in Chart 1 and Table 2, the Terms of Trade Index increased steadily in Malaysia's favour during the period of comparison, except for 1992. The cumulative improvement in Malaysia's external terms of trade during 1987 - 1995 amounted to 31.1% or an annual average of 4.1%.

Table 3

Exports Price, Volume and Earnings Indices, 1987-1997*

Indices (1987=100)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Export Earnings	100.0	121.1	148.9	175.5	209.3	228.3	268.1	341.1	411.1	437.9	448.7
Export Volume	100.0	110.7	129.8	149.7	172.7	191.3	210.5	249.8	276.0	292.9	306.7
Export Price	100.0	109.3	114.7	117.2	121.2	119.3	127.4	136.5	149.0	149.5	146.3

Annual Rate of Change (%)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1987-95	1996-97
Export Earnings	28.2	21.1	23.0	17.9	19.2	9.1	17.4	27.3	20.5	6.5	2.5	20.3	4.5
Export Volume	15.4	10.7	17.2	15.4	15.3	10.8	10.0	18.7	10.5	6.1	4.7	13.7	5.4
Export Price	11.1	9.3	9.3	2.2	3.4	−1.5	6.7	7.2	9.1	0.4	−2.1	5.8	−0.9

*** For 1997, the index refers to the first seven months of the years**

Table 4

Impact of Export Price and Volume Changes on Export Earnings, 1987-1997*

Indices (1987=100)

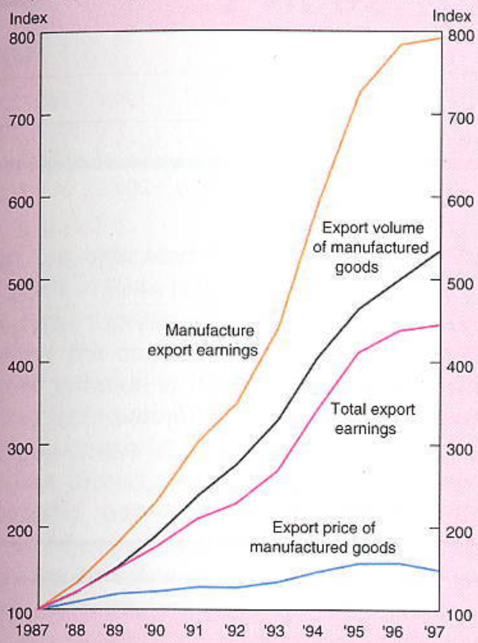
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Total Export Earnings	100.0	121.1	148.9	175.5	209.3	228.3	268.1	341.1	411.1	437.9	448.7
Manufactured Export Earnings	100.0	132.0	179.7	230.2	301.9	349.6	440.8	590.2	725.1	783.5	797.6
Export price of manufactured goods	100.0	109.3	118.9	121.7	127.2	126.7	133.7	145.9	156.2	156.7	145.9
Export volume of manufactured good	100.0	120.7	151.1	189.2	237.3	275.8	329.6	404.6	464.1	500.0	546.7

Annual Rate of Change (%)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1987-95	1996-97
Total Export Earnings	28.2	21.1	23.0	17.9	19.2	9.1	17.4	27.3	20.5	6.5	2.5	20.3	4.5
Manufactured Export Earnings	32.5	32.0	36.2	28.1	31.1	15.8	26.1	33.9	22.9	8.1	1.8	28.6	4.9
Export price of manufactured goods	5.6	9.3	8.8	2.3	4.6	−0.4	5.5	9.1	7.1	0.3	−6.9	5.7	−3.4
Export volume of manufactured good	25.5	20.7	25.2	25.2	25.4	16.3	19.5	22.7	14.7	7.7	9.3	21.6	8.5

*** For 1997, the index refers to the first seven months of the years**

Chart 3
Import of Export Price and Volume Changes on Export Earning of Manufactured goods and Total Export Earning



* For 1997, the index refers to the first seven months of the year

In 1996, with export price recording marginally higher rate of increase than import price, Malaysia's external terms of trade improved only marginally. During the first seven months of 1997, Malaysia suffered a 3.2% deterioration in the terms of trade, as export price declined and import price increased. This is the first time since 1992, Malaysia recorded a deterioration in the terms of trade.

V. Conclusion

Generally, the external terms of trade had been in Malaysia's favour during the period 1987 - 1995. However, in 1996, the terms of trade was almost neutral to Malaysia while in the first seven months of 1997 it was against Malaysia. The favourable movement in the terms of trade during period 1987 - 1995 was largely due to improvement in overall export price while import price had been relatively stable. The improvements in overall export price and terms of trade during the period were directly related to depreciation of the ringgit. During the first seven months of 1997, the terms of trade was against Malaysia. This is attributed to a drop in average export price which appeared to be correlated to the appreciation of the ringgit. The changes in exchange rate of the ringgit in the past appeared to have a significant impact on the overall export price and, therefore, terms of trade, as import price had been relatively stable and unaffected by exchange rate movements. Import prices had been relatively stable largely due to low inflation in countries which were Malaysia's major trading partners. Based on past experience, it could, therefore, be assumed that the recent depreciation of the ringgit could improve overall export price and Malaysia's external terms of trade, if inflation in Malaysia's major trading partners continues to be low.