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External Trade, Balance of Payments and Foreign Exchange Market

Export Performance

During the first seven months of 1998, Malaysia's gross exports increased significantly in ringgit terms, that is by an annual rate of 40.9% to RM162.7 billion, against an increase of 19.7% during the corresponding period of 1997. The higher export value is attributed to the impact of 38.1% ringgit depreciation during the seven months of 1998 on export prices, given that 76.2% of Malaysia's exports were traded in US dollar. For the whole of 1998, gross exports are estimated to increase by 28.5% to RM284.5 billion (1997: 12.4%). Underpinning this strong growth is manufactured exports, which are likely to increase by 27.8% in 1998 (1997: 12.7%). With this strong increase, the share of manufactured exports to total export earnings will remain high, at 80.5% in 1998 (1997: 81%). At the same time, exports of major agriculture commodities increase by an estimated 26.6% to RM25.7 billion in 1998 (1997: 3.3%), mainly due to higher prices of the palm oil, palm kernel oil and rubber. Underpinned by the higher exports growth of the liquefied natural gas (LNG) by 21.2%, export earnings of the mining sector is estimated to grow by 12.3% to RM16.1 billion in 1998 (1997: 14.5%). Consequently, the total export earnings of major primary commodity is estimated to increase by 20.7% to RM41.7 billion (1997: 7.9%), accounting for 14.7% of Malaysia's exports earnings in 1998. Nevertheless, the share of the major primary commodity exports to total export earnings declines further to an estimated 14.7% in 1998 (1997: 15.6%).

While the value of Malaysia's gross exports increases significantly in ringgit terms, it declines by an estimated 7.8% in terms of US dollar to US\$72.5 billion in 1998 (1997: 0.5%). The decline in exports in US dollar during the first seven months of 1998 was 10.4% to US\$41.3 billion.

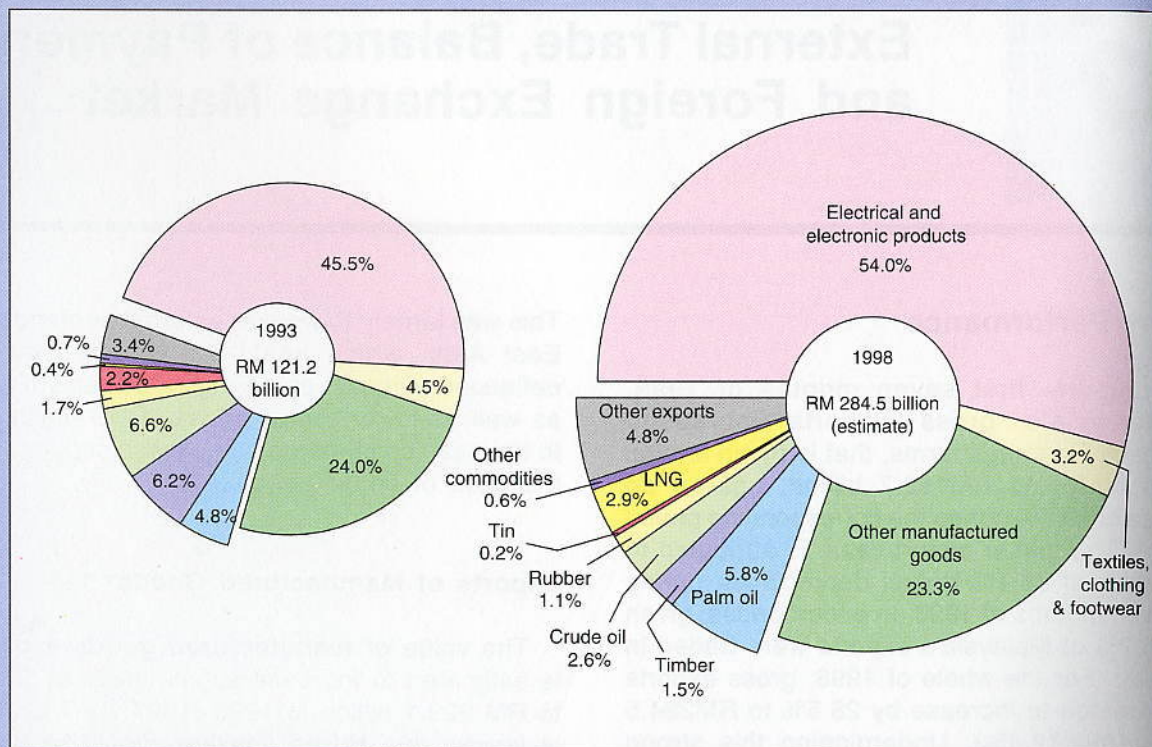
This was largely to weaker external demand from East Asia, which has been affected by the deflationary impact of the region's financial crisis as well as lower export prices in US dollar due to increase competition and excess supply as on the case of crude petroleum.

Exports of Manufactured Goods

The value of **manufactured goods** exported is estimated to increase substantially by 27.8% to RM 229.1 billion in 1998 (1997: 12.7%). This is largely due to the positive impact of 28.3% depreciation in ringgit on export value in ringgit as about three quarters of Malaysia's exports are traded in US dollar. The growth in export value would have been higher if not for lower global prices of manufactured goods due to increased competition in the midst of a slowdown in global demand and excess production capacity. All categories of exports, except for wood and petroleum based products, record stronger ringgit export earnings growth. Apart from higher export value generated by the traditional export-oriented industries, domestic-oriented industries are also recording higher export earnings. This is the result of more vigorous efforts by domestic-oriented industries recently to market their products overseas in order to offset the drop in domestic sales. Consequently, the total export receipts of the manufactured sector is estimated to account for 80.5% of Malaysia's overall export earnings in 1998.

During the first seven months of 1998, the value of manufactured exports rose sharply by 43.6% (January-July 1997: 1.6%) to RM133.3 billion or 81.9% of total gross exports. In terms of US dollar, however, manufactured export earnings contracted by 8.5% during the same period

Chart 6.1
Export Structure



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

(January-July 1997: 2.1%). In ringgit terms, export earnings of the traditionally export oriented industries such as textile, apparel and footwear, electrical, electronics and machinery and rubber products increased between the range of 34.5% and 59.1%. During the corresponding period of 1997, the increase in export earnings was between 0.9% and 2.2%. Similarly, export earnings of domestic oriented industries producing food products, chemical products, metallic products, non-metallic mineral products as well as transport equipment rose between 19.5% to 73.8%, against a contraction of between -1.2% to +17.7% recorded over the same period in 1997. However, in the case of petroleum products, the export earnings slowed down to a growth of 1.5% (January-July 1997: 2.5%) while in the case of wood products, the exports earning slowed down to a growth of 5.1% (January-July 1997: 12.2%).

The electrical, electronics and machinery industry is the largest contributor to manufactured exports, with a share of 67%, followed by industries producing chemical and chemical products, 5.3%,

textile products and footwear 4%, and metallic manufactures 3.8%. As for the export market, the traditional markets comprising the United States (US), European Union (EU), Singapore and Japan accounted for a combined share of 70.5% to total manufactured exports during the first seven months of 1998. Exports to the US rose by 72.8% during the first seven months of 1998. As a result, the value of manufactured exports to the US accounted for an increased share of 25.7% to total manufactured exports during the period (January-July 1997: 21.5%). Similarly, manufactured exports to the EU recorded an increase of 53% during the first seven months of 1998 to RM21.3 billion, accounting for a share of 16.6% of total exports (January-July 1997: 15.6%). However, exports to Singapore increased at a relatively slower rate of 21.6% to RM24.5 billion while exports to Japan increased by 21.7% to RM11.8 billion. Consequently, exports to Singapore and Japan accounted for reduced shares of 19% and 9.2% respectively, compared with 22.6% and 10.9% recorded during the first seven months of 1997, as external demand from these countries was affected by economic slowdown.

Table 6.1

Manufacturing Exports (January – July)

Year	RM million		1998	
	1997	1998	% Change	% Share
Electrical Electronics and machinery	61,193	89,372	46.0	67.0
Textiles, apparel and footwear	3,953	5,317	34.5	4.0
Food, beverages and tobacco	2,121	3,126	47.4	2.3
Wood products	4,606	4,843	5.1	3.6
Rubber products	2,100	3,341	59.1	2.5
Petroleum products	1,972	2,001	1.5	1.5
Chemicals, chemical and plastic products	4,886	7,006	43.4	5.3
Non-metallic mineral products	975	1,166	19.6	0.9
Iron and steel, and metal products	2,893	5,029	73.8	3.8
Transport Equipment	2,729	4,272	56.5	3.2
Others	5,391	7,853	45.7	5.9
TOTAL	92,819	133,326	43.6	100.0

Source: Department of Statistics

Electrical, Electronics and Machinery

Exports of **electrical, electronics and machinery** expanded strongly by 46% to RM89.4 billion during the first seven months of 1998, (January-July 1997: 2.2%), due to sustained external demand for electronics products as well as a strong pick-up in the export value of electrical products and machinery to major industrialised countries, except Japan. In part, the higher earnings reflected the impact of ringgit depreciation on export value. However, the export value of these products in term of US dollar declined by 7% to US\$22.7 billion during the first seven months of 1998 (January-July 1997: +2.7%), reflecting largely

Table 6.2

Major Destinations of Manufactured Exports¹

	1997 January-July		1998 January-July	
	RM million	% Share	RM million	% Share
United States	19,120	21.5	33,038	25.7
European Union of which:	13,920	15.6	21,292	16.6
United Kingdom	3,412	3.8	5,184	4.0
Germany	3,082	3.5	4,297	3.3
Japan	9,683	10.9	11,789	9.2
Singapore	20,145	22.6	24,502	19.0
Others	26,166	29.4	38,002	29.5
TOTAL	89,034	100.0	128,623	100.0

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

the reduction in export price in US dollar due to intense global competition in the face of moderating demand. As a result, this category of exports maintained its position as Malaysia's largest export earner and contributed 67% of the total value of manufactured exports during the period.

The exports of **electronics products**, which comprise two sub-sectors namely semiconductors and electronics equipments and parts, continued to expand in ringgit term by 51.4% to RM62.1 billion during the first seven months of 1998 (January-July 1997: 10.9%). The higher export growth of electronic products is mainly supported by **semiconductors**, which recorded 53.6% growth in export value to RM32.3 billion during the same period (January-July 1997: -0.8%). Sustaining this favourable export value growth is the demand for semiconductors from US and Europe even though the prices of Dynamic Random Access Memory (DRAM) were lower due to global competition and over production capacity. A major portion of Malaysia's exports of semiconductor components went to the US, UK, Germany and Netherlands which together increased their imports of these components from Malaysia by 87% to 45.6% of the export of electronic products (January-July 1997: 37.5%). Regional demand from East Asia,

particularly Singapore, Japan, Hong Kong SAR and Taiwan, on the other hand, were affected by slower sales of computers due to economic crisis (please see Table 6.3). The export value of semiconductors to these East Asian economies increased at a relatively slower rate of 20.9% to RM13.3 billion or 41.3% (January-July 1997: 52.5%) of total exports of electronics products. In the case of **electronics equipment and parts** the export value increased further by 49% (January-July 1997: 26.6%) on account of weaker ringgit and strong overseas demand for printed circuit, resistors and switchboards.

The export value of **electrical products**, which includes consumer and households electrical appliances as well as industrial and commercial electrical products, rose by 35.2% to RM27.3 billion during the first seven months of 1998 (January-July 1997: -11.8%). In part, this was attributed to a 27.5% growth (January-July 1997: -17.5%) in the export value of **consumer electrical products**, such as audio-visual equipment, to RM11.9 billion. The higher export value of these products was partly supported by higher domestic

production capacity in video-cassette recorders and car audio equipment. In the case of **electrical household appliances** such as washing machines, air-conditioners and refrigerators, the increase in export value was even more significant, that is by 60.5% to RM555 million during the same period (January-June 1997: -7.3). This reflects, in part, efforts taken by manufacturers to intensify export sales to offset poor domestic sales of electrical household appliances that had shrunk by 30% to 40% since the onset of economic crisis. The increase in export value would have been higher, if not for lower global prices in US dollar due to poor sales order from East Asian region as well as excess production capacity particularly in China which led to the need for more competitive pricing of household and consumer electrical products in the overseas markets by local exporters.

Exports of **industrial and commercial electrical products** comprising office machines and telecommunications equipment increased by 38.5% to RM8.7 billion during the first seven months of 1998 (January-July 1997: 6.8%). This was attributed to 39.1% (January-July 1997: 7.6%) increase in

Table 6.3
Major Destination for Exports of Semiconductors
(January-July)

	1997		1998		Annual Change %
	RM Million	% Share	RM Million	% Share	
United States	5,040	24.0	10,232	31.7	103.0
Singapore	5,568	26.5	7,171	22.2	28.8
Japan	1,793	8.5	2,294	7.1	27.9
Taiwan	2,182	10.4	2,231	6.9	2.2
Netherlands	1,151	5.5	1,728	5.4	50.1
Hong Kong SAR	1,489	7.1	1,640	5.1	10.1
Germany	859	4.1	1,569	4.9	82.3
United Kingdom	820	3.9	1,195	3.7	45.7
Others	2,099	10.0	4,198	13.0	100.0
TOTAL	21,001	100.0	32,258	100.0	53.6

Source: Department of Statistics

Table 6.4

Exports of Textiles, Apparel and Footwear
(RM million)

Year	1997	1997 (January-July)	1998 (January-July)	(%) Change
Textiles	3,621.3	1,919.1	2,556.4	33.2
Apparel	3,726.7	1,876.8	2,594.6	38.2
Footwear	262.7	156.9	166.4	6.1
TOTAL	7,610.7	3,952.8	5,317.4	34.5

Sources: Department of Statistics

export earnings of telecommunications equipment. The export value of office machines also increased moderately, due to the impact of ringgit depreciation on export value, but by a relatively slower rate of 25.2% (January-July 1997: -8.4%), as a result of softening of export sales volume. Export value of **electrical industrial machinery and equipment**, which includes power generating machinery and equipment, machinery specialized for industrial uses, metal working machinery and general industrial machinery and parts registered a strong turnaround with a growth of 58.9% (January-July 1997: -20.9%). This was boosted by the combined impact of ringgit depreciation and strong export volume off-take, especially from the US and Europe.

Textiles, Apparel and Footwear

Exports of the **textiles, apparel and footwear** industry increased sharply by 34.5% to RM 5.3 billion during the first seven months of 1998 (January-July 1997: 0.9%) to account for 4% to total manufacturing exports. This favourable performance reflected mainly exchange rate valuation gains following the depreciation of the ringgit, though some of the major producers of the industry have embarked aggressively into overseas markets.

Exports of **primary textiles** as a whole increased by 33.2% to RM 2.6 billion (January-July 1997: 2%). Almost all components within the sub-sector recorded double digit high growth rates. The largest

Table 6.5

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

Year	1997	1997 (January-July)	1998 (January-July)	(%) Change
United States	1,701.9	802.0	1,298.9	62.0
European Union	1,161.2	612.7	764.3	24.7
Hong Kong SAR	63.5	35.4	35.2	-0.6
Singapore	271.8	150.5	114.6	-23.9
Japan	201.4	114.6	124.9	9.0
Others	329.1	161.6	256.7	58.8
TOTAL	3,728.9	1,876.8	2,594.6	38.2

Sources: Department of Statistics

component, textile yarn, rose by 31.9% to RM1.2 billion, against a decline of 4.5% recorded during the same period in 1997. Exports of synthetic fabrics, the second largest component, continued to increase by 32.4% to RM0.7 billion (January-July 1997: 12.1%). Exports of knitted or crocheted fabrics turned around to increase by 25.1% to RM0.3 billion, after declining 1.7% during the first seven months of 1997. In the case of cotton fabrics, the export value increased by 46% (January-July 1997: 6.1%).

Exports of articles of **apparel and clothing accessories** increased by 38.2% to RM2.6 billion during the first seven months of 1998 (January-July 1997: 0.6%). These exports were largely directed to the US and EU, which accounted for 79.5% of the total market, following an increase of 45.8% over the export value in the corresponding period of 1997. Exports to non-quota markets (other than US, Canada, EU, Turkey and Norway) increased marginally by 2.4% to RM0.4 billion. Underpinning the higher export value was mens' clothing from not knitted or crocheted fabrics which increased sharply by 52.4% to RM0.7 billion. Likewise, ladies' garments from knitted or crocheted fabrics also expanded strongly by 42.4% to RM0.4

billion while ladies' garments made of not knitted or crocheted fabrics rose by 26.3% to RM0.3 billion. Exports of other miscellaneous garments also increased significantly by 36.6% to RM0.6 billion and exports of clothing, accessories increased by 56.9% to RM149 million. However, exports of **footwear** increased moderately by 6.1% to RM166.4 million after declining 7.3% over the corresponding period of 1997. This was due to lower export volume, following the shifting of production base to lower cost producing countries as well as the stiff competition in the international market.

Wood-based Products

As a result of lower prices of wood products in the global markets amid slackening demand from overseas as well as limited supply of logs and a cut back in production of veneer and plywood locally, exports of **wood-based products** slowed down to a growth of 5.1% to RM4.8 billion during the first seven months of 1998 (January-July 1997: 12.2%). With this slowdown in export value performance, the contribution of wood products to total manufactured exports declined to 3.6% during the same period under review (January-July 1997: 4.9%).

Exports of **veneer and plywood**, which constituted 59.2% of total wood products, dipped sharply by 10.7% to RM2.8 billion during the first seven months of 1998 (January-June: +9.7%), despite weakening ringgit. The export of plywood was hit by oversupply and shrinking demand. Price competition among producers amid shrinking demand from the industry's main markets have driven plywood prices down by more than 40% over the last 12 months. In spite of sign of price stability recently, the effects of Asian economic crisis had taken its toll by drying up the demand for plywood in major export markets. Demand for housing industry in Japan which had fallen by 15% in 1997 is estimated to contract further by 20% in 1998. Likewise, demand from Singapore, Taiwan, Korea and China has also contracted as their housing industry was also affected by the region financial crisis. Exports of **wooden furniture and components**, on the other hand, increased by 43.4% to RM1.5 billion during the same period (January-July 1997: 17.6%) The major export markets that contributed to the export growth are the United States and Europe while demand from Japan has eased. Most wooden furniture products

shipped were for the lower priced export market segment and focus on ready-to-assemble category, with rubber wood furniture gaining popularity in the oversea markets.

The export value of **other wood manufactured** products such as panel products and mouldings increased by 32.3% during the first seven months of 1997 (January-July 1997: 19.5%). This reflects the positive efforts of local producers to venture into the oversea markets, in part, to offset the weak domestic demand, as well as the positive impact of cheaper ringgit on export value.

Rubber-based Products

Exports of **rubber-based products** rose by 59.1% to RM3.3 billion during the first seven months of 1998 (January-July 1997: 2%), reflecting the combined impact of weaker ringgit, improved competitiveness of locally made rubber-based products as well as the export drive by the local manufacturers, especially those producing the higher value-added products such as tyres. Nevertheless, the export performance of rubber based products industry is still constrained by the lack of availability of labour and the shortage of latex-based materials. In line with the favourable export performance of the rubber products industry, its contribution to total manufactured exports increased to 2.5% compared with its share of 2.3% during the same period in 1997.

During the first seven months of 1998, the export value of **rubber gloves** (including surgical and non-surgical gloves), which accounted for 70.8% of total rubber products exports, registered a significant increase of 59.2%, valued at RM2.4 billion (January-July 1997: 0.8%). The improved export performance was boosted by exports to the traditional markets such as the US, UK and Germany as well as the gain from higher export prices in ringgit terms. About 40%-50% of Malaysian rubber gloves has been marketed to the US, making it the largest consumer, followed by European countries. As a result, export price of rubber gloves has increased sharply by 67% during the same period. However, export volume has dropped by 5.1% from about 5.9 billion pairs to 5.6 billion pairs due to the inability of Malaysian rubber gloves industry to meet the demand surge as a result of the production constraints, particularly the shortage of latex materials and labour. The lower

export volume was accounted by lower intake by Japan and South Korea, which were affected by the Asian financial crisis.

Exports of **tyres and tubes** rose sharply by 100.5% during the first seven months of 1998 (January-July 1997: -9.4%), as local manufacturers step up their marketing efforts overseas to offset the softening domestic demand. These efforts have been helped by the cheaper ringgit which enable local products to capture an increased global market share. Similarly, exports of **articles of rubber** increased strongly by 95.1% during the period under review (January-July 1997: 6.9%) due to favourable overseas demand and cheaper ringgit.

Food, Beverages and Tobacco

Exports of **food, beverages and tobacco** as a group registered a strong growth of 47.4% to RM3.1 billion during the first seven months of 1998 (January-July 1997: -3.3%). The favourable performance was largely attributable to higher export earnings on account of ringgit depreciation as well as increased overseas demand for tobacco products.

Exports of **food products**, which accounted for the major portion (82%) of total exports of food, beverages and tobacco, increased by 45.6% to RM2.6 billion during the first seven months of 1998 (January-July 1997: -5.3%). Strong external demand for food items such as margarine as well as for fresh and chilled crustaceans and molluscs helped to improve the overall performance of food exports. Exports of fresh and chilled crustaceans and molluscs, for instance, increased by 71.8%, while exports of margarine increased by 72.8% during the same period. Other food exports that had contributed to the high growth were the export of cocoa which increased by 40.3%, and spices which rose by 81.2%. The higher export earnings from these food items was also attributed to weaker ringgit.

Export of **tobacco** products increased by 70% to RM379 million during the first seven months of 1998 (January-July 1997: 17.9%) due to increased demand for tobacco products from East Asia region including Hong Kong SAR and Singapore. Likewise the export value of **beverages** also increased, though at a relatively slower rate of 33.7% (January-July 1997: -5.6%), due to cheaper ringgit.

Petroleum Products

The total export earnings of **petroleum products** which include refined petroleum products (gasoline, fuel oil, diesel and kerosene), residual petroleum products, liquefied propane and butane as well as petroleum gases and other gaseous hydrocarbons increased at a slower rate of 1.5% to RM2 billion during the first seven months of 1998 (January-July 1997: 2.5%). The slight growth in export earnings is attributed to the marginal increase of 1.5% in the export of refined petroleum products, which constitutes almost 75% of total export of petroleum products. In part, the sluggish export growth was attributed to 83.6% decline in the export of residual petroleum products and lackluster export of liquefied propane and butane which rose by only 0.3%. Nevertheless, the decline in these export earnings was off-set by a significant increase of 25.2% in the export of petroleum gases and other gaseous hydrocarbons to RM 264 million. The slowdown in the export earnings of petroleum products industry as a whole is attributed to an 11.1% reduction in domestic output as well as flagging external demand from financial crisis infected East Asia.

Chemicals, Chemical and Plastic Products

Export of **chemicals, chemical and plastic products** recorded a growth of 43.4% during the first seven months of 1998 to RM7 billion (January-July 1997: 17.7%). Underpinning this strong export growth were export of basic inorganic chemicals which rose by 71.8% to RM179.4 million, dyeing, tanning and other colouring materials by 59.4% to RM374.8 million, oil, perfumes, soap and cleaning preparations by 59.3% to RM508.3 million, pharmaceutical products by 57.2% to RM159.8 million and basic organic chemicals by 47.2% to RM1.6 billion. However, exports of fertilizers fell by 7.4% to RM155 million, due to greater usage locally. In the case of plastic products, export earnings from plastics in primary forms and plastic in non-primary forms increased by 58.9% and 42.1% respectively. Singapore, Hong Kong, US, Japan and Taiwan as well as Netherlands remained the major export destinations for chemicals, chemical and plastic products, accounting for 88% of the total export value of these products during the period under review.

Non-metallic Mineral Products

Reflecting the impact of increased marketing efforts overseas primarily to offset the drop in domestic demand, the export value of **non-metallic mineral products** turned around, with an increase of 19.6% to RM1.2 billion during the first seven months of 1998 (January-July 1997: -1.2%). The turnaround in export earnings was attributed to 134% increase in the export of **lime, cement and fabricated construction materials**, to RM84.3 million during the first seven months of 1998 (January-July 1997: -8.1%). While the industry producing these products was hard-hit by declining sales in the domestic market, the cheaper ringgit has helped to boost exports. Over production capacity has forced cement manufacturers to embark aggressively into the export market not only to principle destinations of exports such as Singapore but also to Fiji, Mauritius and Bangladesh. The export volume of cement is estimated to reach 4 million tonnes in 1998.

The export value of **mineral manufacturers, clay and refractory construction materials and pottery** increased by 14.4% to RM475 million during the same period under review (January-July 1997: -24.7%), on account of the depreciation of the ringgit. Underpinning this growth is the export of pottery which rose strongly by 40.3% to RM108 million (January-July 1997: 5.2%), mainly catering for Europe and the US markets. In the case of clay and refractory construction materials, the export value increased by 26.5% to RM138 million (January-June 1997: 7.3%). However, the export value of mineral manufacture products declined marginally by 0.1% (January-July 1997: -39.2%) as demand weakened. Nevertheless, the export value of **glass and glassware products**, which accounted for 49.7% of non-metallic mineral exports, continued to expand by 29.1% to RM524 million during the first seven months of 1998 (January-July 1997: 47.4%). The increase in the export of glass moderated to 41.8% or RM387 million (January-July 1997: 63.7%), due to softer overseas demand. Exports of glassware, however, increased marginally by 3% during first seven months of 1998 (January-July 1997: 22.4%), as demand from Japan and South Korea was weakened by economic difficulties faced by these countries.

Iron, Steel and Metal Products

Vigorous efforts to seek the export market in the face of contraction in domestic demand have led to 73.8% increase in the export of **iron, steel and metal products** during the first seven months of 1998 to RM 5 billion (January-July 1997: -2.2%). Contributing significantly to this strong export growth is export earnings of **iron and steel products** such as ingots, tube and pipe, iron and steel bar and rods, and flat-rolled iron products, which turnaround with a growth of 150.9% to RM1.7 billion during the first seven months of 1998 (January-July 1997: -30.9%). This was in contrast to the first seven months of 1997 when local demand outpaced production as favourable conditions in the construction industry saw a surge in domestic demand for iron and steel products and hence limited capacity for exports. With weaker domestic demand this time around, manufactures had to use their excess production capacity for exports.

Exports of **non-ferrous metal products** rose by 54.8% to RM1.4 billion during the first seven months of 1997 (Jan-July 1997: 9.8%). This was due to strong external demand for non-ferrous based metal as well as copper and aluminum, which increased significantly, ranging between 19.5% to 147.4% during the period under review. Similarly, exports of **fabricated metal products** increased by 44.4% (January-July 1997: -0.5%) to RM1.8 billion during the first seven months of 1998, largely due to higher export earnings from exports of manufactures of base metal and other structures of iron, steel and aluminum.

Transport Equipment

During the first seven months of 1998, exports of **transport equipment** increased sharply by 56.5% (January-July 1997: 11.5%) to RM4.3 billion, accounting for 3.2% of total manufactured exports (January-July 1997: 2.9%). The higher export receipts from transport equipment is largely due to the impact of the depreciation of the ringgit on export value. Strong growth in export value was recorded in both the road and non-road vehicle sub-sectors. Exports of the road vehicle sub-sector including parts and accessories increased by 50.9% (January-July 1997: 5.7%) to RM1.3 billion, against RM832 million recorded during the corresponding period of 1997. This is on account of the 47.2%

increase in export value of passenger cars, 23.6% increase in the export value of motorcycles and 44.3% increase in the export value of trailers and transport containers. Likewise, the export value of the non-road vehicles sub-sector increased by 59% (January-July 1997: -17.4) to RM3 billion, underpinned by 94% (January-July 1997: 35.9%) increase in the export of aircraft and associated equipment. In terms of export volume, the export of the national cars, PROTON, contracted by 15.4% to 13,110 units, (January-July 1997: 1549 units). The major export markets for PROTON cars were the UK, followed by Germany and Australia. Export of PERODUA vehicles, however, increased sharply by 195.3% to 1060 units, from 359 units exported over the corresponding period of 1997. PERODUA vehicles were mostly exported to the UK, Singapore and Egypt.

Other Manufactured Goods

Exports of **other manufactured goods**, including photographic equipment, professional and scientific instruments, paper and pulp, leather goods, musical instruments, watches, clocks, toys, sports goods, jewelry and other miscellaneous items increased by 45.7% (January-July 1997: -8.6) during the first seven months of 1998. The strong growth was underpinned by sharp increases in export receipts from photographic equipment (92.8%), measuring apparatus (33.1%), watches and clocks (30.6%) and jewelry (28.5%).

Major Primary Commodity Exports

Export earnings of major primary commodities are expected to increase by 20.7% to RM41,744.6 million (1997: 7.6%). In the case of the **agriculture sector**, the export earnings are expected to increase by 26.6% to RM25,689.5 million (1997: RM20,297.8 million). This is largely on account of higher export value of palm oil, palm kernel oil and pepper, driven by higher export prices following the depreciation of ringgit. Export earnings from the **mining sector** are expected to increase by 12.3% to RM16,055.1 million (1997: 14.5%), with the bulk of the earnings coming from liquefied natural gas (51% of total), followed by crude petroleum (45.2%) and tin (3.8%).

Palm Oil and Palm Kernel Oil

Export earnings of **palm oil** (which include crude and processed palm oil and palm stearin) rose sharply by 69.1% during the first seven months to RM9,564.9 million as compared to RM5,656.5 million recorded during the same period in 1997. This is despite a decline in export volume of 2.2% to 4.16 million tonnes. The better performance is attributed to 72.9% increase in the export unit value of palm oil to an average of RM2,301 per tonne during the first seven months of 1998 (January – July 1997: RM1,331 per tonne) following the depreciation of the ringgit. With the ringgit fixed at RM1=US\$0.2632 beginning 2 September 1998, it is envisaged that for 1998 as a whole the export earnings of palm oil will increase by 52.2% to RM16,457.5 million (1997: RM10,809.8 million).

The average local delivery price of crude palm oil for the first quarter of 1998 was quoted at RM2,326.50 per tonne or 77% higher than the same quarter in 1997 (January-March 1997: RM1,314.50 per tonne). The price in the first quarter was influenced by the movement of the ringgit against the US dollar and also news that Indonesia was temporarily banning the export of palm oil. This upward trend in price continued into the second quarter, with the average local delivery price quoted increasing by 88.3% over the second quarter of 1997 to RM2,400.72 per tonne (April – June 1997: RM1,276 per tonne). The favorable price was partly in response to the anticipated tight supply with the continued banning on the export of palm oil and higher export duties on the commodity by the Indonesian authorities. The movement of the ringgit against the US dollar also pushed upward the export price of palm oil in ringgit during this period. The price competitiveness of the palm oil also contributed to the steadier price. During the first half of 1998, crude palm oil was priced at a premium of US\$17.50 and US\$14.00 to soya oil and rapeseed oil respectively, compared to a premium of US\$20.00 and US\$18.00 during the first half of 1997. In the third quarter, the local delivery price of crude palm oil was RM2,472 per tonne or 95.1% higher compared to the average price of RM1,267 per tonne during the corresponding period of 1997. This bullish outlook is based on Indonesia increasing its duty on the export of palm oil since April 1998 and news that India's State Trading Corporation intended to buy 6,000 tonnes of RBD

palm olein. As for the fourth quarter, the average crude palm oil price (for local delivery) is expected to soften slightly to RM2,460 per tonne, which is nevertheless still a 43.6% increase compared to the corresponding period of 1997 (October – December 1997: RM 1,712.50 per tonne). In part, this is due to stronger ringgit exchange rate, following the fixing of its exchange rate at RM1=US\$0.2632 on 2 September. For the whole of 1998, the crude palm oil price (local delivery price) is, therefore, envisaged to increase by 73.5% to an average of RM2,415.50 per tonne (1997:RM1,392.42 per tonne).

Consonant with the performance of palm oil, earnings from **palm kernel oil** during the first seven months of 1998 increased by 63.1% to RM822.6 million (January- July 1997: RM504.4 million) from an export volume of 299,474 tonnes (January – July 1997: 264,117 tonnes). The increase in export earnings was largely due to the 43.8% increase in the export unit of RM2,746.80 per tonne (January – July 1997: RM1,909.70 per tonne), following favorable demand from China,

Egypt, South Africa, Turkey and the United States. With this encouraging demand, it is expected that for 1998 as a whole, the export value will increase by 38.8% to RM1,356.9 million (1997: RM977.7 million).

Timber

During the first seven months of 1998, export earnings from **sawlogs** declined by 19.8% to RM1,051.0 million (January-July 1997: RM1,310.4 million) from an export volume of 3.09 million cubic metres (January – July 1997: 3.72 million cubic metres). The lower export earnings was due to a slowdown in demand from the traditional markets of Thailand, South Korea and Japan which were beset with economic difficulties. Export earnings from **sawn timber** were similarly affected, although less severely. For the first seven months of 1998, earnings from this product declined by 8.7% to RM1,472.1 million (January – July 1997: RM1,611.6 million) while the export volume declined by 17.6% to 1.54 million cubic metres (January-

Chart 6.2
Palm Oil - Exports and Price

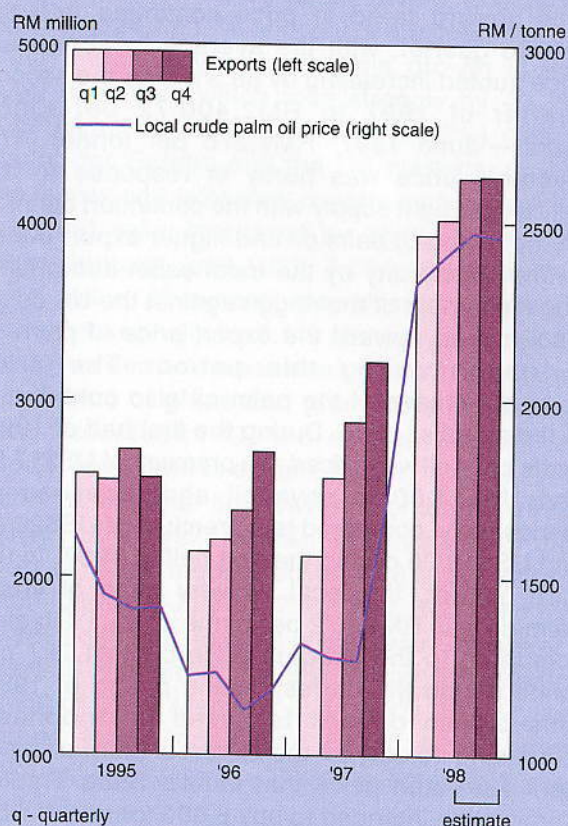


Chart 6.3
Sawn Timber and Sawlogs - Exports and Unit Value

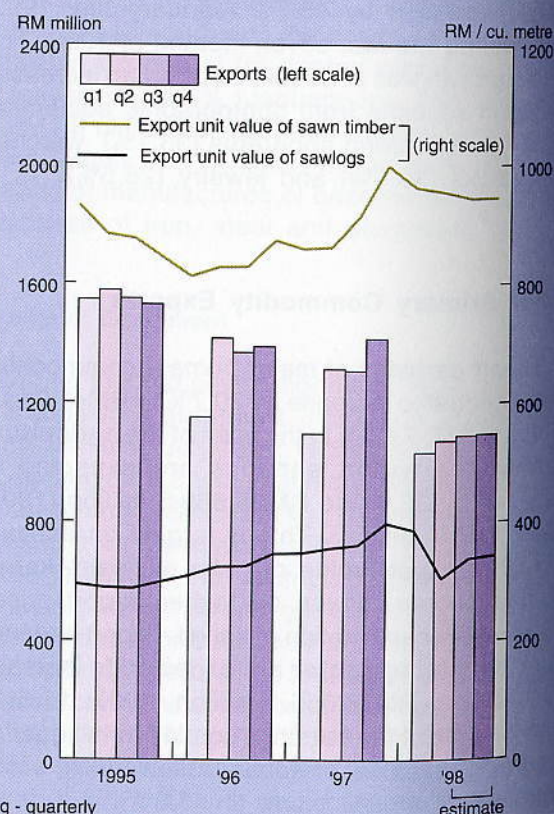


Table 6.6
Primary Commodity Exports

	1998*	% Change	1998 January- July	% Change
Palm oil¹				
Volume ('000 tonnes)	7,250	-4.7	4,156.3	-2.2
Unit value (RM/tonne)	2,270	59.8	2,301.3	72.9
Value (RM million)	16,457.5	52.2	9,564.9	69.1
Palm Kernel Oil				
Volume ('000 tonnes)	499	2.5	299.5	13.4
Unit value (RM/tonne)	2,719	35.5	2,746.8	43.8
Value (RM million)	1,356.9	38.8	822.6	63.1
Sawlogs				
Volume ('000 cubic metres)	5,040	-21.2	3,094	-16.8
Unit value (RM/cu metre)	341	-6.9	339.7	-3.6
Value (RM million)	1,720.9	-26.6	1,051.0	-19.8
Sawn Timber				
Volume ('000 cubic metres)	2,700	-12.2	1,544	-17.6
Unit value (RM/cu metre)	950	5.1	953.4	10.9
Value (RM million)	2,565.0	-7.8	1,472.1	-8.7
Rubber				
Volume ('000 tonnes)	1,012	-0.6	597.3	9.1
Unit value (RM/tonne)	307.8	5.5	301.2	-1.3
Value (RM million)	3,114.8	4.9	1,799.0	7.7
Pepper				
Volume ('000 tonnes)	20.0	-21.6	10.2	-18.9
Unit value (RM/tonne)	19,200.0	63.7	19,479.5	128.1
Value (RM million)	384.0	28.4	199.4	85.1
Cocoa				
Volume ('000 tonnes)	15.0	-51.6	10.4	-53.7
Unit value (RM/tonne)	6,027	63.7	5,879.3	72.7
Value (RM million)	90.4	-20.8	61.0	-20.0
Crude Petroleum				
Volume ('000 tonnes)	16,602.7	4.6	10,381	17.6
Unit value (RM/tonne)	437.3	-1.8	438.7	3.0
Value (RM million)	7,260.6	2.7	4,554.2	21.1
Liquefied Natural Gas (LNG)				
Volume ('000 tonnes)	15,210	-0.6	8,630	-5.3
Unit value (RM/tonne)	538.2	22.0	571.7	36.7
Value (RM million)	8,185.9	21.2	4,933.8	29.5
Tin				
Volume ('000 tonnes)	28.8	-9.4	14.8	-23.4
Unit value (RM/tonne)	21,132	40.3	21,483	49.1
Value (RM million)	608.6	27.0	318.4	14.3
TOTAL VALUE	41,744.6	20.7	24,776.4	31.9

¹ Include crude palm oil, processed palm oil, and palm stearin.
* Estimate

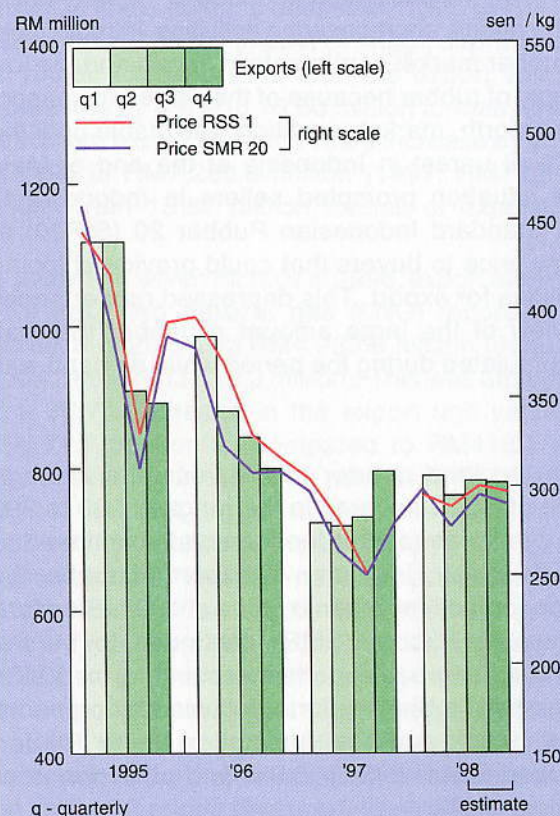
Source: Department of Statistics

July 1997: 1.87 million cubic metres). It is envisaged that for the whole of 1998, export earnings from sawlogs will decline by 26.6% to RM1,720.9 million, while that of sawn timber will decline by 7.8% to RM2,565.0 million. The decline in earnings is due to 21.2% decline in the export volume of sawlogs to 5.04 million cubic metres (1997: 6.40 million cubic metres) and 12.2% decline in the export volume of sawn timber to 2.70 million cubic metres (1997: 3.08 million cubic metres).

Rubber

During the first seven months of 1998, rubber export earnings increased by 7.7% to RM1,799.0 million (January-July 1997: RM1,671.1 million). This is underpinned by a 9.1% increase in export volume to 0.60 million tonnes (January-July 1997: 0.55 millions tonnes) which more than offset the 1.3% decline in export unit value to 301 sen per kilogram.

Chart 6.4
Rubber - Exports and Price



The average price of Ribbed Smoked Sheet (RSS1) grade rubber increased by 2.3% to 291.53 sen per kg during the first seven months of 1998 from 285.08 sen per kg recorded in the same period of 1997. Likewise, Standard Malaysian Rubber 20 (SMR20) recorded an increase in price during the period, that is by 3% to 282.77 sen per kg (January-July 1997: 274.48 sen per kg).

During the first half of 1998, the rubber price fluctuated between the range of 277 sen per kg and 313 sen per kg, influenced by ringgit exchange rate movements, supply situation and political development in Indonesia. In January 1998, the average RSS1 price increased by 8% to 293.37 sen per kg over the December 1997 average price of 271.66 sen per kg due mainly to the impact of ringgit depreciation on the export price. Other factors that contributed to the price increase in January included the short-covering activities by European and Asian buyers, depleted stocks due to the raining season and the fire in Hadyai, Thailand which destroyed between 38,000 tonnes and 40,000 tonnes of rubber. However, in February and March, the rubber price weakened due to slower demand and a firmer ringgit. By April, however, the price improved, due to the weakening of the ringgit, short-covering activities, improvement in rubber market sentiments in Japan and the low supply of rubber because of the wintering season. Henceforth, market condition was stable until the political unrest in Indonesia at the end of May. The situation prompted sellers in Indonesia to sell Standard Indonesian Rubber 20 (SIR20) at a low price to buyers that could provide shipping facilities for export. This depressed rubber prices in view of the large amount of rubber that has accumulated during the period while demand was weak.

In the third quarter of the year, the average price of RSS1 hovered in the range of 280 to 290 sen per kg as market fundamentals continued to remain weak. In terms of export of rubber by grade for the first seven months of 1998, Standard Malaysian Rubber (SMR) continued to be the main rubber grade exported, accounting for 83.9% of the total rubber exports, followed by prepared latex, 8.8% and the remainder being Ribbed Smoked Sheet (RSS), 3.9% and other forms of rubber, 3.4%.

For 1998 as a whole, export earnings from rubber is estimated to increase by 4.9% to RM3,114.8 million (1997: RM2,970.6 million), supported by moderate increases in export prices and volume. The average rubber price for RSS1 in 1998 is estimated at 280 sen per kg, while that of SMR20 is 270 sen per kg. This could lead to a 5.5% increase in export unit value during the year to 307.8 sen per kg (1997: 291.7 sen per kg). Export volume is, however, estimated to decline by 0.6% to 1.012 million tonnes (1997: 1.018 million tonnes).

Other Agriculture Commodities

During the first seven months of this year, export receipts from **cocoa beans** declined by 20% to RM61 million (January – July 1997: RM76.3 million). This was solely due to the lower export volume which declined by 53.7% to 10,377 tonnes as a result of the drought due to the El Nino phenomena which affected cocoa beans production especially in Sabah, the main cocoa producing state. Export unit value of cocoa during the first seven months of 1998, on the other hand, rose sharply by 72.7% to RM5,879 per tonne (January – July 1997: RM3,404 per tonne) due to the impact of ringgit depreciation on export prices as well as tight supply situation. Export receipts from cocoa beans are estimated to decline by 20.8% to RM90.4 million for the whole year of 1998 (1997: RM114.1 million). This is based on 51.6% drop in export volume to 15,000 tonnes as well as 63.7% increase in export unit value to RM6,027 per tonne. The higher export unit value reflects increasing world demand for cocoa beans under a tight supply condition.

Export earnings from **pepper** for the first seven months of this year increased by 85.1% to RM199.4 million (January – July 1997: RM107.7 million). This is due to 128.1% increase in export unit value to RM19,479.50 per tonne during the period (January – July 1997: RM8,538.40 per tonne), reflecting strong demand situation under condition of tight supply. For 1998 as a whole, export of pepper is expected to increase by 28.4% to RM384.0 million (1997: RM299.1 million), accompanied by 63.7% increase in export unit value to RM19,200 per tonne (1997: RM11,729 per tonne). Export volume, however, is expected to decline by 21.6% to 20,000 tonnes in 1998 (1997: 25,515 tonnes).

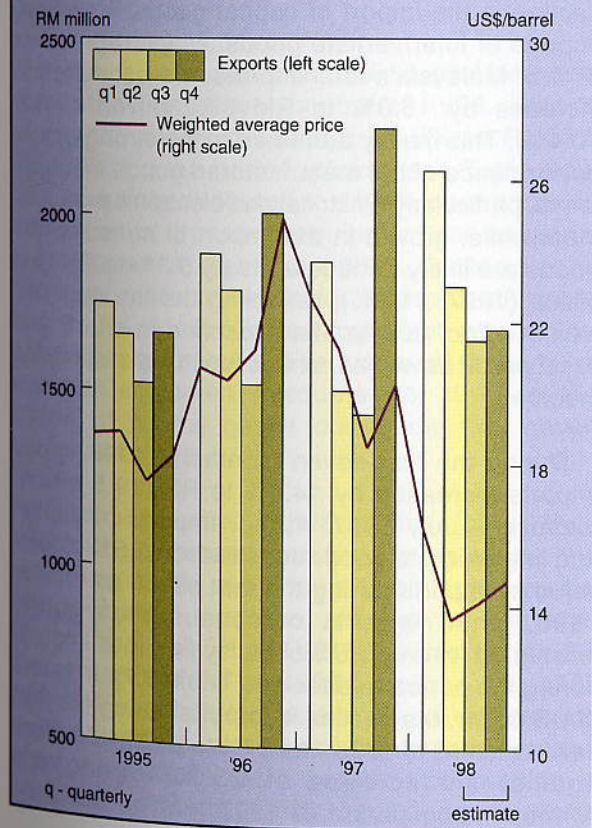
Crude Petroleum and Liquefied Natural Gas

In the first seven months of 1998, the export value of **crude petroleum** increased by 21.1% to RM4,554.2 million as compared to RM3,759.3 million recorded during the same period in 1997. This is due to 17.6% increase in export volume to 10.38 million tonnes (January – July 1997: 8.83 million tonnes). Despite the ringgit depreciation by 38.1% against the US dollar during the period, the unit export value increased by only 3% to RM438.7 per tonne (1997: January – July 1997: RM426.0 per tonne). This is due to the drop in the world price of crude petroleum in US dollar. During the first nine months of 1998, crude petroleum price (North Sea Brent prices) dropped by 29% to US\$13.83 per barrel (January – September 1997: US\$19.48 per barrel).

In tandem with world crude petroleum prices, the weighted average price (WAP) based on the export prices of all Malaysian crudes declined by 32.4% in the first quarter of 1998 to US\$16.24 per barrel (Q1 1997: US\$24.02 per barrel). The

decline was due to the overproduction of crude petroleum from the OPEC countries, new exports from Iraq under 'oil-for-food' programme, weak external demand especially from Asian countries which were facing economic crisis as well as a milder and shorter winter season. In the second quarter, the average price went down further to US\$13.67 per barrel (Q2, 1997: US\$21.27 per barrel). This was due to a slowdown in demand from Europe as refinery plants stepped up their maintenance programmes. The lower crude petroleum price provided consuming countries the opportunity to build up their crude petroleum stocks. Hence, world stocks increased by about 2.4 million barrels per day during the second quarter. In the third quarter, however, crude petroleum price rose to an average of US\$14.17 per barrel, an increase of 3.7% from the second quarter, underpinned by stronger demand from United States, Europe and other countries which are preparing for the coming winter. In the fourth quarter, the price is also expected to increase by 4.1% to US\$14.75 per barrel in anticipation of higher seasonal demand for fuel in winter. For the whole of 1998, the weighted average price of crude petroleum price could decline by 30.1% to US\$14.70 per barrel (1997: US\$21.02 per barrel), although in Malaysian ringgit, it is expected to decline by 1.8% to RM437 per tonne due to the impact of ringgit depreciation on ringgit export prices. With the export volume increasing by 4.6% to 16.60 million tonnes, crude petroleum export earnings could increase by 2.7% in 1998 to RM7,260.6 million (1997: RM7,068.6 million from 15.87 million tonnes of export).

Chart 6.5
Crude Oil - Exports and Price



In the first seven months of 1998, export earnings from **liquefied natural gas (LNG)** recorded an increase of 29.5% to RM4,933.8 million (January – July 1997: RM3,810.2 million). This was attributed to a 36.7% increase in the export unit value to RM571.7 per tonne, compared to RM418.2 per tonne recorded in the same period in 1997. Export volume of LNG, however, declined by 5.3% to 8.63 million tonnes (January – July 1997: 9.11 million tonnes). The decline in export volume was due to lower offtake from South Korea as the country was faced with economic difficulties. For 1998 as a whole, exports earnings receipts from LNG exports could increase by an estimated 21.2% to RM8,185.9 million (1997: RM6,752 million) underpinned by higher export unit value due to the impact of ringgit depreciation on export prices.

Tin

Earning receipts from the export of **tin** in the first seven months of 1998 increased by 14.3% to RM318.4 million (January – July 1997: RM278.6 million), as a result of 49.1% increase in export unit value to RM21.48 per kg (January – July 1997: RM14.41 per kg). The average price of tin in the Kuala Lumpur Tin Market (KLTM) during the first nine months increased by 46.4% to RM21.66 per kg (January – September 1997: RM14.80 per kg), reflecting the low level of stocks in the London Metal Exchange (LME) and the effect of the depreciation of the ringgit on export prices. Export volume, however, declined by 23.4% during the first seven months of 1998 to 14,821 tonnes, compared with 19,336 tonnes during the same period in 1997.

For the remaining months of the year, tin price is expected to remain stable at RM 22.34 per kg due to tight supply and continued low level of tin stocks in the London Metal Exchange (LME). Thus, for the whole of 1998, earnings from tin export

are envisaged to increase by 27% to RM608.6 million (1997: RM479.1 million), due primarily to 40.8% increase in tin price to an estimated RM22.00 per kg (1997: RM15.62 per kg). Export volume, however, could decline by 9.4% to 28,800 tonnes (1997: 31,805 tonnes).

Import Performance

Malaysia's gross imports of goods valued cum costs of insurance and freight (c.i.f.) increase by an estimated 12.9% to RM 249.5 billion in 1998 (1997: 12%). This moderate increase reflects the combined impact of ringgit depreciation on import prices, since 70.5% of Malaysia's imports are traded in US dollar, as well as the reduction in import volume due to the contraction in domestic demand.

Imports of capital goods, which account for 17% of total imports, could decline by 2.8% to RM42.4 billion in 1998 (1997: 19.2%) as investment capital expenditure is lower in 1998 in view of excess capacities in the manufacturing sector and sluggish construction activities. Recent measures taken by the government to reduce the import of heavy machinery have also contributed to the decline in the import of capital goods. However, imports of intermediate goods, which represents 67% of Malaysia's total imports, are estimated to increase by 15.3% to RM167.2 billion (1997: 10.4%). This mainly attributed to the strong export performance of the manufactured goods in ringgit terms, particularly electrical and electronic products. Meanwhile, growth in the import of consumption goods are likely to decelerate by 5.3% to RM14.8 billion (1997: 11.3%), reflecting the the negative wealth effect due to sharp decline in share and asset prices as well as contraction in real disposable income.

During the first seven months of 1998, gross imports increased by 14.6% to RM119.5 billion, (January - July 1997: 4.7%). Imports of capital and intermediate goods constituted 86.5% of total value of imports during the first seven months of 1998, while imports of consumption goods accounted for only 5.6% of Malaysia's total imports during the period (please see Table 6.7). In terms of US dollar, the decline in imports during the first seven months of 1998 was 27% to US\$34.7 billion, against an increase of 23.3% during the corresponding period of 1997.

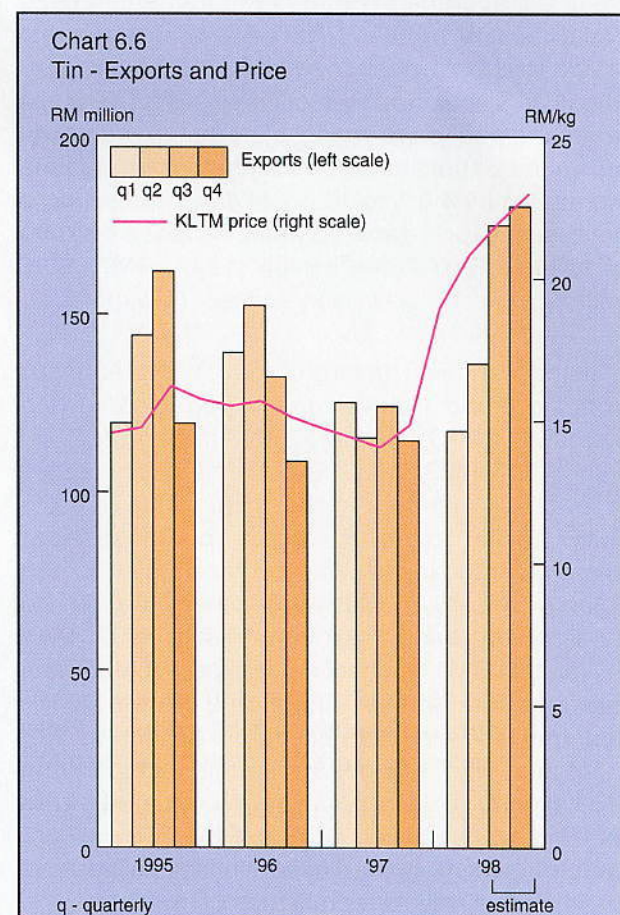


Table 6.7

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

	Value (RM billion)		Annual Change (%)		Share (%)	
	1997	1998	1997	1998	1997	1998
Capital goods	25.0	23.3	21.5	-6.8	21.0	17.1
Intermediate goods	77.1	94.8	1.5	23.0	64.8	69.5
Consumption goods	7.4	7.7	5.2	3.9	6.3	5.6
Others (including dual use goods)	6.0	4.6	2.7	-23.3	5.0	3.4
Imports for re-exports	3.5	6.0	-15.9	67.9	2.9	4.4
TOTAL	119.0	136.4	4.7	14.6	100.0	100.0

Source: Department of Statistics

Capital Goods

Reflecting a slowdown in domestic capital formation during the first seven months of 1998, imports of **capital goods** declined by 6.8% to RM23.3 billion during the period (please see Table 6.8). This is mainly attributed to 15.4% contraction in the import of transport equipment for industrial purposes as a result of 83.9% decline in the import of motor vehicles for transport of goods and 77.1% decline in the import of mechanical handling equipments. The value of imports of transport equipment accounted for 19.7% of the import of capital goods during the first seven months of 1998.

Imports of other capital goods (other than transport equipment), which accounted for the remaining 80.3% of the imports of capital goods, also registered a decline, although by a smaller margin, that is 4.3% to RM18.7 billion during the first seven months of 1998 (January-July 1997 : 11%). Nevertheless, imports of civil engineering and contractors' plants and equipment dropped sharply by 83.7%, as a result of contraction in construction starts. Other capital goods which

declined significantly due to the poor performance of the construction sector were metal products, such as iron and steel bars, ingots and pig iron. At the same time, imports of ships and boats also contracted as demand for shipping services were affected by lower trade volume.

The decline in the import of capital good reflects the recent measures taken by the government to reduce imported heavy machinery as well as to encourage the refurbishment of used machinery available in abundant within the country. These measures which were introduced during the presentation of the 1997 and 1998 Budget are as follows:

- (i) all imports of heavy machinery for the construction sector were required to obtain approval to import from the Ministry of International Trade and industry. The approval would only be given if these machinery were not available locally;
- (ii) import duty on construction materials such as tiles, marble, iron and steel was increased from between 5% and 25% to between 10% and 30%;

Table 6.8

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

	Value (RM billion)		Annual change (%)	
	1997	1998	1997	1998
Capital goods (except transport Equipment)	19.6	18.7	11.0	-4.3
Transport equipment for Industrial Purposes	5.4	4.6	83.9	-15.4
TOTAL	25.0	23.3	21.5	-6.8

Source: Department of Statistics

- (iii) import duty of 5% was imposed on heavy machinery and equipment such as tower cranes, forklifts and escalators;
- (iv) import duty on dumpers and multi-purpose vehicles was increased from between zero and 30% to 50%;
- (v) import duty on special purpose vehicles such as crane lorries and concrete mixer lorries was increased from 35% to 50%; and
- (vi) the rate of initial capital allowance for imported heavy machinery was reduced from 20% to 10%, and the annual allowance was reduced from between 12% and 20% to 10%.

Intermediate Goods

As a result of higher import prices due to ringgit depreciation, growth in the value of imports of **intermediate goods** accelerated to 23% or RM94.8 billion during the first seven months of 1998 (January-July 1997: 1.5%). Imports of thermionic valves and tubes, which accounted 27.3% of total imports, increased significantly by 55.6% during the first seven months of 1998 (January-July 1997:

-4.7%), in line with the higher value of exports of electrical and electronic products during the first seven months of 1998. Similarly, imports of processed materials and components used by the food and beverages industry turned around to record a marked increase of 50% during the period under review (January-July 1997: -9%). Import of parts and accessories of capital goods for non-transport equipment registered a strong increase as well, that is by 43.6% during the first seven months of 1998. Other intermediate goods, which registered increases during the period were primary food and beverages (50%) as well as

Table 6.9

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

	Value (RM billion)		Annual change (%)	
	1997	1998	1997	1998
Food & beverages, primary, Mainly for industry	0.8	1.1	7.2	37.5
Food & beverages, processed, Mainly for industry	0.8	1.2	-9.0	50.0
Industrial supplies, Primary	2.9	3.0	3.9	3.4
Industrial supplies, Processed	27.4	27.2	4.9	-0.7
Fuel & lubricants, primary	0.4	0.6	-1.3	50.0
Fuel & lubricants, processed, other	2.0	2.1	16.1	5.0
Parts & accessories of capital Goods (except transport Equipment)	40.6	58.3	-1.3	43.6
Parts & accessories for Transport equipment	2.2	1.3	2.5	-40.9
TOTAL	77.1	94.8	1.5	23.0

Source: Department of Statistics

primary fuel and lubricants (37.5%), as shown in Table 6.9. However, imports of parts and accessories for transport equipment declined sharply by 40.9% during the first seven months of 1998 (January-July 1997: 2.5%), reflecting the significant decline in the production of transport equipment in the country, particularly that of automobile industry.

Consumption Goods

Imports of **consumption goods**, which accounted for 5.6% of total imports, increased by 3.9% to RM7.7 billion during the first seven months of 1998, that is a slower rate when compared with the 5.2% increase in the corresponding period of 1997, despite higher import prices due to ringgit depreciation (please see Table 6.10). This deceleration in growth reflects the impact of a contraction in disposable income, erosion of consumer wealth due to asset deflation, difficulty in getting credit financing, high interest rate as well as general lack of consumer confidence in view of employment uncertainties in the face of reduced economic activities. Imports of consumption goods that recorded sharp decline during the period was transport equipment for non-industrial use, that is by 80%. However, imports of processed food items for household consumption, such as barley, butter and margarine grew by 15.8% to RM2.2 billion, while of primary food items for household consumption, such as rice and vegetables increased by 10% to RM1.1 billion during the first seven months of 1998.

Imports of **other consumer goods** declined by 0.2% during the first seven months of 1998, mainly attributed to the sharp decline in the import of consumer durables goods by 23.1%. However, imports of semi-durables goods increased marginally by 0.6% to RM1.65 billion, while growth of imports of non-durable goods decelerated to 8.8%.

Other imports (including dual use goods) dropped by 23.3% to RM4.6 billion (January-July 1997: 2.7%). This is mainly due to a 31.2% decline in imports of dual use goods which comprised processed fuel and lubricants, motor spirit as well as transport equipment and passenger motorcars (January-July 1997: -2.2%). In particular, import of passenger motorcars and transport equipment registered a significant decline of 63.9% during the period under review to RM0.8 billion (January-

Table 6.10
Imports of Consumption Goods by End Use – BEC Categories
(January-July)

	Value (RM billion)		Annual change (%)	
	1997	1998	1997	1998
Food & beverages, primary, mainly for household consumption	1.0	1.1	8.6	10.0
Food & beverages, processed, mainly for household consumption	1.9	2.2	4.9	15.8
Transport equipment, non-industrial	0.1	0.02	-5.8	-80.0
Other Consumer goods,	4.39	4.38	4.8	-0.2
Durables	0.82	0.63	-11.2	-23.1
Semi-durables	1.64	1.65	0.2	0.6
Non-durables	1.93	2.1	18.6	8.8
TOTAL	7.4	7.7	5.2	3.9
<i>Source: Department of Statistics</i>				

July 1997: -12.6%), reflecting the impact of higher import duty on passenger cars introduced in the 1998 Budget. (Please see Table 6.11).

Imports for re-exports, which comprised mainly tin ore and natural rubber, grew significantly by 67.9% during the first seven months of 1998 compared with a decline of 15.9% in the same period of 1997. Imports for re-exports, however, remained a relatively small proportion of total imports (4.4%) during the period under review. After discounting imports for re-exports, retained

Table 6.11

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

	Value (RM billion)		Annual change (%)	
	1997	1998	1997	1998
Dual use goods	3.2	2.2	-2.2	-31.2
Fuels & lubricants, processed, Motor spirit	1.0	1.4	33.0	40.0
Transport equipment, Passenger motor cars	2.2	0.8	-12.6	-63.6
Others	2.8	2.4	12.5	-10.7
TOTAL	6.0	4.6	2.7	-23.3

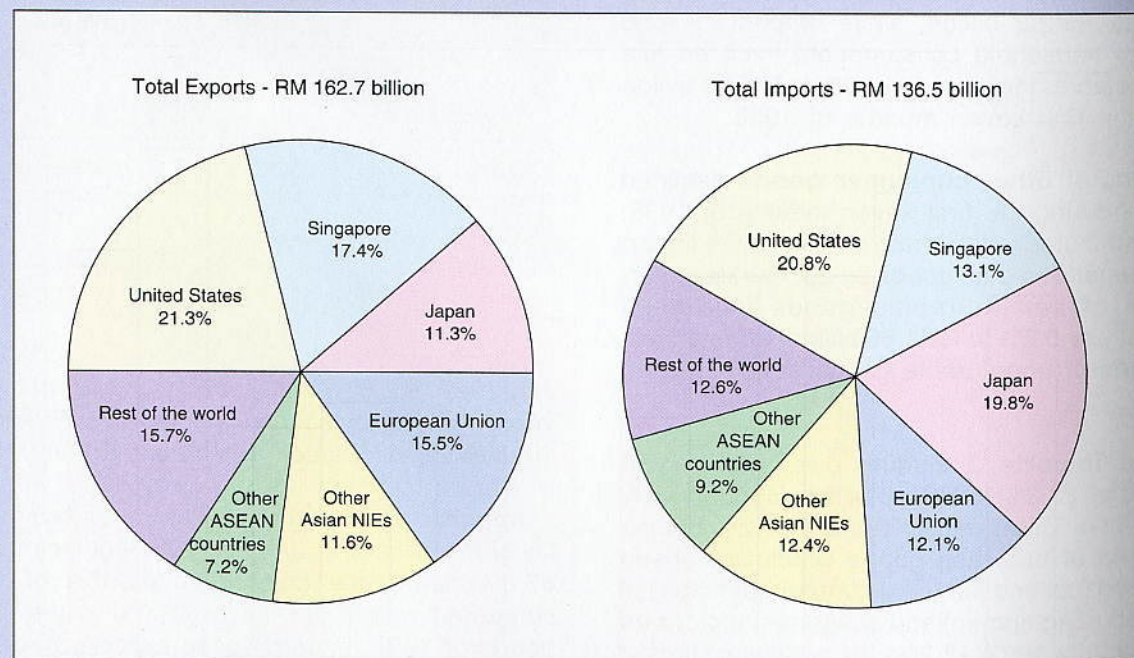
Source: Department of Statistics

imports grew by 12.9% to RM130.5 billion compared with a growth of 5.6% in the corresponding period of 1997.

Direction of Trade

Reflecting the impact of ringgit depreciation against the US dollar on export value as well as the nature of Malaysia's external trade which is largely settled in US dollar, Malaysia's total trade expanded by 27.5% to RM299.2 billion during the first seven months of 1998 (January-July 1997: 3.7%). Gross exports, valued at free-on-board (f.o.b), surged by 40.9% to RM162.7 billion (January-July 1997: 19.7%), accounting for 54.4% of total trade. Gross imports, valued at c.i.f, however, increased moderately by 14.6% to RM136.4 billion (January-July 1997: 4.7%), to constitute 45.6% of total trade, due to lower volume of imports as a result of contraction in domestic demand. With the export value increasing at a faster rate than that of import, Malaysia registered a higher trade surplus of RM26.2 billion during the first seven months of 1998, against a deficit of RM3.6 billion in the

Chart 6.7
Direction Of Trade
(January - July 1998)



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

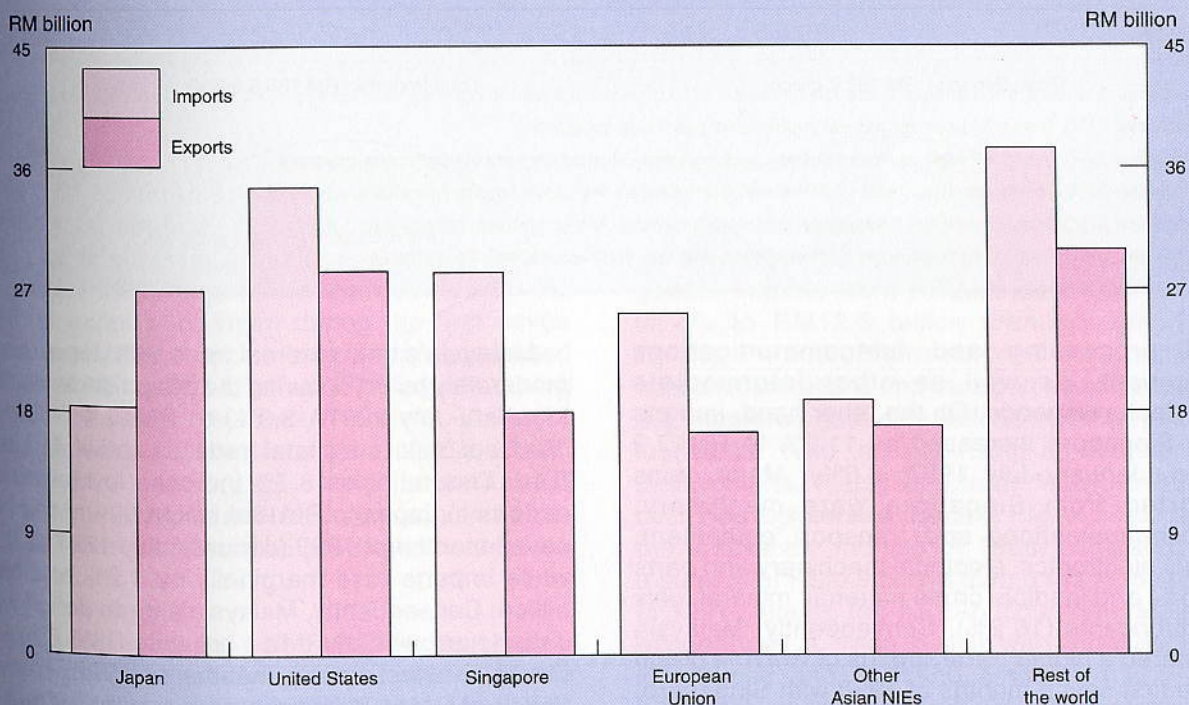
corresponding period of 1997. The United States of America (US) is the Malaysia's single largest trading partner during the first seven months of 1998, with a total trade value of RM63 billion or 21.1% of Malaysia's total trade, followed by Singapore (15.4%), Japan (15.2%) and the European Union (EU) (9.2%). Trade with the Newly Industrialising Economies (NIE's) of Asia, comprising South Korea, Taiwan and Hong Kong SAR, constituted 11.9% of Malaysia total trade during the first seven months of 1998.

Malaysia's trade with the **US** expanded markedly by 58.7% to RM63 billion in the first seven months of 1998. Exports to USA surged by 73% to RM34.6 billion while imports increased by 44.2% to RM28.4 billion (please see Table 6.12). Consequently, Malaysia's registered a higher trade surplus of RM6.2 billion during the first seven months of 1998 with the US, compared with a surplus of RM0.3 billion in the corresponding period of 1997. Malaysia's exports to US constituted 21.3% of total export earnings during the first seven months of 1998 and comprised mainly of machinery and telecommunications, particularly electronics and

electrical machinery and parts, office machines and automatic data processing equipment, which accounted for 77.2% of total exports to US. Imports from the US, accounted for 20.8% of total Malaysia's imports during the first seven months of 1998. Main items imported from the US were machinery including electronics, electrical machinery and parts as well as thermionic valves and tubes and transport equipment, which accounted for 76.4% of total imports from the US.

Malaysia's external trade with **Singapore** expanded further by 16.4% to RM46.2 billion during the first seven months of 1998 (January-July 1997: 6.1%). With this, Singapore was as Malaysia's second largest trading partner, accounting for 15.4% of Malaysia's total trade during the period. Malaysia exports to Singapore grew by 19.9% to RM28.3 billion compared with a growth of 4.7% in the corresponding period of 1997 (please see Table 6.13). The bulk of the total exports to Singapore comprised mainly machinery and transport equipment including electrical and electronics products, office machines and automatic

Chart 6.8
Balance Of Trade
(January - July 1998)



Source : The Department of Statistics.

Table 6.12
Trade with the United States of America
(January-July)

	<i>Exports</i>				<i>Imports</i>			
	<i>Value (RM billion)</i>		<i>Annual change (%)</i>		<i>Value (RM billion)</i>		<i>Annual change (%)</i>	
	1997	1998	1997	1998	1997	1998	1997	1998
Food beverages, tobacco, oils and fats ¹	0.3	0.6	44.2	100.0	0.8	0.6	-7.1	-25.0
Inedible crude material, Mineral fuels and lubricants ²	0.6	0.8	21.2	33.3	0.47	0.54	-14.8	14.9
Manufactured goods, Intermediate ³	1.0	1.8	0.7	80.0	2.3	2.9	1.1	26.1
Machinery, telecommunications and transport equipment ⁴	15.2	26.7	-8.7	75.7	14.2	21.7	5.3	52.8
Manufactured goods, Final products ⁵	2.9	4.6	-4.3	58.6	1.5	2.2	35.5	46.7
Miscellaneous ⁶	0.07	0.08	-10.9	14.3	0.47	0.49	8.5	4.3
TOTAL	20.0	34.6	-6.4	73.0	19.7	28.4	5.6	44.2

¹ Includes Standard International Trade Classification (SITC) codes 0,1 and 4 such as rice, tobacco and other fixed vegetable oils

² Includes SITC 2 and 3, such as natural rubber and petroleum products

³ Includes SITC 5 and 6, such as hydrocarbons, sulphonated, nitrated as well as flat-rolled products

⁴ Includes SITC 7 only, such as thermionic valves and tubes as well as telecommunications equipments

⁵ Includes SITC 8 only, such as measuring, checking, analysing and controlling instruments

⁶ Includes SITC 9 only, such as special transactions and commodities as well as gold

data processing and telecommunications equipment, as well as other intermediate manufactured goods. On the other hand, imports from Singapore increased by 11.2% to RM17.9 billion (January-July 1997: 8.3%). Major items imported from Singapore were machinery, telecommunications and transport equipment, mainly electronics, electrical machinery and parts (62.6%) and inedible crude material, mineral fuels and lubricants (16.2%). Consequently, Malaysia registered a higher trade surplus of RM10.4 billion in the first seven months of 1998 with Singapore, compared with a surplus of RM7.5 billion in the corresponding period of 1997.

Malaysia's total external trade with **Japan** grew moderately by 8.1% during the period under review (January-July 1997: -3.9%) to RM45.4 billion or 15.2% of Malaysia's total trade, as shown in Table 6.14. This reflects 18.7% increase in Malaysia's exports to Japan to RM18.4 billion during the first seven months of 1998 (January-July 1997: 2.3%) while imports rose marginally by 1.9% to RM27 billion. Consequently, Malaysia's trade deficit with Japan narrowed by RM2.4 billion to RM8.6 billion during the first seven months of 1998, from a deficit of RM11 billion during the same period of 1997. As shown in chart 7.7, exports to Japan

Table 6.13

Trade with Singapore
(January-July)

	Exports				Imports			
	Value (RM billion)		Annual change (%)		Value (RM billion)		Annual change (%)	
	1997	1998	1997	1998	1997	1998	1997	1998
Food beverages, tobacco, oils and fats	1.5	1.9	0.4	26.7	0.11	0.13	4.9	18.2
Inedible crude material, Mineral fuels and lubricants	1.5	1.4	-1.5	-6.7	2.4	2.9	15.1	20.8
Manufactured goods, Intermediat	2.4	3.1	-0.9	29.2	2.0	2.2	9.9	10.0
Machinery, telecommunications and transport equipment	15.9	19.4	6.5	22.0	9.5	11.2	4.3	17.9
Manufactured goods, Final products	1.7	1.73	3.8	1.8	0.7	0.9	9.3	28.6
Miscellaneous	0.6	0.7	13.4	16.7	1.4	0.6	23.9	-57.1
TOTAL	23.6	28.3	4.7	19.9	16.1	17.9	8.3	11.2

Source: Department of Statistics

constituted 11.3% of Malaysia's total export earnings, comprised mainly of natural and manufactured gas, telecommunications and electrical machinery, apparatus and appliances. Together, these export items accounted 86.4% of total exports to Japan during the first seven months of 1998. Imports from Japan accounted 19.8% of Malaysia's total value of imports during the period under review. A total of 90.7% of Malaysia's imports from Japan consisted electrical machinery, apparatus and appliances, telecommunications and transport equipment as well as other manufactured goods particularly iron and steel.

Malaysia's trade with **ASEAN** (excluding Singapore) increased at a faster rate of 36.4% to RM23.6 billion, accounting for 7.9% of Malaysia's total trade. The value of exports to these countries

increased by 30% to RM11.7 billion (January-July 1997: -1.1%). The major items exported were mainly machinery, telecommunications and transport equipments as well as other manufactured goods. Imports from ASEAN countries rose by 52.4% to RM12.5 billion (January-July 1997: 22.4%). The bulk of items imported were machinery, telecommunications and transport equipment, other manufactured goods as well as mineral fuels and lubricants. With imports rising at a faster rate than exports, Malaysia's trade with the ASEAN countries registered a deficit of RM1.4 billion during the first seven months of 1998, compared with a surplus of RM0.9 billion during the same period in 1997. Among the ASEAN countries, Malaysia experienced a trade deficit with Indonesia, the Philippines and Thailand amounting to RM1.2 billion, RM1 billion and RM0.02 billion respectively during the first seven months of 1998.

Table 6.14
Trade with Japan
(January-July)

	<i>Exports</i>				<i>Imports</i>			
	<i>Value (RM billion)</i>		<i>Annual change (%)</i>		<i>Value (RM billion)</i>		<i>Annual change (%)</i>	
	1997	1998	1997	1998	1997	1998	1997	1998
Food beverages, tobacco, oils and fats	0.6	1.0	0.3	66.7	0.06	0.057	27.0	-5.0
Inedible crude material, Mineral fuels and lubricants	5.1	5.5	10.7	7.8	0.23	0.22	5.5	-4.3
Manufactured goods, Intermediate	2.4	2.2	22.3	-8.3	5.4	6.2	-8.1	14.8
Machinery, telecommunications and transport equipment	6.2	8.2	-7.2	32.3	18.5	18.3	-8.2	-1.1
Manufactured goods, Final products	1.1	1.3	-11.1	18.2	1.4	1.7	8.5	21.4
Miscellaneous	0.11	0.15	37.9	36.4	0.9	0.5	2.9	-44.4
TOTAL	15.5	18.4	2.3	18.7	26.5	27.0	-6.9	1.9

Source: Department of Statistics

Total trade with **EU**, which accounted for 13.9% of Malaysia's total trade, grew by 15.5% to RM41.6 billion during the first seven months of 1998 (January-July 1997: 5.1%). Total exports to EU surged by 53.7% to RM25.2 billion while imports declined by 3% to RM16.4 billion (please see Table 6.15). Malaysia, therefore, registered a trade surplus of RM8.8 billion compared with a trade deficit of RM0.5 billion in the corresponding period of 1997. Major export items to EU comprised electrical machinery, telecommunications and office machines and automatic data processing equipment as well as final manufactured goods. Meanwhile, imports from EU were mainly electrical machinery, apparatus and appliances, as well as industrial machinery and equipment. Germany remained as Malaysia's most important trading partner among the EU countries, accounting for 25.2% of

Malaysia's total trade with EU, followed by United Kingdom (20.7%). Malaysia's exports to Germany expanded by 41.2% to RM4.8 billion while imports from Germany increased by 16.3% to RM5.7 billion, resulting in Malaysia recording a trade deficit of RM0.9 billion. At the same time, exports to UK surged by 47.4% to RM5.6 billion, while imports from UK declined by 3.2% to RM3 billion. With export value being higher than import, Malaysia recorded a trade surplus of RM2.6 billion during the first seven months of 1998 (January-July 1997: RM0.7 billion).

Malaysia's trade with the **NIE's of Asia** (excluding Singapore), constituting 11.9% of total trade, grew by 13% to RM35.7 billion during the first seven months of 1998, reflecting the impact of ringgit depreciation on trade value which was

Table 6.15

Trade with the European Union
(January-July)

	Exports				Imports			
	Value (RM billion)		Annual change (%)		Value (RM billion)		Annual change (%)	
	1997	1998	1997	1998	1997	1998	1997	1998
Food beverages, tobacco, oils and fats	1.1	2.3	-11.8	109.1	0.5	0.6	-11.3	20.0
Inedible crude material, Mineral fuels and lubricants	1.1	1.4	-6.9	27.3	0.3	0.2	34.6	-33.3
Manufactured goods, Intermediate	1.4	2.5	10.6	78.6	3.5	3.4	5.9	-2.9
Machinery, telecommunications and transport equipment	10.5	15.8	11.8	60.0	11.3	11.1	3.2	-1.8
Manufactured goods, Final products	2.1	3.0	5.1	42.9	0.7	0.8	4.6	14.3
Miscellaneous	0.17	0.2	41.6	17.6	0.6	0.3	3.8	-50.0
TOTAL	16.4	25.2	7.7	53.7	16.9	16.4	3.8	-3.0

Source: Department of Statistics

largely denominated in US dollar and lower volume of external trade due to economic slowdown in these countries. Exports grew by 19.6%, while imports grew by 6.8%, resulting in Malaysia recording a trade surplus of RM1.9 billion (January-July 1997: RM1.1 billion). Exports to NIE's comprising mainly machinery, telecommunications and transport equipment and mineral fuels while major imports from NIE's were machinery, telecommunications and transport equipment as well as other manufactured goods. Among the NIE's, Taiwan remained as a major trading partner amounting 38.4% of total trade with the NIE's, followed by Hong Kong SAR (32.5%) and South Korea (29.4%). Trade with Taiwan expanded by 24.5% to RM13.7 billion, with exports increasing

by 25.9% to RM6.8 billion, while imports increased by 23.2% to RM6.9 billion. Consequently, Malaysia's trade with Taiwan resulted in a deficit of RM0.1 billion (January-July 1997: -RM0.2 billion). Trade with Hong Kong SAR rose by 24.7% to RM11.6 billion during the first seven months of 1998 (January-July 1997: 2.2%). With exports expanding by 26.2% to RM8.2 billion and imports increasing by 21.4% to RM3.4 billion, Malaysia registered a trade surplus of RM4.8 billion with Hong Kong SAR. Meanwhile, trade with South Korea grew by 6.1% to RM10.5 billion during the first seven months of 1998 (January-July 1997: -2.5%). Exports to South Korea increased by 5.4% to RM3.9 billion while imports from South Korea increased by 6.5% to RM6.6 billion. Therefore,

Malaysia's continued to record a trade deficit of RM2.7 billion with South Korea in the first seven months of 1998 (January-July 1996: -RM2.5 billion).

Total trade with the **People's Republic of China** rose by 39% during the first seven months of 1998 (January-July 1997: 16.1%). The increase was underpinned by 53.8% increase in exports to RM4 billion, particularly through of higher exports of cork and wood manufactures (excluding furniture), electrical machinery, apparatus and appliances as well as petroleum products. Malaysia's imports from China, however, which increased at a slower rate of 27.3% to RM4.2 billion (January-July 1997: 32%), comprised mainly food items, transport equipment and electrical

machinery, apparatus and appliances. With import value being higher than export value, Malaysia's recorded a trade deficit of RM0.2 billion with China during the first seven months of 1998 (January-July 1997: -RM0.7 billion).

Malaysia's external trade with **Australia** and **New Zealand** expanded by 28.6% and 12.6% respectively during the first seven months of 1998. In the case of Australia, Malaysia's exports surged by 78.9% to RM3.4 billion, while imports fell by 3.3% to RM2.9 billion. With exports exceeding imports, Malaysia recorded a trade surplus of RM0.5 billion with Australia. This is reversal of the situation during the corresponding period of 1997 when Malaysia recorded a trade deficit of

Table 6.16
Trade with the Newly Industrialising Economies of Asia¹
(January-July)

	Exports				Imports			
	Value (RM billion)		Annual change (%)		Value (RM billion)		Annual change (%)	
	1997	1998	1997	1998	1997	1998	1997	1998
Food beverages, tobacco, oils and fats	0.9	1.0	-7.8	11.1	0.15	0.13	26.4	-13.3
Inedible crude material, Mineral fuels and lubricants	3.1	3.4	98.6	9.7	0.23	0.21	-8.2	-8.7
Manufactured goods, Intermediate	3.6	4.7	6.6	30.6	3.3	4.1	-2.3	24.2
Machinery, telecommunications and transport equipment	7.3	8.8	11.3	20.5	9.4	11.4	14.5	21.3
Manufactured goods, Final products	0.7	0.8	6.7	14.3	0.77	0.76	-7.1	-1.3
Miscellaneous	0.14	0.13	32.4	-7.1	0.8	0.3	-22.1	-62.5
TOTAL	15.7	18.8	19.2	19.7	14.6	16.9	6.0	15.8

¹ Comprising South Korea, Taiwan and Hong Kong SAR only.

Source: Department of Statistics

RM1.1 billion. As for New Zealand, Malaysia's exports surged by 33.3% to RM0.4 billion, while imports increased marginally by 1.8% to RM 0.58 billion. Nevertheless, Malaysia still recorded a trade deficit of RM0.18 billion with New Zealand (January-July 1997: - RM0.3 billion). 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.

Although Malaysia's trade with **West Asia** rose by 48.4% to RM4.6 billion, it accounted for only 2% of Malaysia's total trade during the first seven

months of 1998. Total exports to West Asia increased by 54.5% to RM3.4 billion, while imports grew by 33.3% to RM1.2 billion. With export value expanding at a much faster rate than the value of imports, Malaysia's registered a trade surplus of RM2.2 billion during the first seven months of 1998 with West Asia, compared with a surplus of RM1.3 billion during the corresponding period of 1997. United Arab Emirates, Saudi Arabia and Jordan accounted for 66.7% of Malaysia's total trade with West Asia. Major items exported to West Asia were palm oil, food and electrical products. On the other hand, imports from West Asia comprised mainly mineral fuels and lubricants as well as inedible crude materials.

Table 6.17
Direction of Trade with other Trading Partners
(January-July)

	Exports				Imports				Balance of trade (RM billion)	
	Value (RM billion)		Annual change (%)		Value (RM billion)		Annual change (%)		1997	1998
	1997	1998	1997	1998	1997	1998	1997	1998		
ASEAN (including Singapore)	32.7	39.9	3.2	22.0	24.4	30.4	12.4	24.6	8.3	9.5
China	2.6	4.0	0.8	53.8	3.3	4.2	32.0	27.3	-0.7	-0.2
Australia	1.9	3.4	11.8	78.9	3.0	2.9	-3.2	-3.3	-1.1	0.5
New Zealand	0.3	0.4	-21.1	33.3	0.57	0.58	5.6	1.8	-0.27	-0.18
West Asia	2.2	3.4	4.8	54.5	0.9	1.2	12.5	33.3	1.3	2.2
Central & Eastern Europe	0.19	0.37	-3.6	94.7	0.24	0.16	20.9	-33.3	-0.05	0.21
Other Minor Trading partners	0.4	1.8	1.5	4.5	2.1	2.8	40.1	33.3	-1.7	-1.0
TOTAL	40.3	53.3	2.8	23.1	34.5	42.2	11.3	22.3	5.8	11.1
(% Share to total exports or imports)	34.9	32.8	29.0	30.9						

Source: Department of Statistics

Malaysia's trade with **Central and Eastern Europe** grew by 23.3% to RM0.53 billion during the first seven months of 1998 (January-July 1997: 8.3%). The strong growth in the trade value was attributed to 94.7% increase in Malaysia's exports to 49% in region to RM0.37 billion. Nevertheless, Malaysia's imports fell from the region by 33.3% to RM0.16 billion. As a result, Malaysia registered a trade surplus of RM0.21 billion with Central and Eastern Europe compared with a deficit of RM0.05 billion in the corresponding period of 1997. A significant portion of Malaysia's trade with Central and Eastern Europe was with Poland, Hungary and Republic Of Czech.

Balance of Payments

The current account of the balance of payments is envisaged to record a large surplus of RM20 billion (7.7% of GNP) in 1998 (1997: - RM14.2 billion or 5.4% of GNP), the first surplus since 1989. The positive turnaround in the Malaysia's external payments current account position is attributed to the unprecedented large surplus recorded in the merchandise account, which is more than sufficient to offset the expected deficit in the services account. The capital account is, however, likely to record a lower net inflow of official and private long-term capital. Nevertheless, the basic balance is estimated to record a significantly larger surplus of RM33.9 billion (1997: RM4.9 billion). After taking into account net outflow of short-term capital and revaluation gains of foreign exchange reserves held by Bank Negara Malaysia, the overall position of the balance of payments is estimated to register a surplus of RM26.8 billion in 1998, compared with a deficit of RM10.9 billion in 1997.

Current Account

Merchandise exports, valued at free-on-board (f.o.b), increase by an estimated 28.1% to RM280.2 billion in 1998 (1997: 13.2%), largely reflecting the impact of ringgit depreciation on export value. The continued robust growth in the value of merchandise exports is underpinned by higher export earnings of manufactured goods and agricultural commodities. Meanwhile, **merchandise imports** increase at a relatively slower rate of an estimated 14.5% to RM237.5 billion in 1998, due

to significant reduction in the quantity of imports following contraction in real domestic demand. With merchandise exports increasing relatively faster than imports, the merchandise account is estimated to record a higher surplus of RM42.7 billion in 1998 as compared with a surplus of RM11.3 billion in 1997.

The total **services account** deficit remains large, at RM19.5 billion in 1998 (1997: - RM21.8 billion). The services deficit is mainly attributed to the substantial net investment income payments as well as net payments for freight and insurance services. Net outflow of **investment income** continues to be the major contributor to the services deficit. The gross amount of payments for investment income increases by an estimated 12.8% to RM22.9 billion in 1998 (1997: RM20.3 billion), largely due to higher interest payments as a result of higher external loans caused by the ringgit depreciation as well as higher repatriation of profits and dividends as a result of higher ringgit export earnings by foreign companies. At the same time, investment income receipts, which include mainly receipts on the external assets of Central Bank and income from Malaysian investment abroad, are envisaged to increase slightly to RM6.7 billion compared with RM6.5 billion recorded in 1997. The net outflow of investment income, therefore, is likely to widen further to RM16.2 billion in 1998 (1997: - RM13.8 billion), representing 83.1% of the total services deficit.

The net outflow on **freight and insurance** services is estimated at RM9.7 billion in 1998, about the same deficit as in 1997 (RM9.5 billion). In tandem with lower volume of imports, the gross amount of payments for freight and insurance services increases moderately by an estimated 8.7% to RM13.7 billion (1997: RM12.7 billion). Nevertheless, total earnings from the provision of freight and insurance services is envisaged to increase by 25% to RM4 billion (1997: RM3.2 billion), in line with capacity expansion undertaken by the domestic shipping and local insurance industries in recent years.

With regard to net payments position of the **'other services'** which include payments for contract and professional charges, management and agency fees, royalty payments, franchise fees, commissions, salaries and allowances to non-residents, the deficit could narrow significantly from RM4.5 billion in 1997 to RM0.8 billion in 1998. Total amount of receipts from 'other services'

Table 6.18
Current Account of the Balance of Payments
(RM million)

	1997			1998 ^a			1999 ⁱ
	+	-	Net	+	-	Net	Net
Merchandise account (Exports & imports fob)	218,701	207,364	11,337	280,248	237,524	42,724	33,358
Services account	49,532	71,323	-21,792	56,302	75,788	-19,486	-19,395
Freight and insurance	3,173	12,699	-9,526	4,025	13,750	-9,725	-9,927
Other transportation	6,608	4,038	2,570	6,985	4,998	1,987	2,225
Travel	10,523	6,970	3,553	11,801	6,525	5,276	6,310
Investment income	6,493	20,320	-13,827	6,720	22,855	-16,135	-16,305
Government transactions	308	375	-67	321	405	-84	-98
Other services	22,427	26,921	-4,495	26,450	27,255	-805	-1,600
Goods and services Account	268,233	278,687	-10,454	336,550	313,312	23,238	13,963
Unrequited transfers	2,254	5,952	-3,698	2,552	5,725	-3,173	-2,950
Current account	270,487	284,639	-14,153	339,102	319,037	20,065	11,013

^a Estimates

ⁱ Forecast

is estimated to increase at a stronger rate of 18.3% to RM26.5 billion in 1998 (1997: RM22.4 billion), reflecting the impact of valuation gains of foreign exchange earnings in ringgit value. On the other hand, total amount of payments is estimated to increase at a slower rate of 1.5% to RM27.3 billion (1997: RM26.9 billion), largely due to lower construction starts and the completion of major public infrastructural projects.

The **Government transactions** account similarly record a deficit estimated at RM84 million in 1998,

compared with a deficit of RM67 million in 1997. The amount of gross payments, which comprised mainly of expenditure incurred by Malaysian embassies abroad increase by an estimated 4.2% to RM321 million (1997: RM308 million), due to the higher cost of operation of government agencies abroad, following the depreciation of the ringgit. At the same time, the gross amount of receipts is estimated to increase by 8% to RM405 million (1997: RM375 million).

However, the **travel** account should register another year of surplus in 1998. Travel receipts

increase by an estimated 12.4% to RM11.8 billion in 1998 (1997: RM10.5 billion), with the number of tourists visiting Malaysia during the year increasing by an estimated 11.3% to 6.9 million tourists (1997: -13%). The increase is partly attributed to holding of the 16th. Commonwealth Games in Kuala Lumpur in September 1998 which attracted the participation of 70 countries and about 5,000 athletics. On the other hand, the gross amount of payments for travel is projected to decline by 7.1% to RM6.5 billion (1997: RM7 billion), reflecting the reduction in the number of Malaysians travelling abroad, due to the depreciation of the ringgit as well as measures undertaken by the Government to reduce Malaysian students studying abroad. At the same, the capital control measures introduced in September 1998 are likely to reduce the amount of money to be spent abroad associated travelling. With receipts expected to be higher than payments, the travel account is likely to record a larger net inflow of RM5.3 billion in 1998, compared with a surplus of RM3.5 billion recorded in 1997.

Net inflow of foreign exchange earnings associated with the provision of **"other transportation services"**, which include passenger fares, port and airport disbursement, bunker and charter fees, is envisaged at RM2 billion in 1998 (1997: RM2.6 billion). The gross amount of receipts from "other transportation services" is expected to increase by 6.1% to RM7 billion in 1998 (1997: RM6.6 billion), reflecting the combined impact of the expansion of passenger handling capacity of the Malaysian Airlines, its increased flight frequencies and coverage of new routes. On the other hand, the gross amount of payments for "other transportation" is estimated to increase at a faster rate of 25% to RM5 billion in 1998 (1997: RM4 billion).

With regard to **unrequited transfers**, the total amount of transfer payments is likely to decline by 5% to RM5.7 billion due to lower remittances by foreign workers to their countries of origin. This is attributed to reduced number of foreign workers working on the country following the contraction of the real economy as well as the need for these foreign workers to contribute to the Employees Provident Fund. On the other hand, transfer receipts from abroad are expected to increase by 13% to RM2.6 billion, reflecting the valuation gains as a result of ringgit depreciation. Consequently, net payments on unrequited

transfers is estimated to decline from RM3.7 billion in 1997 to RM3.1 billion in 1998.

As the surplus in the merchandise account for 1998 is envisaged to be more than sufficient to offset the deficit in the services account as well as net payments relating unrequited transfers, the **current account** of the balance of payments is envisaged to record a large surplus of RM20 billion or 7.7% of GNP in 1998, compared with a deficit of RM14.2 billion or 5.4% of GNP in 1997.

Capital Account

The long-term capital account is likely to register a lower net inflow of RM13.9 billion in 1998, compared with a net inflow of RM19 billion recorded in 1997. This is mainly attributed to the smaller net inflow of **official long-term capital** of RM1.6 billion in 1998 (1997: RM4.6 billion). The lower net inflow is mainly attributed to lower net borrowing by NFPEs which is projected to decline significantly to RM2.1 billion (1997: RM6.4 billion). This is as a result of lower gross borrowings and higher repayments by NFPEs. The lower net inflow of official long-term capital is also due to the continued higher gross repayments on Federal Government external debt amounting to RM2.2 billion which exceeded new drawdown of loans of RM1.7 billion by RM0.5 billion. Similarly, the net inflow of long-term private investment is estimated to decline to RM12.2 billion in 1998, compared with the net inflow of RM14.4 billion recorded in 1997. This reflects the lower level of foreign investment approved during the 1997 and first seven months of 1998 by MIDA as well as the more cautious stance of investors in view of slowdown in international trade as a result of the financial crisis affecting the global economy.

With the significant improvement in the current account as well as the continued net inflow of the long-term capital, the **basic balance** is envisaged to record a significantly larger surplus of RM33.9 billion in 1998 (1997: RM4.9 billion). However, after taking into account higher net outflow of private short-term capital of RM31.8 billion and foreign exchange revaluation gain of RM24.6 billion under "errors and omissions", the **overall position** of the balance of payments is expected to record a higher surplus of RM26.8 billion, compared with a deficit of RM10.9 billion in 1997. As a result, **net international reserves**

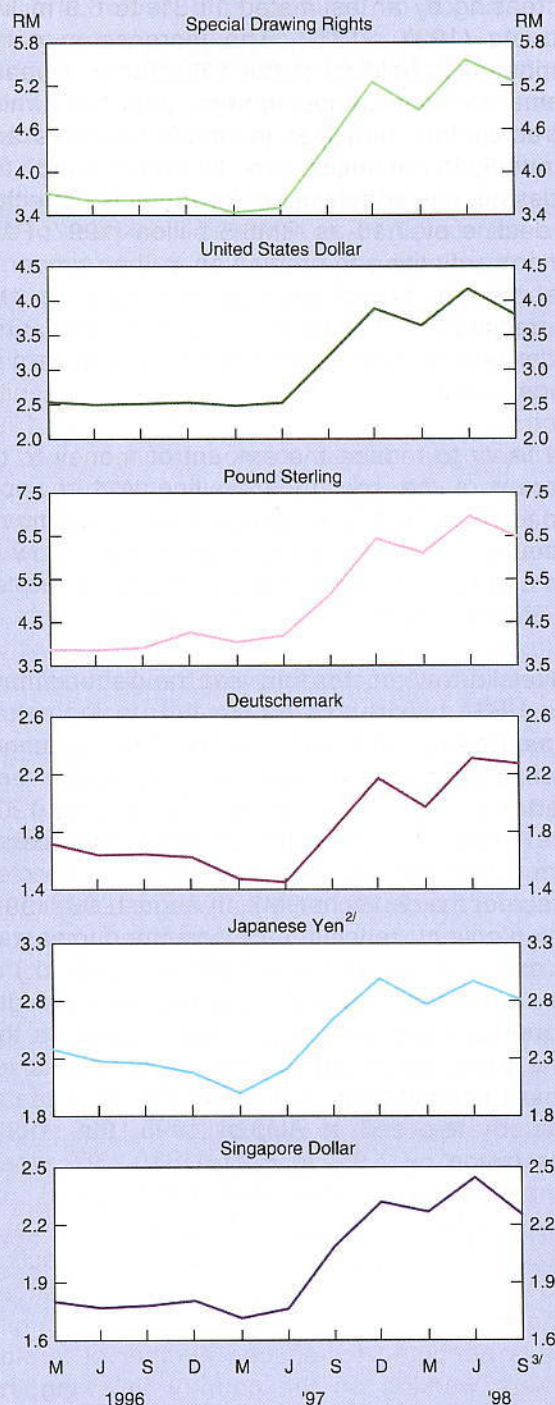
held by Bank Negara Malaysia is estimated to increase by RM26.8 billion to RM85.9 billion (US\$22.6 billion) as at the end of 1998, which is equivalent to 4.4 months of retained imports.

Foreign Exchange Market

The exchange rate movement of the Malaysian ringgit was volatile in early 1998 due to contagion effects from external developments. Subsequently, the ringgit stabilised but remained subject to bouts of volatility arising from developments at home and abroad. The ringgit started the year weak, touching a record low of RM1=US\$0.2049 on 7 January as a result of renewed selling pressure on regional currencies, following the liquidity crisis in Indonesia and problems of the South Korean financial system. However, the ringgit turned around to strengthen supported by domestic and external developments. On the domestic front, sentiment was buoyed by the improvement in Malaysia's trade account for 1997 as well as measures to liberalise equity ownership selectively in the corporate sector. On the international front, the US dollar weakened against other major currencies but positive developments to resolve the corporate debt situation in South Korea and Indonesia contributed to improving investor sentiment. The ringgit strengthened further with the announcement of a revised economic outlook for 1998 and further stabilisation measures by the Government to close at RM1=US\$0.2744 at the end of March, 6.7% appreciation compared with the end 1997 level. Similarly, the ringgit appreciated against the deutschmark, the Japanese yen, pound sterling and the Singapore dollar during the first quarter. Against the composite basket, the ringgit appreciated by 6.4%.

In the second quarter of 1998, the ringgit was subject to bouts of volatility prompted by both external and domestic developments. On the international front the weakening of the Japanese yen vis-a-vis the US dollar following concerns over the Japanese economy and in particular the banking system exerted downward pressure on Asian regional currencies, including the ringgit. Another significant factor which influenced regional currencies during the period was the escalating social and political unrest in Indonesia and

Chart 6.9
Exchange Rates Of The Malaysian Ringgit ^{1/}



1/ End of March, June, September and December

2/ RM = ¥ 100

3/ As at end September 1998

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

international economic sanctions against India and Pakistan in the aftermath of their nuclear tests. On the domestic front, concerns over the performance of the corporate sector and the growing share of non-performing loans of the banking sector and the threat of stagflation weighed down on market sentiment. Against these developments, however, the market also reacted positively to the larger trade surplus in March for Malaysia. Nevertheless, positive market reaction was not sustained as renewed weakness of the yen towards the end of June as well as concerns over the direction of domestic interest rates saw the ringgit weakening by 12.7% to RM1=US\$0.2395 at the end of June as compared with the end of March 1998.

The ringgit gained some support in July on account of the July 13 announcement of fiscal and financial measures to stimulate the economy in the light of Malaysia's revised outlook for 1998 and announcements by several foreign investors indicating long-term investment commitments in Malaysia. This was complemented by positive regional developments following the disbursement of a US\$1 billion loan by the IMF to Indonesia as well as commitment from the new Japanese leadership for economic reforms. The ringgit closed at RM1=US\$0.2414 at the end of July, up 0.8% from the end of June. In July, the ringgit appreciated across-the-board against all other major currencies except for the deutschemark. In August, sentiment for regional currencies, including the ringgit was bearish. The weaker sentiment was due to the yen's continued depreciation against the US dollar as well as increased speculative attacks on the Hong Kong dollar which fuelled concerns over China's commitment to maintain the value of the yuan. By the end of August 1998, the ringgit depreciated by 7.9% to RM1=US\$0.2369 when compared with the end-1997 level of

RM1=US\$0.2571. On September 1, Bank Negara Malaysia introduced selected changes to the exchange control regulations aimed at containing speculation on the ringgit and minimising the impact of short-term capital outflows on the economy. The ringgit recorded an appreciation of 10.5% from the end-August level to an intra day high of RM1=US\$0.2617 on September 1, 1998 following the changes to exchange control measures. The following day, the ringgit strengthened further to RM1=US\$0.2632. Effective from 11 a.m. on September 2, 1998 the exchange rate for the ringgit was fixed at US\$0.2632 against one ringgit, an appreciation of 11.1% from the end August level.

In the first eight months of 1998, the ringgit appreciated against most major currencies except the deutschemark. It began the year depreciating against the Japanese yen but with the subsequent depreciation of the yen against the US\$, the ringgit appreciated by 4.8% to close at ¥100=RM2.8553 on 15 September 1998, from ¥100=RM2.9921 recorded at the end of 1997. Similarly, the ringgit appreciated by 5.3% against the Singapore dollar (S\$) to close at S\$1=RM2.2029 on September 15, 1998 compared with its end-1997 level of S\$1=RM2.3200. The ringgit appreciated by 1.1% against the pound sterling (£) to £1=RM6.3789 at September 15, 1998 from the end-1997 level of £1=RM6.4490. The ringgit depreciated by 2.8% against the deutschemark to DM1=RM2.2356 at September 15, 1998 from its end-1997 level (DM=RM2.1729).

During the first eight months of 1998, the total transactions in the foreign exchange market amounted to RM749.1 billion, of which 78.8% was dominated by transactions in the US dollar.