

6

External Trade, Balance of Payments And Foreign Exchange Market

Export Performance

Malaysia's gross export earnings are expected to increase by 7.6% to RM308.6 billion in 1999, after recording a strong growth of 29.8% in 1998. The slower rate of increase in 1999 is due to the conversion of Malaysia's export earnings which are largely denominated in US dollar (US\$) into ringgit value, given that ringgit monthly average exchange rate in 1998 had depreciated by 28.3% against US\$ but appreciated by 3.2% in 1999. Export volume has recovered strongly. Indicative of this is the 13.9% increase in the country's export earnings, in US\$ terms, during the first eight months of 1999, against a contraction of 11.9% during the same period of 1998, although in ringgit terms, the increase was at a slower rate of 9% during the first eight months of 1999 to RM202.4 billion, against a strong growth of 37.8% during the corresponding period of 1998. For the whole of 1999, Malaysia's export earnings, in US\$ terms, are expected to increase by 11.1%, after declining by 6.9% in 1998. This is due to stronger overseas sales orders from the United States and Europe, as well as a positive turnaround in demand from East Asia as regional economies recover.

In ringgit terms, exports of manufactured goods, which accounted for 85.4% of total exports, are envisaged to record a slower growth of 10.6% to RM263.5 billion in 1999, after recording a strong growth of 32.2% in 1998. Meanwhile, exports of major agricultural commodities are expected to decline by 15.4% to RM22.8 billion in 1999, against an increase of 33% in 1998, mainly due to the lower export value of crude palm oil, rubber and palm kernel oil as a result of weaker commodity prices. However, export earnings of the mining sector is likely to increase by 4% to RM14.5 billion in 1999 (1998: 1.2%), underpinned by the 16.6% increase in export earnings of crude petroleum.

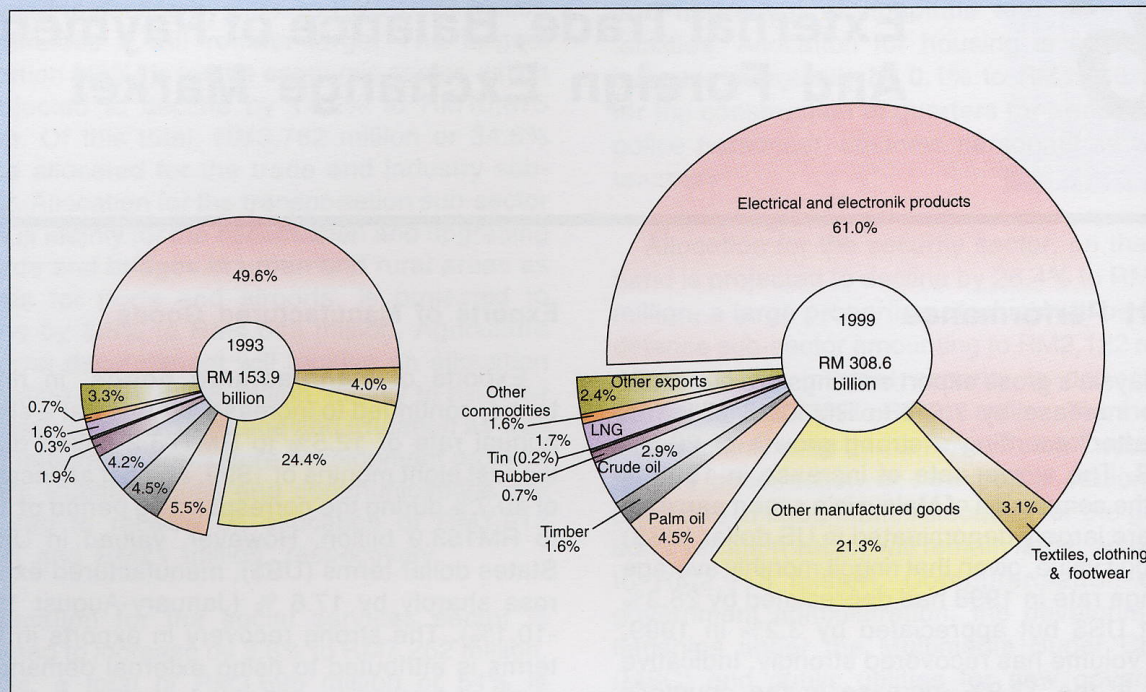
Exports of Manufactured Goods

Exports of **manufactured goods**, in ringgit terms, continued to increase although at a slower annual rate of 12.5% to RM173.2 billion during the first eight months of 1999, against an increase of 40.7% during the corresponding period of 1998 to RM153.9 billion. However, valued in United States dollar terms (US\$), manufactured exports rose sharply by 17.6 % (January-August 1998: -10.1%). The strong recovery in exports in US\$ terms is attributed to rising external demand for semiconductors as well as electronic equipment and parts arising from the continued growth of the US economy and the turnaround of the East Asian economies. At the same time, higher export earnings in US\$ terms were also recorded for petroleum products, wood products, non-metallic mineral products and textile, clothing and footwear. Consequently, manufactured exports recorded a larger share of 85.6% to total gross exports during the period (January-August 1998: 82.9%). Export earnings from manufactured goods are expected to remain stable for the rest of the year, thereby recording a growth of 10.6% in ringgit terms for the whole of 1999 (1998: 32.2%), while in US\$ terms, manufactured exports are expected to expand at the higher rate of 14% (1998: -5.2%).

In terms of composition of exports, the electronics, electrical machinery and appliances industry continued to dominate and accounted for 71.4% of total manufactured export earnings. The second largest export group was chemicals and chemical products which accounted for 4.4% of total manufactured exports, followed by exports of wood products (3.7%) and textile, apparel and footwear (3.6%).

As for destination of manufactured exports, the traditional markets of the US, South East

Chart 6.1
Export Structure



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

Asia, North East Asia and the European Union (EU) continued to dominate and accounted for about 90% of the total export market during the first eight months of 1999. The US remained the largest market accounting for 26.7% of total exports, with an increase in off-take of 15.4%. Other major trading partners who recorded increased demand were the EU and Japan, that is by 13.3% and 29.8% to account for market shares of 16.8% and 10.4% respectively. Meanwhile, exports to China increased substantially by 41.8% although its market share was only 1.9%. Exports to Hong Kong SAR rose marginally by 1.2% on account of the recession in the fourth quarter of 1998 as well as the first quarter of 1999, with a reduced market share of 5%. Exports to Singapore, the second largest market almost stagnated with an increase of only 0.7% and accounted for 17% of total manufactured exports.

Export earnings of the **electronics, electrical machinery and appliances** industry, in ringgit terms, continued to rise by 19.2% (January-August

1998: 44%) to RM123.6 billion during the first eight months of 1999. Valued in US\$ the export growth was even higher, recovering strongly by 24.5% (January-August 1998: -7.9%). The acceleration in exports of electronics, electrical, machinery and appliances industry was mainly due to the 29.7% increase in electronics products such as semiconductors (16.1%) and electronic equipment and parts (44%). The sharp increase in sales of electronics products was spurred by the continued strong growth of the US economy as well as the economic recovery in the Asian region especially Japan. The driving force behind this favorable export growth is the higher global demand for computers and communication equipment and greater usage of internet and e-commerce as well as intensified efforts to deal with the Y2K problems that pushed the demand for semiconductors. Following the economic recovery in East Asia, regional demand particularly from Singapore, Japan, and Taiwan has also helped to boost export of electronics.

Table 6.1

Manufacturing Exports
(January–August)

	<i>RM billion</i>			<i>US\$ billion</i>			
	1999	1998 % Change	1999	1999 % Share	1999	1998 % Change	1999
Electronics, electrical machinery and appliances	123.6	44.0	19.2	71.4	32.5	-7.9	24.5
Textiles, apparel and footwear	6.2	34.1	-0.7	3.6	1.6	-14.4	4.1
Wood products	6.4	6.0	15.2	3.7	1.7	-32.5	20.5
Rubber products	3.5	58.3	-10.2	2.0	0.9	1.1	-6.1
Food, beverages and tobacco	3.6	42.6	0.1	2.1	0.9	-8.8	4.7
Petroleum products	2.8	0.7	25.0	1.6	0.7	-36.1	31.3
Chemicals, chemical and plastic products	7.7	41.2	-3.9	4.4	2.0	-9.6	0.3
Non-metallic mineral Products	1.5	18.1	11.3	0.9	0.4	-24.4	16.2
Iron and steel, and metal products	5.2	64.4	-8.7	3.0	1.4	5.8	-5.0
Transport Equipment	3.2	45.5	-29.1	1.9	0.9	-6.0	-26.9
Others	9.5	33.0	4.6	5.4	2.6	-17.3	9.5
TOTAL	173.2	40.7	12.5	100.0	45.6	-10.1	17.6
<i>Source:</i> Department of Statistics							

However, the export value of electrical products, which include consumer and households electrical appliances as well as industrial and commercial electrical products, contracted by 4% (January-August 1998: 35.4%) during the first eight months of 1999. This was due to a contraction in demand for televisions (-5.4%) as well as sound recorders and producers (-18.7%). In the case of household appliances such as washing machines, air-conditioners and refrigerators, the export value contracted sharply by 22% (January-August 1998: 54.2%) as demand continued to be weak especially from East Asia. Likewise, exports of industrial and commercial electrical products contracted by 1.8% (January-August 1998: 35.4%) while electrical industrial machinery and equipment by 5.2%

(January-August 1998: 54.3%) during the first eight months of 1999 on account of lower demand and price competition from overseas markets.

Export receipts of the **textile, apparel and footwear** industry decreased marginally by 0.7% to RM6,179 million during the first eight months of 1999 as against a 34.1% increase to RM6,222 million during the same period of 1998. However, in US dollar terms, export value of the industry recovered by 4.1%, after recording 14.4% decline during the corresponding period of 1998. The decline in exports valued in ringgit was mainly on account of a 7.2% decline in the export of primary textiles (January-August 1998: 32.5%), attributable, in part, to the cutback in production

Chart 6.2
Monthly Manufactured Exports
(annual percentage change)

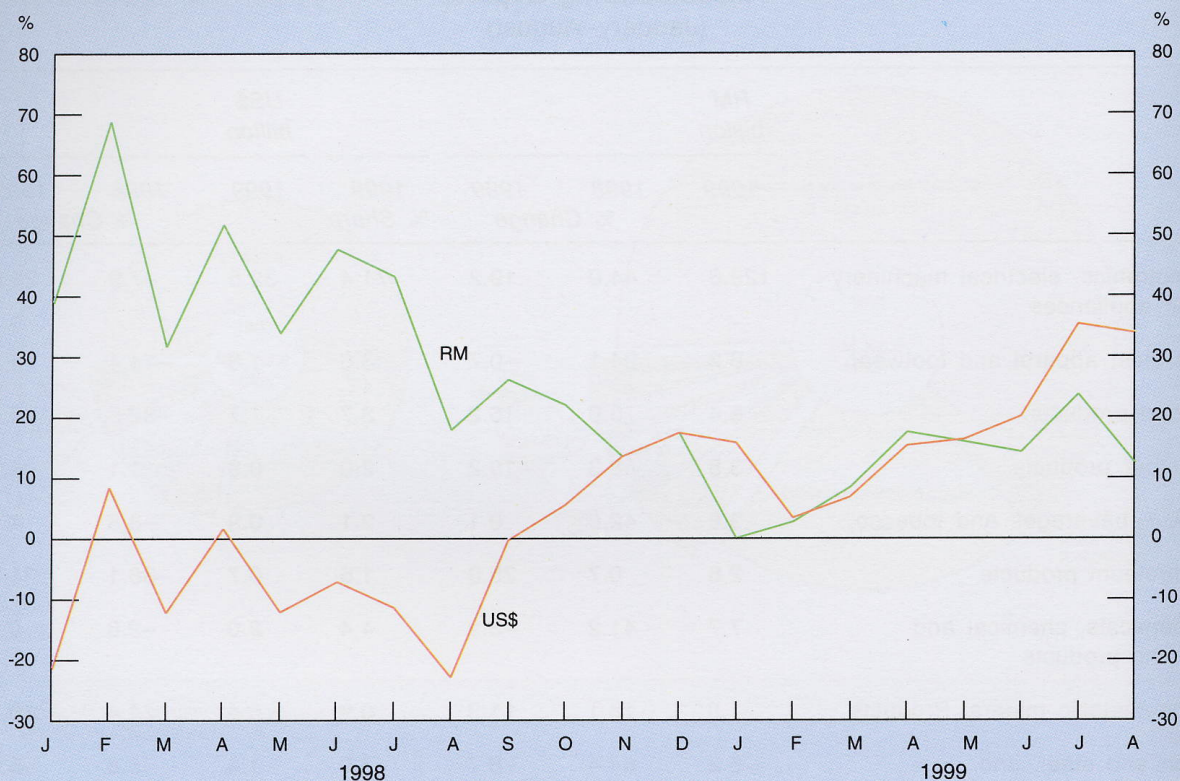


Table 6.2
Major Destinations of Manufactured Exports¹
(January–August)

	1998			1999		
	<i>RM million</i>	<i>% Change</i>	<i>% of Total</i>	<i>RM million</i>	<i>% Change</i>	<i>% of Total</i>
United States	38,540	67.9	26.1	44,473	15.4	26.7
Singapore	28,048	19.5	19.0	28,243	0.7	17.0
European Union	24,686	51.6	16.7	27,967	13.3	16.8
Japan	13,295	19.6	9.0	17,260	29.8	10.4
Taiwan	6,075	25.0	4.1	8,424	38.7	5.1
Hong Kong	8,303	23.1	5.6	8,407	1.2	5.0
Others	28,855	51.1	19.5	31,623	9.6	19.0
TOTAL	147,802		100.0	166,397		100.0

¹ Includes SITC 1,5,6,7 and 8

Source: Department of Statistics

Table 6.3
Major Destination for Exports of Semiconductors
(January–August)

<i>Country of Destination</i>	<i>1998</i>		<i>1999</i>		
	<i>RM Million</i>	<i>% Share</i>	<i>RM Million</i>	<i>% Share</i>	<i>% Change</i>
U.S.A.	11,595	31.7	12,664	29.8	9.2
Singapore	8,177	22.4	9,388	22.0	14.2
Taiwan	2,559	6.9	4,373	10.3	70.9
Japan	2,574	7.0	3,120	7.3	21.2
Netherlands	1,902	5.2	1,982	4.7	4.2
Hong Kong SAR	1,774	4.8	1,922	4.5	8.3
Germany	1,844	5.0	1,514	3.6	-17.9
United Kingdom	1,304	3.6	1,214	2.9	-6.9
Others	4,854	13.3	6,336	14.9	30.5
TOTAL	36,583	100.0	42,463	100.0	16.1

Source: Department of Statistics

during 1998 and rising domestic demand. However, export receipts of the apparel sub-sector remained favourable with a growth of 4.8% following the increase of 37.8% during the comparable period of 1998. Meanwhile, growth in the export of footwear accelerated to 12% from a growth of 6.4% during the corresponding period of 1998.

Export receipts of **wood products** recorded a double-digit growth of 15.2% (January-August 1998: 6%) during the first eight months of 1999. The surge in export earnings was attributed to higher prices of sawlogs, following a drop in supply due to the La Nina phenomenon, the imposition of logging bans by China after its serious flood in mid-1998 and the drop in Indonesia's production. The exports of veneer and plywood, which constituted 60.4% of the total export receipts of wood products, increased sharply by 20.2%

(January-August 1998: -9.7%) during the period under review. The increase was due to the higher export price of plywood due to supply constraints and higher volume intake by United Kingdom, Singapore and the US. In line with this development, export receipts of wood furniture and components similarly increased by 8.2% (January-August 1998: 42.7%) while other wood manufactured products such as panel products and mouldings increased by 8.7% (January-August 1998: 31.9%).

Export receipts of **rubber products** declined by 10.2% (January-August 1998: 58.3%) during the first eight months of 1999, due to lower export volume and weaker prices. Rubber gloves still constitutes the largest export item, that is over 70% of the total exports of rubber products. Exports of rubber gloves in ringgit terms declined by 8.3%

Table 6.4**Exports of Textiles, Apparel and Footwear
(January-August)**

	1998		1999		
	<i>RM Million</i>	<i>% Share</i>	<i>RM Million</i>	<i>% Share</i>	<i>% Change</i>
Textiles	2,963.7	47.6	2,749.1	44.5	-7.2
Apparel	3,070.2	49.3	3,219.0	52.1	4.8
Footwear	188.6	3.1	211.1	3.4	12.0
TOTAL	6,222.5	100.0	6,179.3	100.0	-0.7

Source: Department of Statistics

Table 6.5**Major Destinations for Apparel and Clothing Accessories Exports
(January-August)**

	1998		1999		
	<i>RM Million</i>	<i>% Share</i>	<i>RM Million</i>	<i>% Share</i>	<i>% Change</i>
United States	1,597.5	52.0	1,744.8	54.2	9.2
European Union	1,031.8	33.6	1,026.0	31.9	-0.6
Hong Kong SAR	38.8	1.3	40.3	1.2	3.9
Singapore	128.9	4.2	151.4	4.7	17.5
Japan	138.9	4.5	153.1	4.8	10.2
Others	134.3	4.4	103.3	3.2	-23.1
TOTAL	3,070.2	100.0	3,218.9	100.0	4.8

Source: Department of Statistics

(January-August 1998: 58.4%) during the same period even though export quantity increased by 84.4%, due to a decline of 50% in export prices. The decline in export earnings of tyres and tubes was even larger, that is by 17.2% (January-August 1998: 101.4%) as a result of lower export volume, following stronger domestic demand. Likewise, exports of articles of rubber such as sheath contraceptives and catheters declined by 26% (January-August 1998: 87.9%) during the same period as a result of lower export prices.

During the first eight months of 1999, exports of **food, beverages and tobacco** as a group increased marginally by an annual rate of 0.1% (January-August 1998: 42.6%) to RM3.6 billion. This was mainly reflected in the food category, which declined by 3.3% (January-August 1998: 42.9%) on account of exchange rate revaluation losses and lower external demand from Japan and Hong Kong SAR. However, the unfavourable export performance of food products is off-set by export of beverages and tobacco, which, increased in ringgit terms by 16.9% (January-August 1998: 41.5%) during the same period arising from higher export volume of alcoholic beverages and tobacco.

Export earnings from **petroleum products** increased sharply by 25% (January-August 1998: 0.7%) during the first eight months of 1999, despite a decline of 6.4% in production from the crude oil refineries due to rising oil prices especially since March 1999. Petroleum products accounted for a share of 1.6% to total manufactured products during the period. The major export markets for petroleum products continued to be Japan and Singapore.

Exports of the **chemicals, chemical and plastic products** industry dipped by 3.9% to RM 7,676 million during the first eight months of 1999 (January-August 1998: 41.2%), due to double-digit rate of declines in the export of organic chemicals, plastic in primary forms and plastic in non-primary forms. Greater focus by the manufacturers to meet rising domestic demand from industries such as electronics, transport equipment, food, textile as well as construction activities contributed to the decrease in export receipts, apart from revaluation loss on account of the stronger ringgit during the period.

With the recovery of East Asian economies, the external demand for **non-metallic products** increased significantly by 11.3% (January-August 1998: 18.1%) in ringgit terms and by 16.2% (January-August 1998: -24.4%) in US\$ terms during the first eight months of 1999. Underpinning this growth is the export of lime, cement and fabricated building materials, which rose strongly by 77.3% to RM184 million (January-August 1998: 149.6%) due to 154% surge in export quantity from 65,705 tonnes to 167,048 tonnes. Likewise, export of clay construction materials and refractory construction materials and mineral manufactures increased by 18.7% and 16% respectively. However, export of glass products increased marginally by 0.1% (January-August 1998: 41.8%) on account of lower production and strong competition from other producers in the ASEAN region.

Export receipts in ringgit terms of **iron, steel and metal products** declined by 8.7% (January-August 1998: 64.4%) to RM5.2 billion during the first eight months of 1999. The decline was partly due to poor external demand for iron and steel tubes and pipes, which declined significantly by 55.7% from RM883 million to RM391 million. However, export of iron and steel flat-rolled products increased sharply by 252.4% to RM307 million following successful efforts by local steelmakers to market their products abroad after a sharp contraction in domestic demand. Export of non-ferrous metal excluding tin similarly increased by 9.8% (January-August 1998: 54%) during the same period, on account of increased exports of aluminium which rose by 27.1%. Export of fabricated metal products, however, declined by 4.7% (January-August 1998: 41.3%) to RM1.9 billion mainly due to sharp declines in external demand for iron, steel and aluminium structures products.

In the case of **transport equipment**, the export value contracted sharply by 29.1% to RM3,254 million or 1.9% of total manufactured exports during the first eight months 1999 after expanding by 45.5% during the corresponding period of 1998. Export value of road vehicles as well as related parts and accessories fell by 22.5% despite a sharp increase in production of 48.6%, attributed to increase in domestic demand as well as lower international prices. Similarly, the export value of other vehicles including aircraft and associated equipment, ships, boats and flotation structures

which include those re-exported after repairs and servicing declined by 32.2%.

The export value of **other manufactured goods** comprising photographic equipment, professional and scientific instruments, watches, clocks, toys, sports goods, jewelry and other miscellaneous products increased moderately by 4.6% during the period (January-August 1998: 33%). The increase in the export value of this category is partly due to increase in external demand for scientific and professional instruments. This export performance might be even better without taking into account of a 17.9% decline in export receipts from photographic equipment, optical goods and watches as a result of weak prices and sluggish demand from Hong Kong SAR and Singapore.

Major Primary Commodity Exports

The general softening in the prices of most major commodities in 1999 is expected to lower export earnings from primary commodities by 8.8% to RM37,363.2 million (1998 : RM40,976.6 million). Earnings from agricultural commodities are expected to decline by 15.4% or RM22,835.1 million, against an increase of 33% recorded during 1998. This is largely due to lower prices of rubber and palm oil which together account for 70% of total agriculture export earnings. However, export earnings from the mining sector are expected to improve on account of higher crude petroleum price in the second half of the year. Export receipts from this sector is expected to increase by 4% to RM14,528.1 million (1998: RM13,975.6 million).

Palm Oil and Palm Kernel Oil

In the first eight months of 1999, despite higher volume of **palm oil** exported by 11.6% to 5.48 million tonnes (January-August 1998 : 4.91 million tonnes), export receipts declined by 15.1% to RM9,735.5 million (January-August 1998: RM11,463.8 million). In view of the drop in crude palm oil price, export receipts from palm oil (which include crude and processed palm oil and palm stearin) for the year could decline sharply by 22.4% to RM13,791.8 million (1998 : RM17,779.0 million). With palm oil price lower relative to other competing vegetable oil like soya bean oil, export volume of palm oil is expected to increase by 9.1% to 8.20 million tonnes.

Table 6.6
Primary Commodity Exports

	1999 ^a	% change	1999 January- August	% change
Palm oil¹				
Volume ('000 tonnes)	8,200.0	9.1	5,475.8	11.6
Unit value (RM/tonne)	1,681.93	-28.9	1,777.91	-23.9
Value (RM million)	13,791.8	-22.4	9,735.5	-15.1
Palm Kernel Oil				
Volume ('000 tonnes)	564.0	2.0	370.9	7.6
Unit value (RM/tonne)	2,770.92	-0.9	2,778.63	-1.3
Value (RM million)	1,562.8	1.2	1,030.5	6.3
Sawlogs				
Volume ('000 cubic metre)	5,790	6.9	4,168	20.7
Unit value (RM/cubic metre)	396.77	15.2	395.50	16.3
Value (RM million)	2,297.3	23.1	1,648.5	40.5
Sawn Timber				
Volume ('000 cubic metre)	2,600	-3.1	1,720	-3.1
Unit value (RM/cubic metre)	957.92	1.8	946.61	0.0
Value (RM million)	2,490.6	-1.4	1,628.2	-3.1
Rubber				
Volume ('000 tonnes)	950.0	-3.9	650.2	-3.8
Unit value (RM/tonne)	231.00	-19.2	233.11	-22.2
Value (RM million)	2,194.6	-22.4	1,515.6	-25.1
Pepper				
Volume ('000 tonnes)	21.0	13.0	15.4	17.7
Unit value (RM/tonne)	18,380.95	-5.8	18,197.61	-7.3
Value (RM million)	386.0	6.4	280.1	9.0
Cocoa				
Volume ('000 tonnes)	24.5	51.8	18.8	75.1
Unit value (RM/tonne)	4,571.43	-21.8	4,644.46	-21.1
Value (RM million)	112.0	18.7	87.4	38.2
Crude Petroleum				
Volume ('000 tonnes)	17,974	-0.2	11,513	-1.6
Unit value (RM/tonne)	487.02	16.8	437.66	0.2
Value (RM million)	8,753.7	16.6	5,038.8	-1.4
Liquefied Natural Gas (LNG)				
Volume ('000 tonnes)	14,900	1.6	10,115	4.5
Unit value (RM/tonne)	355.83	-12.7	350.77	-18.5
Value (RM million)	5,301.8	-11.4	3,548.0	-14.8
Tin				
Volume ('000 tonnes)	23.0	2.8	15.8	-3.4
Unit value (RM/tonne)	20,547.83	-5.1	20,297.92	-6.5
Value (RM million)	472.6	-2.5	321.4	-9.7
Total Value (RM million)	37,363.2	-8.8	24,834.0	-8.9

¹ Include crude palm oil, processed palm oil and palm sterin.

^a Estimate.

Source: Department of Statistics

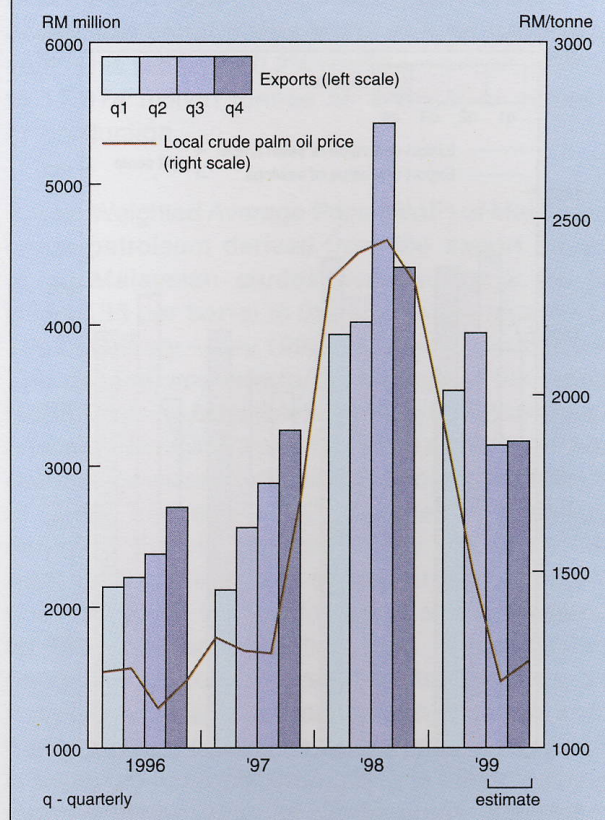
Crude palm oil local delivery price for the first nine months of 1999 was quoted at an average of RM1,545.46 per tonne, a decline of 35.3% when compared to the same period in 1998 (January-September 1998: RM2,390.17 per tonne). The sharp decline was due to lower export demand from major importers as well as from the refiners who had fulfilled their forward purchases, a reduction in palm oil export duties by Indonesia since 1st February 1999 and the increase in its palm oil supply and declining prices of all soft oils in the Rotterdam market. However, in the middle of August, the average local delivery price rebounded to stabilise within a range of RM1,225.50 to RM1,359.00 per tonne, recovering from as low as RM983.50 per tonne in July 1999. The turnaround came about following the increase in soyabean oil prices in the Chicago Board of Trade (CBOT) as there was speculation of a decline in production due to dry weather in United States, the presence of India, a major importer, in the market and news of China agreeing to increase imports of Malaysian palm oil. The outlook is expected to be bullish towards the end of the year due to the increase in demand from major importers such as Pakistan, the Middle East and China to beef up their stocks for the coming festive season. Nevertheless, for 1999 as a whole, the crude palm oil price for local delivery is expected to average at RM1,463.18 per tonne, a sharp decline of 38.5% from 1998 average price of RM2,377.50 per tonne.

During the first eight months of 1999, export from **palm kernel** oil increased by 6.3% to RM1,030.5 million (January – August 1998 : RM969.8 million) from export volume of 370,883 tonnes. The export unit value declined by 1.3% during the period to RM2,778.63 per tonne as a result of increased supply. Total export earnings from palm kernel oil in 1999 is expected to increase by 1.2% to RM1,562.8 million (1998: RM1,544.9 million), reflecting the impact of higher export volume but lower export unit value.

Timber

During the first eight months of 1999, export receipts from **sawlogs** increased by 40.5% to RM1,648.5 million (January – August 1998 : RM1,173.6 million). Export volume rose by 20.7%

Chart 6.3
Palm Oil - Exports and Price



to 4.17 million cubic metres (January – August 1998 : 3.45 million cubic metres) while export unit value rose by 16.3% to RM396 per cubic metres. Underlying the expected higher export receipts in 1999 is stronger demand from Japan and South Korea whose economies are now on the upturn. Thus, export earnings from sawlogs are expected to increase by 23.1% to RM2,297.3 million, underpinned by 6.9% increase in export volume to 5.79 million cubic metres and 15.2% increase in export unit value to RM397 per cubic metre. However, during the first eight months of 1999, export earnings from **sawn timber** declined by 3.1% to RM1,628.2 million (January – August 1998 : RM1,680.5 million), with export volume declining by 3.1% to 1.72 million cubic metres. As for the whole of 1999, export receipts from sawn timber is expected to decline by 1.4% to RM2,490.6 million due to 3.1% decline in export volume of 2.60 million cubic metres while export unit value is envisaged to increase by 1.8% to RM957.92 per cubic metres, reflecting better price performance towards the end of the year.

Chart 6.4
Sawn Timber and Sawlogs - Exports and Unit Value

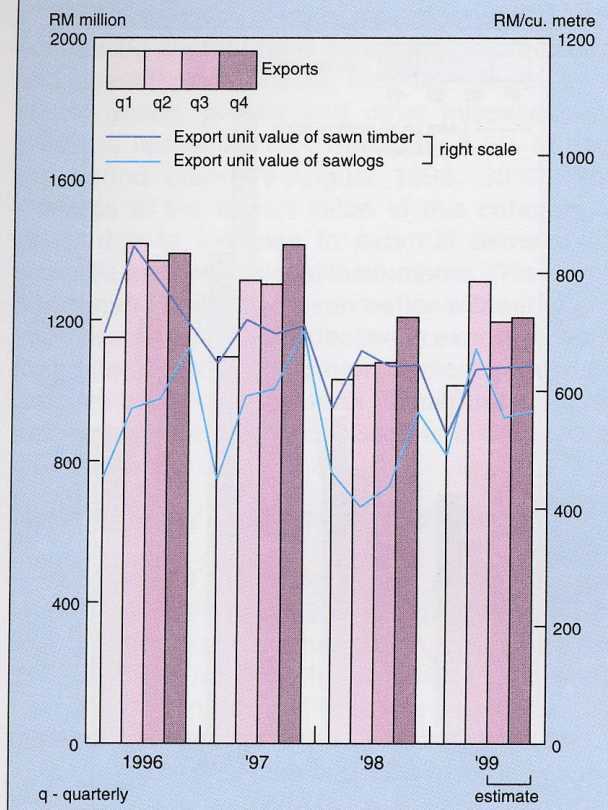
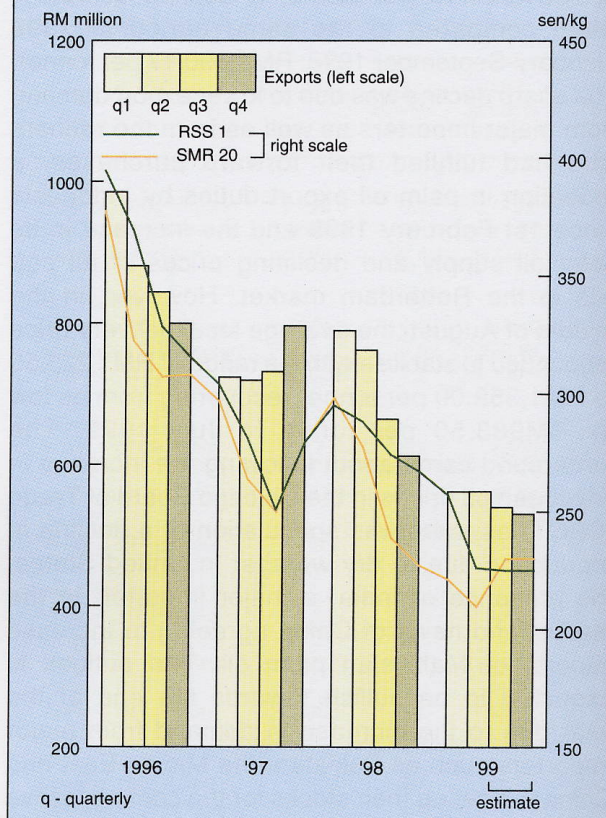


Chart 6.5
Rubber - Exports and Price



Rubber

During the first eight months of 1999, export receipts from **rubber** declined sharply by 25.1% to RM1,515.6 million (January–August 1998 : RM2,022.9 million) while export volume declined by 3.8% to 650,189 tonnes (January – August 1998 : 675,544 tonnes). The average price of RSS 1 for the first nine months in 1999 declined by 18.4% to 233.39 sen/kg as compared with 285.86 sen/kg attained in the corresponding period in 1998. The decline in rubber price was influenced by the huge stock in the region and slower demand from consumer countries. Nevertheless, rubber price should firm up towards the year end when supply is expected to be adversely affected by wet weather in producing countries. Hence, the average price of Ribbed Smoked Sheet 1 (RSS 1) will be lower by 16.9% to 233.25 sen/kg in 1999 (1998 : 280.54 sen/kg). Similarly, the average price of Standard Malaysian Rubber 20 (SMR 20)

is expected to be down by 14% to 222.70 sen/kg (1998 : 259.00 sen/kg). Hence, earnings from the export of rubber are expected to decline by 22.4% in 1999 to RM2,194.6 million (1998: RM2,828.8 million) with export volume declining by 3.9% to 0.95 million tonnes (1998 : 0.99 million tonnes).

Other Agriculture Commodities

During the first eight months of 1999, export receipts from **cocoa beans** increased by an annual rate of 38.2% to RM87.4 million due to 75.1% or 18,825 tonnes increase in export volume. However, export unit value declined by 21.1% to RM4,644.46 per tonne, reflecting low demand and consumption and increased supply especially from African countries. Hence, export receipt from this commodity in 1999 is expected to increase by an annual rate of 18.8% to RM112.0 million

(1998 : RM94.3 million) with an anticipated 51.8% increase in export volume to 24,500 tonnes, while the export unit value decline by 21.8% to RM4,571 per tonne.

With regards **pepper**, export earnings in the first eight months of 1999, rose by 9% to RM280.1 million (January – August 1998: RM256.9 million). Reflecting tight supply of pepper in the market as Indonesia, a major producer, was hit by La Nina and heavy rain which affected flowering, export earnings for the year is expected to increase by 6.4% in 1999 to RM386 million from an export volume of 21,000 tonnes (1998: RM362.6 million).

Crude Petroleum and Liquefied Natural Gas

Export earnings from **crude petroleum** in the first eight months of 1999 declined by 1.4% to RM5,038.8 million, mainly due to the downward trend of crude petroleum price on account of oversupply in the world market. However, it is

anticipated that a 16.6% increase in export earnings from crude petroleum to RM8,753.7 million is expected in 1999 (1998 : RM7,509.8 million) on account of better prices in the second half of the year. This is despite 0.2% decline in export volume to 17.974 million tonnes as a result of cutback in production.

The Weighted Average Price (WAP) of Malaysian crude petroleum derived from the export prices of all Malaysian crudes declined by 2.7% to US\$14.33 per barrel in the first seven months of 1999 (January – July 1998 : US\$14.73 per barrel). The decline was due to oversupply in the world market, arising from weak demand from the crisis-affected East Asian economies and a shorter winter season. However, reflecting the concerted efforts of OPEC and non-OPEC countries in curtailing output to 2.25 million tonnes per day since 1st April 1999 to bring down supply, crude petroleum price began to firm up following strong demand for crude oil and gasoline from United States partly due to problems faced by its refineries, as a result of fire and hurricane; higher import from northern Asia; as well as unrest in Nigeria. WAP is expected to further strengthen in the remaining months of the year as world crude petroleum demand is expected to increase due to buildup in stocks in preparation for winter in the northern west hemisphere and in northern Asia. Consequently, the WAP is expected to increase to US\$19.67 per barrel, higher by 46.5% over the corresponding period in 1998 (August – December 1998 : US\$13.43 per barrel). A WAP of US\$17.00 per barrel is therefore envisaged for the whole of 1999, an increase of 19.8% from the 1998 level of US\$14.19 per barrel.

Export earnings from **Liquefied Natural Gas** (LNG) in 1999 could decline by 11.4% in 1999 to RM5,301.8 million (1998: RM5,981.3 million), as a result of an expected 12.7% decline in export unit value to RM355.83 per tonne (1998 : RM407.72 per tonne) in tandem with lower oil prices. The decline in export earnings for the whole year is not expected to be severe as during the first eight months of 1999, that is with a decline of 14.8% to RM3,548.0 million. This is due to expected stronger economic recovery in South Korea and Japan which should increase the volume and export unit price of LNG in the second half of the year.

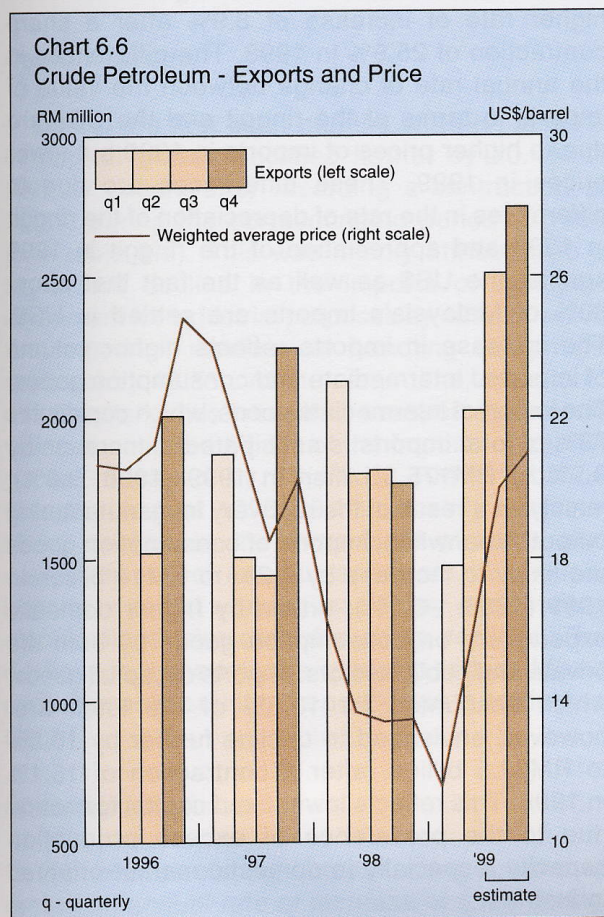
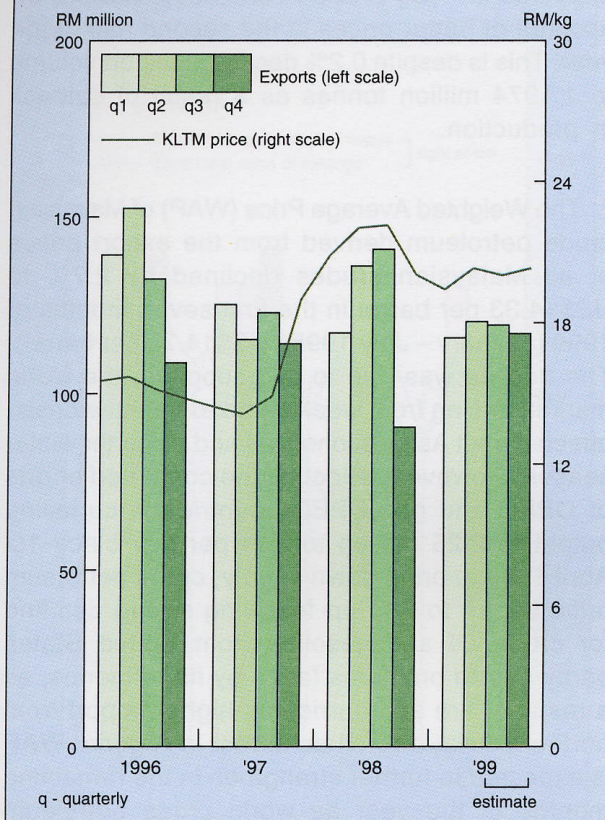


Chart 6.7

Tin - Exports and Price



Tin

During the first eight months of 1999, the export earnings from **tin** declined by 9.7% to RM321.4 million (January – August 1998: RM355.9 million). This reflected a 3.4% decline in export volume to 15,833 tonnes (January – August 1998: 16,394 tonnes) as well as weaker tin price. The average tin price in the Kuala Lumpur Tin Market for the first nine months of 1999 declined by 8.5% to RM19.80 per kg. as compared with RM21.67 per kg in the same period in 1998. For the remaining months of 1999, the average price is expected to stabilise at around RM19.50 per kg to RM20.50 per kg. A 2.5% decline in tin price is expected in 1999 to RM472.6 million due to 5.1% drop in export unit price to RM20,547.83 per tonne. The lower export receipts in ringgit terms in part reflects revaluation effect due to changes in exchange rates. Generally, demand and supply in the market is expected to be stable as there are no signs of drastic imbalances in 1999.

Import of Goods

The actual gross value of goods imported cum cost freight and insurance (c.i.f.) during the first eight months of 1999, recorded an increase of 2% to RM156.2 billion (January-August 1998: 11.5%) or an increase of 6.5% to US\$41.1 billion (January-August 1998: -28.7%). The rate of increase in imports in US\$ terms reflected the extent of the positive turnaround in export volume. Prices of imports were generally lower during the first eight months of 1999 as indicated by the 0.9% decline in the Producer Price Index for imports, against an increase of 11.0% during the corresponding period of 1998. As in previous years, the bulk of imports were intermediate goods, accounting for 73.3% of total imports, while imports of capital goods accounted for 13.3% and imports of consumption goods 6.1% of total imports (see Table 6.7).

The gross value of goods imported in ringgit terms could increase at a faster annual rate of 5.5% to RM240.9 billion in 1999 (1998:3.3%), while in US\$ terms, it could register an even higher rate of increase of 8.9% after a sharp contraction of 25.9% in 1998. The differences in the annual rate of change between the value of imports in terms of the ringgit and the US\$ are due to higher prices of imports in 1998 but lower prices in 1999. These differences are due to differences in the rate of depreciation of the ringgit in 1998 and appreciation of the ringgit in 1999 against the US\$ as well as the fact that about 80% of Malaysia's imports are settled in US\$. The increase in imports reflects higher volume of imported intermediate and consumption goods. The import of intermediate goods, which constitutes 73% of total imports is anticipated to increase by 9.9% to RM175.8 billion in 1999 (1998: 9.8%), mainly as a result of the recovery in manufacturing output. Meanwhile, imports of consumption goods are likely to increase by 6.2% to RM14 billion in 1999 (1998: -6.1%), driven by higher domestic expenditure on consumption goods by both the private and public sectors. Imports of capital goods, which accounted for 13.5% of the total, are, however, envisaged to decline further by 10.5% to RM32.5 billion, after a contraction of 15.1% in 1998. This reflects lower fixed capital formation due to the prevalence of excess production capacity, especially in domestic market-oriented industries.

Table 6.7

Imports By End Use - Broad Economic Categories (BEC)
(January-August)

	Value (RM billion)		Annual Change (%)		Share (%)	
	1998	1999	1998	1999	1998	1999
Capital goods	26.6	20.7	-10.3	-20.4	17.0	13.3
Intermediate goods	106.6	114.5	20.3	7.4	69.6	73.3
Consumption goods	8.7	9.5	1.5	9.2	5.7	6.1
Others (including dual use goods)	5.3	5.9	-24.4	11.3	3.4	3.7
Imports for re-exports	6.6	5.6	55.6	-15.1	4.3	3.6
TOTAL	153.2	156.2	11.5	2.0	100.0	100.0

Source: Department Of Statistics

Capital Goods

During the first eight months of 1999, imports of **capital goods** declined further by 20.4% to RM20.7 billion, after recording a contraction of 10.3% during the corresponding period of 1998 (see table 6.8). This was mainly attributed to a significant decline in the imports of transport equipment for industrial purposes by 49%, of which the import of mechanical handling equipment declined by 46.5%. At the same time, imports of other capital goods (other than transport equipment) which constituted 87.4% of the imports of capital goods, declined by 13.4% to RM18.1 billion (January-August 1998: -8.1%), mainly due to a sharp decline in the imports of aircrafts and equipment as well as ships and boats. In addition, imports of metal working machinery and rotating electric plants also recorded sharp declines. The declines in these imports reflected reduced fixed capital formation during the period due to production slacks.

Intermediate Goods

With manufacturing output turning around to record an annual rate of increase of 6.4% during

Table 6.8

Imports Of Capital Goods By End Use - BEC
(January-August)

	Value (RM billion)		Annual Change (%)	
	1998	1999	1998	1999
Capital goods (except transport equipment)	20.9	18.1	-8.1	-13.4
Transport equipment, Industrial	5.1	2.6	-18.4	-49.0
TOTAL	26.0	20.7	-10.3	-20.4

Source: Department Of Statistics

the first eight months of 1998, imports of **intermediate goods** increased further by 7.4% to RM114.5 billion during the period (see Table 6.9). About 40.7% of these imported intermediate goods are thermionic valves and tubes which

registered a 12.3% increase in imports, largely by the electronics industry which has enjoyed strong increases in overseas sales orders during the period. Imports of raw material for the food and beverages industry registered a growth of 16.7% during the period, reflecting a double digit rate of increase in volume intake by the food industry which has recorded a 15.9% increase in output during the first eight months of 1999. However, imports of processed fuel and lubricants declined by 4.2% during the first eight months of 1999, while imports of raw materials and components for industrial supplies, as well as imports of processed materials and components used by the food and beverages industry dropped by 2.9% and 7.1% respectively.

Consumption Goods

Imports of **consumption goods** increased at a higher rate of 9.2% to RM9.5 billion during the first eight months of 1999 (January-August 1998: 1.5%), attributable to higher domestic consumption, in part due to the increase in disposable income, better employment prospects which helped to boost consumer confidence and the recovery of consumers' financial wealth following improvement in share prices. Imported consumption goods that turned around to record double-digit rate of increase in ringgit terms were consumer durables such as watches and clocks, as well as photographic equipment and transport equipment for non-industrial use (see Table 6.10).

Other **imports** (including dual use goods), increased by 13.5%, mainly attributed to a 24% increase in imports of dual use goods which comprise processed fuel and lubricants, motor spirits as well as transport equipment and passenger motorcars. In particular, imports of passenger motorcars and transport equipment registered a significant increase of 122.2% to RM2.0 billion.

Imports for re-exports, such as internal combustion piston engines as well as civil engineering and contractors plant, which accounted for 3.6% of total imports, recorded a contraction of 15.1% during the first eight months of 1999 to RM5.6 billion (January-August 1998: 55.6%). After discounting the imports for re-exports, retained imports increased marginally by 2.7% to RM150.6 billion during the first eight months of 1999 (January-August 1998: 10.1%).

Table 6.9

Imports Of Intermediate Goods By End Use - BEC (January-August)

	Value (RM billion)		Annual Change (%)	
	1998	1999	1998	1999
Food & beverages, primary, mainly for industry	1.2	1.4	33.8	16.7
Food & beverages, processed, mainly for industry	1.4	1.3	37.5	-7.1
Industrial supplies, primary	3.4	3.3	3.7	-2.9
Industrial supplies, processed	30.8	33.8	-2.0	9.7
Fuel & lubricants, primary	0.7	1.3	35.0	85.7
Fuel & lubricants, processed, other	2.4	2.3	3.8	-4.2
Parts & accessories of capital goods (except transport equipment), including thermionic valves and tubes	65.4	69.3	39.7	6.0
Parts & accessories for transport equipment	1.3	1.8	-44.5	38.5
TOTAL	106.6	114.5	20.3	7.4

Source: Department Of Statistics

Direction of Trade

Malaysia's total trade expanded further by 5.8% to RM358.6 billion during the first eight months of 1999 (January-August 1998: 24.4%), in line with an improving global economic environment, particularly in East Asia, and the recovery in the global electronics sector which have benefitted the export sector as well as a positive turnaround in domestic demand, which resulted in higher

Table 6.10

Imports Of Consumption Goods By End Use - BEC
(January-August)

	Value (RM billion)		Annual Change (%)	
	1998	1999	1998	1999
Food & beverages, primary, mainly for household consumption	1.2	1.4	10.0	16.7
Food & beverages, processed, mainly for household consumption	2.52	2.51	15.8	-0.4
Transport equipment, non-industrial	0.02	0.05	-80.0	150.0
Other Consumer Goods	5.0	5.6	0.7	12.0
Durables	0.7	1.0	-25.0	42.9
Semi-Durables	1.9	2.0	1.9	5.3
Non-Durables	2.4	2.6	7.3	8.3
TOTAL	8.7	9.5	1.5	9.2

Source: Department Of Statistics

imports. Gross exports valued at free-on board (f.o.b.), which accounted for 56.4% of Malaysia's total trade, increased by 9% to RM202.4 billion during the first eight months of 1999 (January-August 1998: 37.8%). At the same time, gross imports, valued at c.i.f., increased by 2% to RM156.2 billion during the period under review (January-August 1998: 11.5%) and constituted 43.6% of total trade. With export value exceeding import value, a higher surplus of RM46.2 billion was registered during the first eight months of 1999, compared to a surplus of RM32.5 billion during the corresponding period of 1998. The United States of America (US), Japan, Singapore and the European Union (EU) remained Malaysia's

Table 6.11

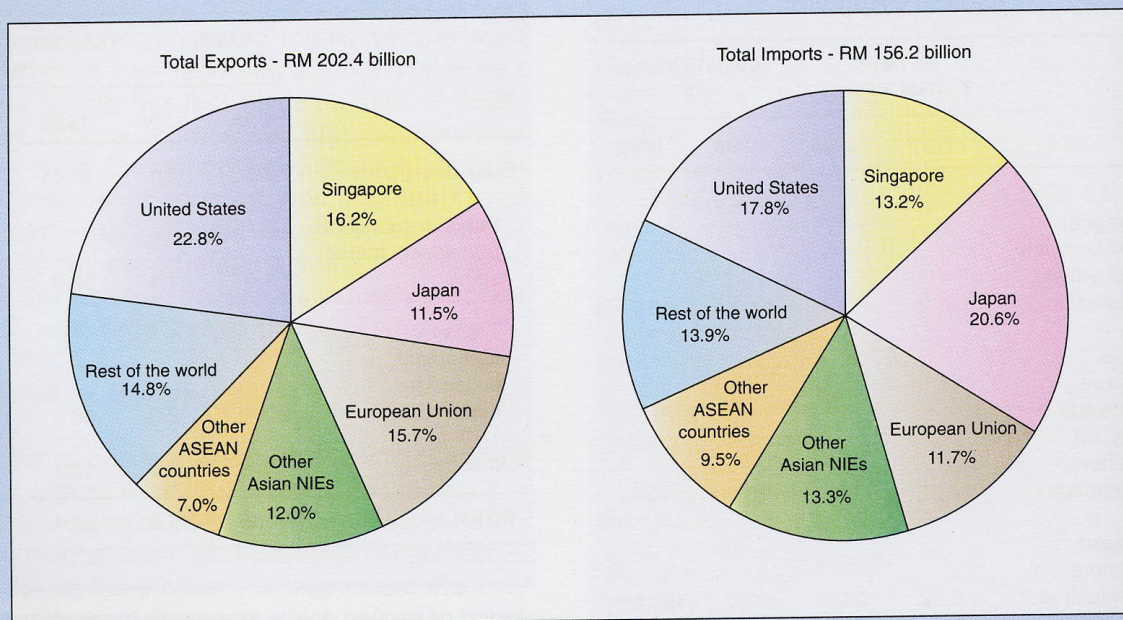
Other Imports By End Use - BEC
(January-August)

	Value		Annual Change (%)	
	1998	1999	1998	1999
Dual use goods	2.5	3.1	-34.6	24.0
Fuels & lubricants, processed motor spirit	1.6	1.1	36.9	-31.3
Transport equipment, passenger motor cars	0.9	2.0	-66.1	122.2
Others	2.7	2.8	-12.9	3.7
TOTAL	5.2	5.9	-24.4	13.5

major trading partners, accounting for 64.8% of total trade. Trade with South Korea, Taiwan and Hong Kong SAR, continued to expand, comprising 12.5% of total trade.

The **US** continued to be Malaysia's single largest trading partner with a total trade of RM73.94 billion or 20.6% of Malaysia's total trade in the first eight months of 1999. Total trade with the US expanded by 3% against a growth of 53.1% during the corresponding period of 1998. Exports rose by 14.7% to RM46.11 billion, to account for 22.8% of total export earnings, while imports declined by 11.9% to RM27.83 billion, to account for 17.8% of total imports. As a result, Malaysia recorded a higher trade surplus of RM18.28 billion (January-August 1998: RM8.58 billion). The major export items were machinery, telecommunications and transport equipment, particularly electronics and electrical machinery and parts, as well as office machines and automatic data processing equipment, which accounted for 80.3% of total exports to the US. Imports comprised mainly machinery, telecommunications and transport equipment, including electronics, electrical machinery and parts, which accounted for 76.6% of total imports from the US.

Chart 6.8
Direction of Trade
(January - August 1999)



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

Malaysia's total trade with **Japan** expanded further by 8% to RM55.24 billion during the first eight months of 1999 (January-August 1998: 6.4%), accounting for 15.4% of Malaysia's total trade. Imports grew by 5.3% to RM32.12 billion. As shown in chart 6.7, imports from Japan represented 20.6% of Malaysia's total imports, comprising mainly machinery, telecommunications and transport equipment, particularly thermionic valves and tubes, as well as motorcars and other motor vehicles. On the other hand, export earnings increased further by 12% to RM23.12 billion due to the recovery in the Japanese economy. The major export items were machinery, telecommunications and transport equipment, inedible crude material, mineral fuels and lubricants, which accounted for 74% of total exports. With growth of exports higher than imports, the trade deficit narrowed further to RM9 billion during the first eight months of 1999 (January-August 1998: -RM9.85 billion).

Malaysia's external trade with **Singapore**, which accounted for 14.9% of total trade, expanded by

0.7% to RM53.5 billion during the first eight months of 1999 (January-August 1998: 15.3%). Exports increased marginally by 0.9% to RM32.71 billion (January-August 1998: 17.5%), while imports increased at a slower rate of 0.2% to RM20.79 billion (January-August 1998: 12.0%). Malaysia continued to register a trade surplus of RM11.92 billion. Exports comprised mainly machinery, telecommunications and transport equipment such as thermionic valves and tubes, electrical apparatus, as well as telecommunications equipment, while major import items included machinery, telecommunications and transport equipment, mainly electronics, electrical machinery and parts (63.2%), as well as inedible crude material, mineral fuels and lubricants (13.2%).

Reflecting the increasing bilateral trade among member countries, Malaysia's trade with **ASEAN** (excluding Singapore) expanded by 9.5% to RM29.28 billion, accounting for 8.1% of the country's total trade during the first eight months of 1999. Export value grew by 5.6% to RM14.26

Table 6.12**Trade With the United States**
(January-August)

	Exports				Imports			
	Value (RM billion)		Annual Change (%)		Value (RM billion)		Annual Change (%)	
	1998	1999	1998	1999	1998	1999	1998	1999
Food, beverages, Tobacco, oils and fats ¹	0.70	0.73	37.3	4.3	0.64	0.75	-25.6	17.2
Inedible crude material, mineral fuels and lubricants ²	0.83	0.82	16.9	-1.2	0.58	0.57	16.0	-1.7
Manufactured goods, intermediate ³	2.00	2.01	68.1	0.5	3.31	2.91	21.2	-12.1
Machinery, telecommunications and transport equipment ⁴	31.07	37.03	70.2	19.2	24.17	21.32	49.2	-11.8
Manufactured goods Final products ⁵	5.47	5.43	56.3	-0.7	2.37	1.86	31.7	-21.5
Miscellaneous ⁶	0.12	0.09	50.0	-25.0	0.54	0.42	-0.7	-21.6
TOTAL	40.19	46.11	65.7	14.7	31.61	27.83	39.7	-11.9

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

² Includes SITC 2 and 3

³ Includes SITC 5 and 6

⁴ Includes SITC 7 only

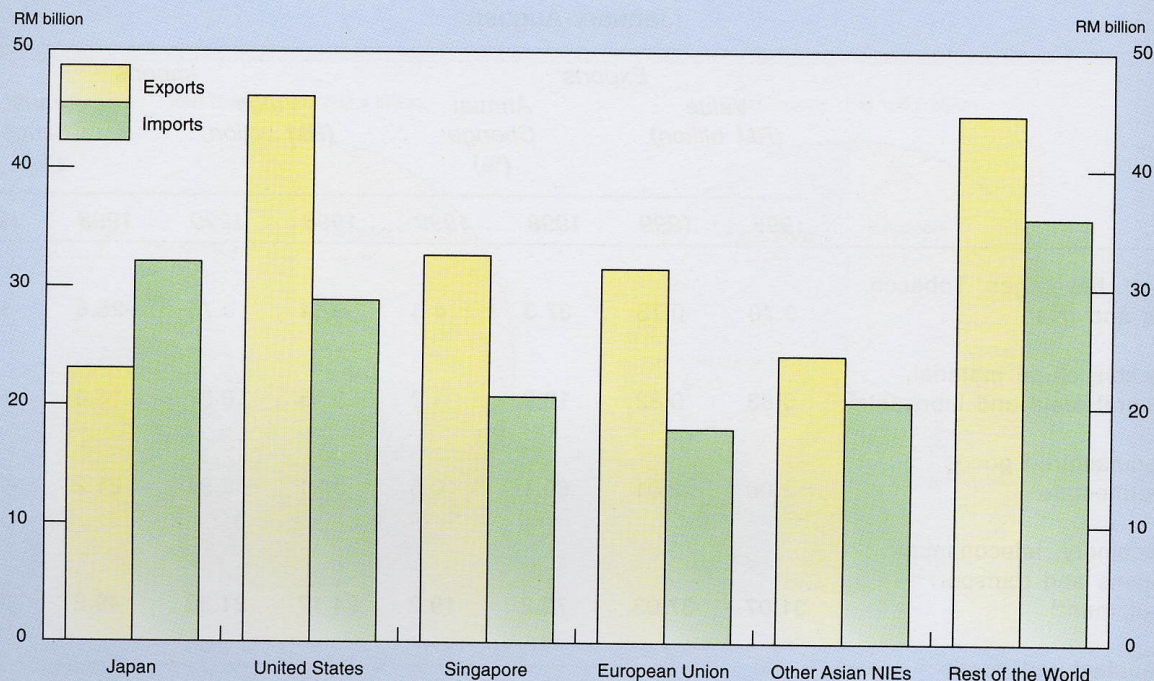
⁵ Includes SITC 8 only

⁶ Includes SITC 9 only

billion, after recording a strong growth of 25.2%. Major export items were machinery, telecommunications and transport equipment as well as other manufactured goods. Meanwhile, imports which included manufactured goods, machinery, telecommunications and transport equipment, mineral fuels and lubricants, increased by 13.5% to RM15.02 billion. Consequently, Malaysia registered a trade deficit of RM0.76 billion with ASEAN (excluding Singapore) during the first eight months of 1999 (January-August 1998: RM0.28 billion), on account of a trade deficit with Indonesia (RM1.44 billion) and the Philippines (RM1.19 billion).

Malaysia's total trade with the **EU**, which accounted for 13.9% of total trade, increased 4.5% to RM49.74 billion during the first eight months of 1999 (January-August 1998: 22.9%). Export earnings surged by 8.9% to RM31.60 billion (January-August 1998: 52.5%), while imports declined by 2.4% to RM18.14 billion (January-August 1998: -5.8%). As a result, Malaysia registered a higher trade surplus of RM13.46 billion with the EU during the first eight months of 1999, against a trade surplus of RM10.45 billion during the corresponding period of 1998. Major export items comprised electrical machinery, telecommunications and office equipment, as well

Chart 6.9
Balance of Trade
(January - August 1999)



Source: The Department of Statistics.

as transport equipment, which together accounted for 69.7% of total exports to the EU. Meanwhile, the bulk of imports from the EU were electrical machinery, apparatus and appliances as well as industrial machinery and equipment. Within the EU, the Netherlands is Malaysia's most important trading partner, accounting for 22.6% of Malaysia's total trade with the community, followed closely by the United Kingdom (22.3%) and Germany (21.5%). With imports declining by 25.2% to RM1.07 billion, while exports surged significantly by 27% to RM10.15 billion, Malaysia recorded a higher trade surplus of RM9.08 billion with the Netherlands during the first eight months of 1999 (January-August 1998: RM6.56 billion). Likewise, exports to the UK increased by 13.9% to RM7.48 billion, while imports increased at a slower rate of 4.9% to RM3.61 billion, resulting in a higher trade surplus of RM3.87 billion (January-August 1998: RM3.13 billion). On the other hand, Malaysia's exports to Germany declined by 13.5% to RM4.82 billion, while imports declined even further by 24.8% to

RM4.80 billion, resulting in a smaller trade surplus with Germany of RM0.02 billion (January-August 1998: -RM0.81 billion).

Malaysia's external trade with the **Newly Industrialising Countries (NIEs)** (excluding Singapore) of Taiwan, South Korea and Hong Kong increased by 12.2% to RM44.77 billion, reflecting the recovery of these economies. Trade with these economies constitutes 12.5% of Malaysia's total trade during the first eight months of 1999. Exports, which comprised mainly machinery, telecommunications and transport equipment as well as mineral fuels, increased by 14.4% to RM24.32 billion. Imports, which comprised mainly machinery and transport equipment rose by 9.6% to RM20.45 billion (see Table 6.16). Malaysia, therefore, recorded a higher trade surplus of RM3.87 billion with the NIEs during the period (January-August 1998: RM2.59 billion). Taiwan remains the major trading partner, accounting for 40% of Malaysia's total trade with the NIEs, followed

Table 6.13

Trade With Japan
(January-August)

	Exports				Imports			
	Value (RM billion)		Annual Change (%)		Value (RM billion)		Annual Change (%)	
	1998	1999	1998	1999	1998	1999	1998	1999
Food, beverages, Tobacco, oils and fats	1.09	0.96	55.7	-11.9	0.06	0.07	-14.3	16.7
Inedible crude material, mineral fuels and lubricants	6.12	4.77	5.0	-22.1	0.25	0.29	-3.8	16.0
Manufactured goods, intermediate	2.50	3.24	-6.7	29.6	7.02	7.59	13.8	8.1
Machinery, telecommuni- cations and transport	9.27	12.34	29.1	33.1	20.61	21.52	-3.0	4.4
Manufactured goods Final products	1.50	1.65	21.0	10.0	1.93	1.76	20.6	-8.8
Miscellaneous	0.17	0.16	30.8	-5.9	0.63	0.89	-35.1	41.3
TOTAL	20.65	23.12	16.3	12.0	30.50	32.12	0.6	5.3

Source: Department Of Statistics

by South Korea (31.1%) and Hong Kong SAR (28.9%). Trade with Taiwan expanded by 16.5% to RM17.89 billion, with exports surging by 29.5% to RM9.67 billion, while imports increased by 4.2% to RM7.89 billion, resulting in a trade surplus of RM1.45 billion (January-August 1998: -RM0.42 billion) for Malaysia. Trade with South Korea increased by 15.9% to RM13.94 billion during the first eight months of 1999 (January-August 1998: -1.2%). Malaysia's exports expanded by 30.2% to RM5.42 billion due to the strong economic recovery in South Korea, while imports increased by 8.3% to RM8.51 billion. This resulted in Malaysia recording a trade deficit of RM3.09 billion. Reflecting the weak economic conditions in Hong Kong SAR, Malaysia's total trade with the SAR declined by 1.1% to RM12.95 billion. Imports declined by 4.9% to RM3.72 billion, while exports increased marginally by 0.4% to RM9.23 billion. A slightly

higher trade surplus of RM5.51 billion was, therefore, recorded by Malaysia during the period (January-August 1998: RM5.27 billion).

Malaysia's total trade with the **People's Republic of China** grew by 13.5% to RM10.58 billion during the first eight months of 1999 (January-August 1998: 35.1%). Exports increased by 20.8% to RM5.58 billion, supported in particular by the export of electrical machinery, apparatus and appliances. Imports increased by 6.4% to RM5 billion. The major import items comprised machinery and transport equipment as well as food items. Malaysia recorded a trade surplus of RM0.58 billion with China during the first eight months of 1999 (1998: -RM0.08 billion)

During the first eight months of 1999, total trade with **Australia** and **New Zealand** grew by

Table 6.14**Trade With Singapore**
(January-August)

	Exports				Imports			
	Value (RM billion)		Annual Change (%)		Value (RM billion)		Annual Change (%)	
	1998	1999	1998	1999	1998	1999	1998	1999
Food, beverages, Tobacco, oils and fats	2.22	2.36	29.8	6.3	0.15	0.14	15.4	-6.7
Inedible crude material, mineral fuels and lubricants	1.66	1.59	-5.1	-4.2	3.28	2.75	16.7	-16.2
Manufactured goods, intermediate	3.53	3.44	26.1	-2.5	2.57	2.69	9.8	4.7
Machinery, telecommunications and transport equipment	22.25	22.45	19.6	0.9	13.01	13.14	19.6	1.0
Manufactured goods Final product	2.00	2.12	1.0	6.0	0.98	1.05	22.5	7.1
Miscellaneous	0.74	0.75	0.4	0.9	0.76	1.02	-51.6	34.2
TOTAL	32.40	32.71	17.5	0.9	20.75	20.79	12.0	0.2

Source: Department Of Statistics

17% and 20.6% respectively. Exports to Australia surged by 22.1% to RM4.76 billion, while imports grew by 11% to RM3.62 billion, resulting in a trade surplus of RM1.14 billion for Malaysia. As for New Zealand, Malaysia's exports increased by 40% to RM0.7 billion and imports increased by 5.7% to RM0.69 billion, leading to a trade surplus of RM0.01 billion and reversing the trade deficit experienced in the corresponding period of 1998. Exports to both Australia and New Zealand comprised mainly palm oil, rubber, tin, crude petroleum and sawn timber, while the major import items from both countries were dairy products, wheat and meat.

During the first eight months of 1999, Malaysia's total trade with South Asia declined, while trade with West Asia increased. However, in both these regions, Malaysia continued to enjoy trade surpluses, amounting to RM5.7 billion (January-

August 1998: RM5.95 billion) and RM1.64 billion (January-August 1998: RM2.65 billion) respectively.

Balance Of Payments

The current account position of the balance of payments further improves in 1999 to record the second consecutive year of surplus. The strengthened position is due to a larger surplus in the merchandise account, which more than offset the continued deficit in the services account. The capital account is likely to record a higher net inflow, due to higher net inflows of long-term capital, particularly official long-term capital. As a result, the basic balance is envisaged to record a higher surplus in 1999. Even assuming a higher net outflow of short-term capital, the overall position of the balance of payments is expected to record a large surplus in 1999. Consequently, the net

Table 6.15

Trade With The European Union
(January-August)

	Exports				Imports			
	Value (RM billion)		Annual Change (%)		Value (RM billion)		Annual Change (%)	
	1998	1999	1998	1999	1998	1999	1998	1999
Food, beverages, Tobacco, oils and fats	2.60	2.23	98.5	-14.2	0.72	0.54	-20.0	-25.0
Inedible crude material, mineral fuels and lubricants	1.53	1.27	24.4	-17.0	0.25	0.31	-30.6	24.0
Manufactured goods, intermediate	2.83	2.28	76.9	-19.4	3.80	3.83	-3.3	0.8
Machinery, telecommunications and transport equipment	18.33	22.04	49.8	20.2	12.46	12.11	-6.0	-2.8
Manufactured goods Final products	3.52	3.59	43.7	2.0	0.96	0.89	4.3	-7.3
Miscellaneous	0.22	0.19	10.0	-13.6	0.39	0.46	-40.9	17.9
TOTAL	29.03	31.60	52.5	8.9	18.58	18.14	-5.8	-2.4

Source: Department Of Statistics

international reserves held by Bank Negara Malaysia is expected to increase further in 1999.

Current Account

Merchandise exports, valued at free-on-board (f.o.b) prices, are estimated to increase by 6.7% to RM300.9 billion in 1999 (1998: 29.5%). The increase is attributed to an expected 10.6% increase in the export value of manufactured goods to RM263.5 billion. However, the export value of agricultural commodities is anticipated to decline by 15.4% to RM22.8 billion as a result of weaker commodity prices. Meanwhile, **merchandise imports** at f.o.b. prices are envisaged to increase at a faster rate of 6.5% to RM 226.8 billion (1998: 2.7%), attributed to higher imports of intermediate

and consumption goods. However, with merchandise export value increasing relatively faster than imports, the merchandise account is expected to record a larger surplus of RM74.1 billion in 1999 (1998: RM69 billion).

The **services account** continues to be in deficit in 1999 estimated at RM25.1 billion, compared with the deficit of RM22.3 billion in 1998. As in previous years, the deficit is mainly due to higher net outflows of investment income, as well as net payments for freight and insurance. The largest contributor to the services account deficit remains **investment income**, which accounts for 76.2% of total services net outflow. The gross payment for investment income is envisaged to increase by 14.2% to RM23 billion (1998: - 4.5%), mainly due to the repatriation of profits and dividend as

Table 6.16

Trade With the New Industrialising Economies of Asia¹
(January-August)

	Exports				Imports			
	Value (RM billion)		Annual Change (%)		Value (RM billion)		Annual Change (%)	
	1998	1999	1998	1999	1998	1999	1998	1999
Food, beverages, Tobacco, oils and fats	1.17	1.08	18.2	-7.7	0.15	0.16	-21.1	6.7
Inedible crude material, mineral fuels and lubricants	3.76	3.43	5.6	-8.8	0.23	0.32	-14.8	39.1
Manufactured goods, intermediate	5.29	4.18	28.4	-21.0	4.67	4.64	19.7	-0.6
Machinery, telecommunications and transport equipment	9.89	14.44	18.7	46.0	13.39	14.0	23.1	4.6
Manufactured goods Final products	0.99	1.06	26.9	7.1	0.86	0.88	-2.3	-2.3
Miscellaneous	0.15	0.13	-6.3	-13.3	0.36	0.45	-60.4	25.0
TOTAL	21.25	24.32	18.5	14.4	18.66	20.45	9.6	9.6

¹ Comprising South Korea, Taiwan and Hong Kong only

Source: Department Of Statistics

a result of higher export earnings by foreign companies, particularly in the electronics industry. At the same time, the gross receipts for investment income, which include mainly receipts on the external assets of the Central Bank and income from Malaysians' investment abroad, involving corporations and the banking sector, are expected to increase moderately by 1.6% to RM5.4 billion (1998: -17.6%). As a result, the net investment income outflow is expected to increase to RM17.6 billion.

Net outflow on **freight and insurance** is expected to increase from RM8.4 billion in 1998 to RM9.7 billion in 1999. Gross payment for freight and insurance is estimated to increase by 11.6% to RM14 billion (1998: 1.8%). As in previous years,

higher payments for freight and insurance are partly due to insufficient capacity of the domestic shipping and insurance industries to meet the demand brought about by higher volume of Malaysia's external trade. Nevertheless, total freight and insurance earnings is envisaged to increase by 3.3% to RM4.3 billion in 1999 (1998: 29.9%), in line with the increasing volume of cargo.

The "**other services**" net outflow, such as payments for contract and professional charges, management and agency fees, royalty payments, franchise fees, commissions and salaries and allowances to non-residents, is expected to be stable at RM4.3 billion in 1999. Payments are expected to decline by 6% to RM25.5 billion in 1999 (1998: -4.5%), as a result of reduced demand

Table 6.17

Direction of Trade With Other Trading partners
(January-August)

	<i>Exports Value (RM billion)</i>		<i>Annual Change (%)</i>		<i>Imports Value (RM billion)</i>		<i>Annual Change (%)</i>	
	1998	1999	1998	1999	1998	1999	1998	1999
ASEAN (including Singapore)	45.91	46.97	19.9	2.3	33.95	35.80	21.3	5.4
China	4.62	5.58	49.0	20.8	4.70	5.00	23.7	6.4
Australia	3.90	4.76	69.6	22.1	3.26	3.62	-4.1	11.0
New Zealand	0.50	0.70	25.0	40.0	0.65	0.69	-0.2	5.7
West Asia	4.0	3.58	53.8	-10.5	1.35	1.94	35.0	43.7
Central & Eastern Europe	0.46	0.47	109.1	2.2	0.19	0.21	-29.6	10.5
South Asia ¹	7.38	7.11	105.0	-3.7	1.43	1.41	0.7	-1.4
Africa	1.37	2.40	5.4	75.2	0.79	0.77	-21.0	-2.5
TOTAL	68.1	71.6	31.5	5.0	46.3	49.4	17.1	6.7

¹ Comprising mainly India, Pakistan and Sri Lanka

for foreign professional services, given the contraction in construction activities as well as reduced private investment in the country during the year. However, receipts from exports of "other services" are estimated to decline further by 7.4% to RM21.2 billion in 1999 (1998: -6.9%).

The **government transactions** account is estimated to record a net outflow of RM219 million in 1999, after registering a net outflow of RM215 million in 1998. Payments, attributed mainly to expenditure incurred by Malaysian embassies abroad and technical assistance provided by the Government to third world countries, are estimated to increase by 3% to RM341 million in 1999 (1998: 7.5%). At the same time, total government transaction receipts are expected to increase by

2.6% to RM560 million (1998: 19.2%), as a result of higher expenditure by foreign embassies in Malaysia.

The **travel account** is envisaged to improve further, recording a larger net inflow of RM4.4 billion in 1999 (1998: RM3.1 billion). Travel receipts are expected to increase by an estimated 15.1% to RM10.8 billion in 1999 (1998: -11.2%). The surge in travel receipts is mainly due to the increase in the number of tourists visiting Malaysia by 7.1% to 6 million tourists in 1999 (1998: -9.7%). Meanwhile, payments are expected to increase only marginally by 1.5% to RM6.4 billion, following measures to reduce the number of Malaysian students studying abroad as well as efforts to encourage Malaysians to travel domestically.

Table 6.18

Current Account of the Balance of Payments
(RM million)

	1998			1999 ^e			2000 ^f Net
	+	-	Net	+	-	Net	
Merchandise account (Exports & imports fob)	281,947	212,939	69,008	300,917	226,790	74,127	69,776
Services account	48,605	70,943	-22,338	48,893	73,976	-25,083	-27,495
Freight and Insurance	4,129	12,564	-8,435	4,267	14,025	-9,758	-9,980
Other Transportation	6,547	4,279	2,268	6,890	4,511	2,379	2,563
Travel	9,342	6,272	3,070	10,750	6,365	4,385	4,270
Investment income	5,308	20,125	-14,817	5,395	22,985	-17,590	-19,970
Government transactions	331	546	-215	341	560	-219	-235
Other services	22,948	27,157	-4,209	21,250	25,530	-4,280	-4,143
Goods and Services Account	330,552	283,882	46,670	349,810	300,766	49,044	42,281
Unrequited transfers	2,945	12,821	-9,876	2,984	10,018	-7,034	-6,450
Current account	333,467	296,703	36,794	352,794	310,784	42,010	35,831

^e Estimate

^f Forecast

In the case of **other transportation** services transactions, which include air passenger fares, port and airport disbursements, bunker and charter fees, a slightly higher net inflow of RM2.4 billion is expected in 1999 (1998: RM2.3 billion). The gross amount of receipts in other transportation is estimated to increase by 5.2% to RM6.9 billion in 1999 (1998: 5.2%), mainly due to improved earnings by the Malaysian airlines industry following higher volume of ticket sales to foreigners. Meanwhile, the gross amount of payments for

other transportation is envisaged to increase by 5.4% to RM4.5 billion, compared with a decline of 4.4% in 1998. This is partly as a result of higher airport and port charges and fuel expenses paid by the national carrier and shipping lines abroad.

The net outflow associated with **unrequited transfers** is expected to be lower in 1999, that is at RM7 billion, against a net outflow of RM9.9 in 1998. The total amount of transfer payments

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Table 6.19

Performance of Ringgit Against Selected Currencies

RM per foreign currency ¹	End 1998	End September 1999	% change
US dollar	3.8000	3.8000	0.0
Sterling Pound	6.3313	6.2495	1.3
Deutschemark (100)	226.40	206.86	9.4
Japanese yen (100)	3.3141	3.5582	-6.9
Singapore dollar	2.2879	2.2317	2.5
Thai baht (100)	10.3613	9.2548	12.0
Philippine peso (100)	9.7064	9.2966	4.4
Indonesian rupiah (100)	0.0475	0.0462	2.8

¹ Interbank rates at 12.00 noon in Kuala Lumpur are an average of the highest buying and lowest selling quotes.

Source: Bank Negara Malaysia

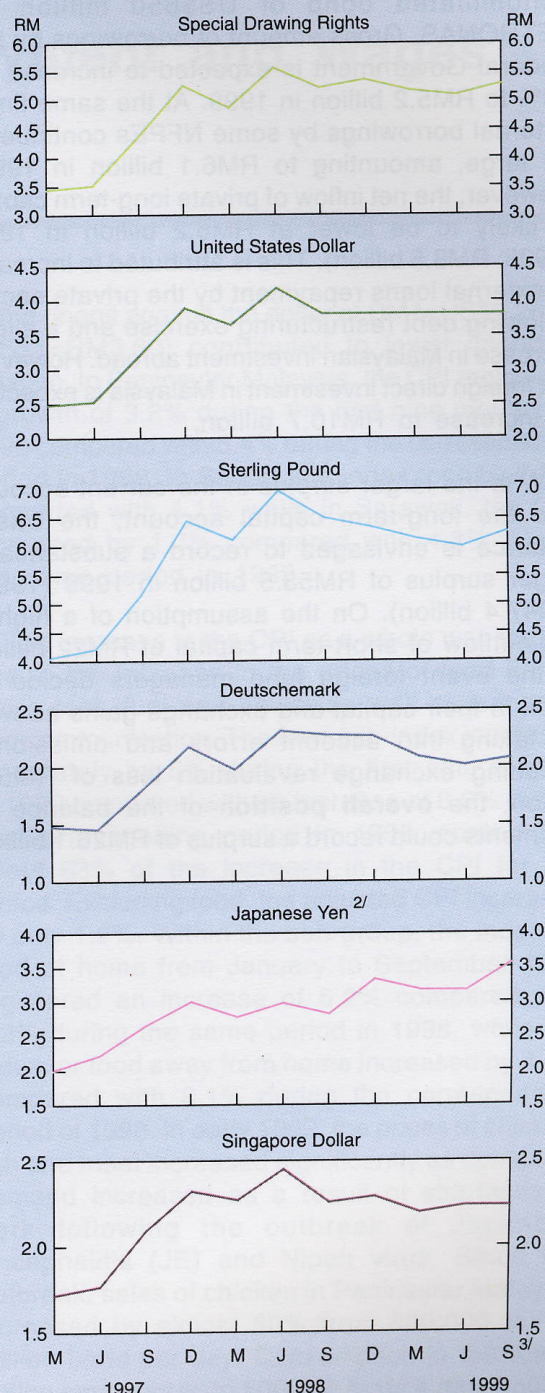
is likely to decline by 21.9% to RM10 billion in 1999 (1998: RM12.8 billion), mainly due to lower remittances by foreign workers as the number of foreign workers in the country has been reduced following the contraction of the economy in 1998. On the other hand, transfer receipts from abroad are estimated to increase by 3.4% to RM3 billion in 1999 (1998: RM2.9 billion), largely from Malaysians working abroad.

The **current account** of the balance of payments is, therefore, expected to record a higher surplus of about RM42 billion in 1999 or 15% of GNP (1998: RM36.8 billion or 13.7% of GNP).

Capital Account

The long-term **capital account** is expected to register record a slightly higher net inflow of RM11.5 billion in 1999, compared with RM10.6 billion in 1998. The increase is largely attributed to the substantially larger net inflow of **official long-term capital**, amounting to RM5.3 billion in 1999 (1998: RM2.1 billion), as a result of higher external borrowings by both the Federal Government and the NFPEs. These borrowings include the issuance

Chart 6.10
Exchange Rates Of The Malaysian Ringgit ^{1/}



1/ End of March, June, September and December

2/ RM = ¥ 100

3/ As at end September 1999

↓ Appreciation Of The Malaysian Ringgit
↑ Depreciation Of The Malaysian Ringgit

of a 10 year global bond of US\$1 billion by the Federal Government to finance the recovery package as well as the issuance of a US dollar-denominated bond of US\$650 million by PETRONAS. Gross amount of borrowings by the Federal Government is expected to increase by 30% to RM5.2 billion in 1999. At the same time, external borrowings by some NFPEs continue to be large, amounting to RM6.1 billion in 1999. However, the net inflow of private long-term capital is likely to be lower at RM6.2 billion in 1999 (1998: RM8.5 billion). This is attributed to increase in external loans repayment by the private sector following debt restructuring exercise and a slight increase in Malaysian investment abroad. However, net foreign direct investment in Malaysia is expected to increase to RM10.7 billion.

With the larger surplus in the current account and the long-term capital account, the **basic balance** is envisaged to record a substantially larger surplus of RM53.5 billion in 1999 (1999: RM47.4 billion). On the assumption of a higher net outflow of short-term capital of RM22 billion in the event foreign fund managers decide to book in their capital and exchange gains as well as taking into account errors and omissions, including exchange revaluation loss of RM5.4 billion, the **overall position** of the balance of payments could record a surplus of RM26.1 billion

in 1999 (1998: RM40.3 billion). Hence, the **net international reserves** held by Bank Negara Malaysia is estimated to increase to RM125.5 billion or US\$33 billion as at end-1999 (end-1998: RM99.4 billion). This level of net international reserves is sufficient to finance 6.5 months of retained imports.

Foreign Exchange Market

Since 2 September 1998, the ringgit has been fixed at RM1=US\$0.2632 (US\$1 = RM3.80). The ringgit strengthened against most major currencies, such as the deutschemark, sterling pound and Singapore dollar at end-September 1999 compared with end 1998. However, during the same period, the ringgit depreciated against the yen. This was in tandem with the strengthening of the yen against the US\$ attributable to the inflow of funds into Japanese assets, increasing bond yields and improving business sentiments in Japan.

Against regional currencies, the ringgit appreciated against the Thai baht, Philippine peso and the Indonesian rupiah during the first nine months of 1999. The ringgit continued to remain competitive as reflected by the 22 consecutive months of trade surplus since November 1997 through August 1999.