

4

Sectoral Performance

Gross Domestic Product

Real Gross Domestic Product (GDP) is expected to expand by 7.5% in 2000 compared with 5.8% in 1999. Growth is expected to emanate from the stronger-than-anticipated performance of the manufacturing sector, supported by positive growth from all other sectors. Underpinned by the continued strong external demand for electronic products and significant improvement in domestic demand, value added in the manufacturing sector is envisaged to record a significant growth of 17%. Export-oriented industries are expected to expand by 22.4% (1999: 10.8%), supported by the strong global upcycle for electronic products. Likewise, domestic-oriented industries are also expected to maintain its growth momentum with output increasing by 17% on the back of rising incomes, lower interest rates as well as accelerated public spending on infrastructure projects.

The agriculture sector will expand at a lower rate of growth of 0.5% due to slower production of crude palm oil and timber and contraction in rubber production, as shown in *Table 4.1*. Value added in the mining sector is expected to increase marginally by 0.6%, given a slower increase of 0.4% in crude oil production to 695,718 barrels per day. With higher investment in infrastructure and low- and medium-cost housing projects offsetting the consolidation of the property market due to excess supply of commercial and higher-end properties, the construction sector is envisaged to turn around to increase by 3.1% (1999: -5.6%). With strong growth in the manufacturing sector and an overall pick-up in economic activities, the services sector is expected to register a growth of 4.9% (1999: 3.3%), in line with higher growth in the sub-sectors of transport, storage and communications, wholesale and retail trade, hotels and restaurants and finance, insurance, real estate and business services.

Manufacturing Sector

The overall output performance of the manufacturing sector continues to remain robust in tandem with the recovery of domestic demand and sustained growth in exports. The manufacturing sector, which turned around in 1999, continued to accelerate into 2000 registering 15 consecutive months of double-digit growth since June 1999, allowing it to spearhead growth in the economy. For the first half of 2000, **value added in the manufacturing sector** registered a significantly higher growth of 24.5% compared with the 5.3% registered in the corresponding period of 1999. As such, the share of the manufacturing sector to the real GDP is expected to increase by 32.6% (1999: 30%).

In the second half of 2000, growth is expected to moderate somewhat on account of higher growth registered in the corresponding period of 1999 and capacity constraints of some major industries as well as concerns about a possible slower pace of export sales due to the anticipated slowdown in the United States (US) economy. A slowdown in US economy is not, however, expected to adversely affect export sales in a big way, as continued strong recoveries in other major Asian markets as well as moderate recovery in Europe are expected to cushion the effect. Despite these concerns, the manufacturing sector is expected to continue to perform favourably in the second half of 2000. Growth will continue to be broad-based, underpinned by the further expansion of output of electrical and electronics, chemicals, plastic and petroleum, and construction-related materials as well as transport equipment industries. The forecast is based on anticipated capacity expansion in some industries that are expected to come on-stream in the second half of 2000 and accelerated Government expenditure on public projects, in particular infrastructure. In addition,

Table 4.1

Gross Domestic Product (GDP) by Sector (%)

	Annual Growth Rate		Share of GDP		Contribution to Growth	
	1999	2000 ^e	1999	2000 ^e	1999	2000 ^e
Agriculture, forestry and fishing ¹	3.8	0.5	9.4	8.8	6.2	0.6
Mining	-3.1	0.6	7.2	6.8	-4.3	0.6
Manufacturing	13.5	17	30	32.6	64.9	67.3
Construction	-5.6	3.1	3.6	3.4	-3.9	1.5
Services	3.3	4.9	54.3	53	31.5	35.5
<i>Less</i> Imputed bank service charges	2.2	2.8	7.3	7.0	2.9	2.7
<i>Plus</i> Import duties	20.1	-7.5	2.8	2.4	8.5	-2.7
GDP	5.8	7.5	100.0	100.0	100.0	100.0

¹ Includes livestock and horticulture.

^e estimate.

Chart 4.1
Monthly Manufacturing Production Index
(annual percentage change)

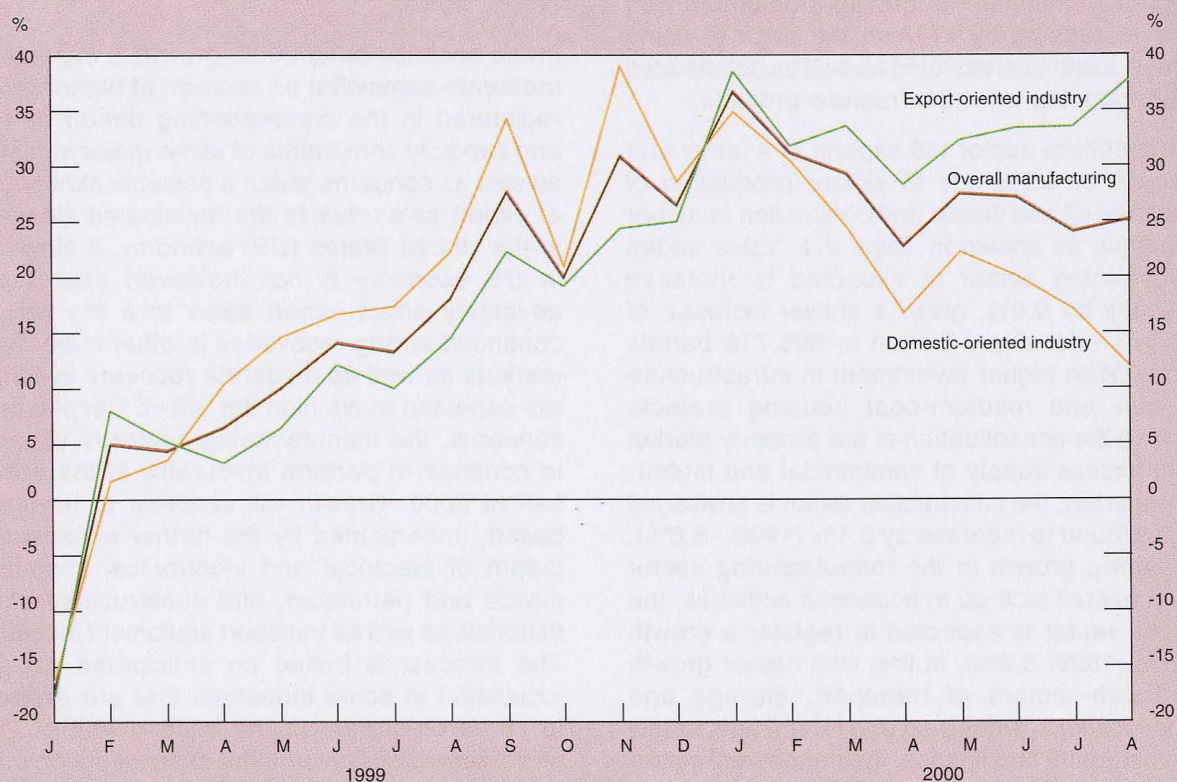


Table 4.2
Manufacturing Production Index
(1993=100)
(January-August)

	Weights	Annual Growth Rate (%)	
		1999	2000
Electrical and electronic products and machinery	32.9	8.3	44.0
Professional and scientific and measuring and controlling equipment	1.35	-5.6	20.0
Textiles and wearing apparel	5.58	1.8	9.4
Footwear	0.1	-18.2	94.2
Wood products	7.7	-11.0	4.4
Rubber products	5.28	3.6	4.0
Food, beverages and tobacco	11.12	9.5	18.2
Paper and paper products	1.69	6.2	17.6
Petroleum refineries	1.36	-6.4	20.5
Miscellaneous products of coal and petrol	0.41	11.0	30.8
Chemicals, chemical products and plastics	15.47	10.7	18.9
Non-metallic mineral & glass products	4.87	-6.7	22.8
Iron and steel	3.17	29.8	28.6
Non-ferrous metal products	0.82	6.7	14.0
Fabricated metal products	4.53	-17.0	38.4
Transport equipment	3.65	48.4	24.5
Total	100.0	6.5	27.8

Source: Industrial Production Index, Department of Statistics.

low interest rates and improved consumer sentiments also boosted domestic sales. Consequently, value added in manufacturing sector is envisaged to record a higher growth of 17% (1999: 13.5%).

Output of **export-oriented industries** registered a stronger than expected growth of 33.4% in the first eight months of 2000 (January-August 1999: 5%). The significantly higher growth was underpinned by the continued strong global demand for electrical and electronic products including semiconductors, audio-visual products as well as office machineries and air-conditioning units. Likewise, output of all the major sectors recorded positive growth rates, with growth in the output of textiles and apparels accelerating by 9.4% (January-August 1999: 1.8%), as shown in *Table 4.2* while the wood products industry recovered to register a positive growth rate of 4.4% (January-August 1999: -11%). Output growth of rubber products also increased by 4% (January-August 1999: 3.6%) due to an increase in output of tyres and tubes.

Output growth of **domestic-oriented industries** accelerated to 21.5% (January-August 1999: 8.3%) reflecting the improving economic situation, rising incomes and fiscal stimulus. Of significance was the strong expansion in the output of chemicals and plastic products, driven by demand from electronics as well as transport equipment industries. Production of transport equipment is expected to expand further due to increased demand and the introduction of new models of the national car. The pick-up in low and medium-cost housing construction starts and the resumption of several infrastructure projects as well as accelerated Government expenditure will assist in boosting the production of iron and steel and other construction-related materials. Increases in domestic and overseas demand for ceramic and clay products will see a corresponding increase in the production of non-metallic mineral industry. In terms of contribution to total manufacturing output, the domestic-oriented industries accounted for 45% while the export-oriented industries continued to contribute a higher share of 55%.

The robust growth in manufacturing output was also reflected in manufacturing sales. For the first seven months of 2000, manufacturing sales expanded by 32.2% (January-July 1999: 9.2%).

The higher value of sales was due to significant increase in demand of petroleum, chemicals and plastic products, electrical and electronic products and transport equipment. In tandem with the increase in employment in the manufacturing sector, the total wage bill increased by 16.8% (January-July 1999: 3.3%) with the average monthly wage for all categories of employees increasing by 7.9% (January-July 1999: 3.7%). However, the real average wage per worker, that is, the increase in nominal average wage discounted by changes in the selling price of products, rose by 4.6% (January-July 1999: -0.5%), as shown in *Table 4.3*. The increase in real average wage was, however, complemented by the increase in output per worker of 18.5% (January-July 1999: 5.2%) during the first seven months of 2000 due to higher output (28.2%) and a smaller increase in employment (8.2%). With output per worker increasing at a faster rate than real average wage, the real unit labour cost declined by 11.7% (January-July 1999: -5.3%) largely due to the sharp decline in unit labour cost of the petroleum, chemical and plastic sectors. The wood products and transport equipment sector, however, recorded an increase in unit labour cost of 1.1% and 9.4%, respectively.

Riding on the continuing uptrend in the global demand for semiconductors, output of **electrical, electronics and machinery**, as a group, rose sharply by 44% (January-August 1999: 8.3%) during the first eight months of 2000. Output of semiconductors, which accounted for 32.1% of the total manufacturing output growth, increased significantly by 48.6% (January-August 1999: 14.6%). The stronger-than-expected growth in the production of semiconductors was supported by the strong growth in the information technology infrastructure and wireless communications sectors. The unanticipated upsurge in demand for semiconductors has resulted in constraints in output as well as supplies of parts. The situation is expected to improve when several new capacities or expansion come onstream in 2001.

The production of television and other audio-visual products also turned around to record a significant growth of 19% (January-August 1999: -5.1%), encouraged by the regional economic recovery and improved consumer sentiments in the domestic market. The higher production was also due to the introduction of new product models that incorporate advanced features and technologies,

Table 4.3
Manufacturing Sector
Labour Productivity, Real Average Wage and Real Unit
Labour Cost By Industry
(January-July 2000)

Industry	Annual Growth Rate (%)		
	Labour Productivity	Real Average Wage	Real Unit Labour Cost
All Manufacturing	18.5	4.6	-11.7
Electrical, electronic & machinery	28.7	18.8	-7.7
Textiles, apparel & footwear	5.9	2.1	-3.6
Chemical & plastic products	7.7	-21.5	-27.1
Transport equipment	9.6	19.9	9.4

Source: Monthly Manufacturing Survey, Department of Statistics.

targeted at the growing numbers of affluent consumers as the economy continued to recover. Similarly, the production of non-electrical machinery industry, comprising office and accounting machinery, refrigerators, exhaust, ventilating and air-conditioning units also recovered strongly to register growth of 60.4% (January-August 1999: -11.5%) in response to higher sales orders from the local and overseas markets.

Following strong external demand, production of **textiles and wearing apparel** expanded by 9.4% (January-August 1999: 1.8%) in the first eight months of 2000. The increase reflected higher production of synthetic textile mills which recorded an increase of 9% (January-August 1999: 0.1%). Output of knitting mills, which turned around to register an increase of 1.5% (January-August 1999: -4.9%) also contributed to the improved output performance of the sector. Output of wearing apparel also registered a strong growth of 17.2% (January-August 1999: 3.5%) on account of increased demand from overseas markets.

Output of **wood products** also staged a turnaround with a growth of 4.4% (January-August 1999: -11%) in the first eight months of 2000. The better performance can be attributed to more stable prices of timber and timber-related products and the pick-up in construction activities of low- and medium-cost housing projects as well as higher demand from furniture industry that boosted the domestic demand for timber products. This was reflected in the production of plywood, hardboard and particleboard as a group that expanded by 5.5% (January-August 1999: -3.3%). Output of sawn timber also recovered to registered a growth of 1.2% (January-August 1999: -26%) due to increase in domestic and overseas demand.

Production of **rubber products** continued to expand by 4% (January-August 1999: 3.6%) in the first eight months of 2000. Output of tyres and tubes increased by 13.5% (January-July 1999: 3.1%) in tandem with the recovery in the automotive industry. Production of other rubber products which include rubber gloves and catheters also increased by 1.8% on account of increased sales orders from overseas. Production of processed latex increased by 6.3% (January-August 1999: 2.5%) following an increase in supply of imported latex due to higher demand of latex based products.

Output of **food, beverages and tobacco** expanded significantly by 18.2% (January-August 1999: 9.5%), as shown in *Table 4.4*, reflecting improvements in domestic consumption. Production of food increased by 14.3% (January-August 1999: 15.9%). Of significance was the growth in the production of palm oil (13.2%) and other dairy products (10.1%). Similarly, production of beverages and tobacco also expanded sharply by 10.1% and 65.4%, respectively, in response to increased domestic and external demand.

Output of **chemical industries** also recorded a significant increase of 18.9% (January-August 1999: 10.7%), supported by increased demand in industrial chemical products as well as other chemical products. Production in industrial chemical products increased by 7.1% (January-August 1999: 4.2%), boosted by the higher demand for resins in domestic and overseas markets. The other chemical products sub-sector recorded a significant increase of 14.5% (January-August 1999: 6.2%),

Table 4.4
**Production of Selected Food
Manufacturing Sub-Sectors
(January-August)**

	Annual Growth Rate (%)	
	1999	2000
Rice	1.4	-1.0
Dairy products	6.5	10.1
Biscuits	8.9	2.4
Fish, crustacean and similar foods	-8.0	5.4
Palm oil	24.0	13.2
Sugar factories and refineries	12.8	5.0
Cocoa and chocolate	4.2	19.7
Animal feeds	9.3	10.1
Other food products	-0.5	90.7
Total	15.9	14.3

Source: Industrial Production Index, Department of Statistics.

supported by the increase in output of paint, varnishes and lacquers, given the higher demand emanating from the construction and automotive sub-sectors. Output of the plastic products sub-sector, a major supporting industry to the electronics and electrical and food industries, increased sharply by 37.8% (January-August 1999: 23.8%) in tandem with growth in these industries.

With the strengthening in domestic demand and increased exports, production of **petroleum refineries products** recorded a strong growth of 20.5% (January-August 1999: -6.4%). The increase in output of petroleum products is attributed to an increase in the supply of crude oil and higher output growth of major petroleum and petrochemical products produced by refineries such as kerosene, fuel oil, diesel, liquefied petroleum gas and gasoline.

Output of **non-metallic mineral products** also expanded by 22.8% in the first eight months of 2000, a significant turnaround after experiencing a contraction of 6.7% in the corresponding period of 1999. The vastly improved performance was largely due to the sharp increase registered in the production of cement and concrete products of 41.3% (January-August 1999: -6.7%) on account of improved domestic demand as construction activity began to pick up and efforts were enhanced to establish new export markets. Increased domestic and external demand for ceramic products also assisted the expansion of output of structural clay by 8.4% while the pick-up in the transport equipment and construction sectors boosted production of glass by 16.3%.

Growth in the production of **basic metal products** also accelerated strongly by 31.6% during the first eight months of 2000 (January-August 1999: -1.2%). This marked improvement was driven by external and domestic demand. The production of iron and steel increased by 28.6% (January-August 1999: 29.8%) in line with the increase in external demand and accelerated implementation of public projects and privatised infrastructure projects. The production of fabricated metal products also turned around to surge by 38.4% (January-August 1999: -17%). The growth was supported by increased demand for tin cans and metal boxes from the beverages and food processing industries.

Buoyed by the expansion in economic activities and higher disposable incomes amidst an environment of low interest rates and improved consumer confidence, output of **transport equipment** continued to increase by 24.5% (January-August 1999: 48.4%) on account of increased domestic demand for passenger cars and commercial vehicles. This was supported by the 25.2% increase in the manufacture and assembly of motor vehicles in the first eight months of 2000 compared with the same period last year. The introduction of new models of the national car attracted consumer interest and boosted sales. The higher production of motor vehicles also led to the increased production of motor vehicle parts and accessories of 30.2% (January-August 1999: 34.7%).

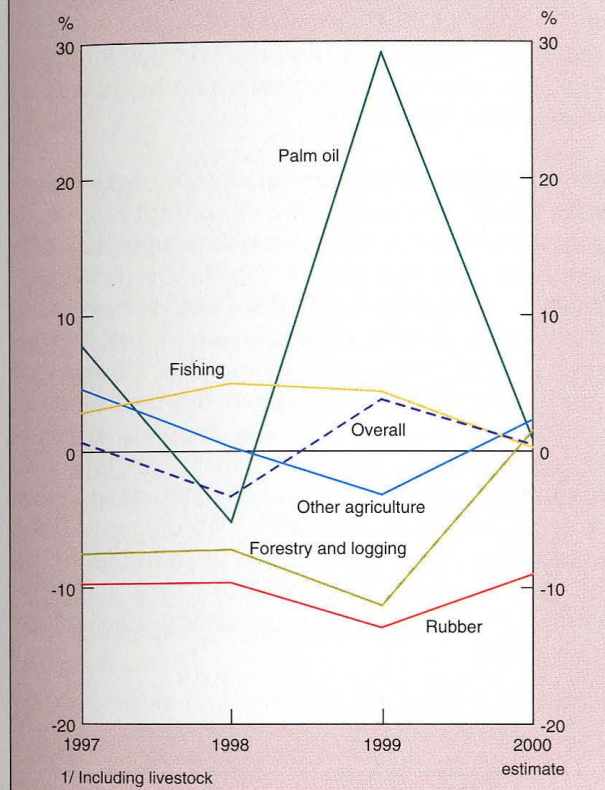
Agriculture Sector

Value added of the agriculture sector, including livestock, forestry, and fishing is estimated to increase by 0.5% to RM18,166 million in 2000 (1999: 3.8%). All sub-sectors in agriculture, except rubber, are expected to record positive growth, as shown in *Table 4.5*. The production of rubber is expected to decline due to unfavourable prices. On the other hand, palm oil production continues

Table 4.5
**Value Added in the Agriculture,
Livestock, Forestry and Fishing Sector
in 1987 Prices**
(%)

	Annual Growth Rate		Share to Agriculture	
	1999	2000 ^a	1999	2000 ^a
Agriculture, Forestry And Fishing	3.8	0.5	100.0	100.0
Rubber	-12.9	-9.0	8.1	7.4
Oil palm	29.2	0.9	33.2	33.3
Other agriculture including livestock	-3.2	2.3	27.8	28.3
Forestry and Logging	-11.3	1.5	17.9	18.1
Fishing	4.4	0.3	12.9	12.9
^a Estimate.				

Chart 4.2
Value-Added For Agriculture, Forestry and
Fishing Sector at 1987 Constant Price
(annual percentage change)



to pick up due to the increase in matured areas. Sawlog production is anticipated to increase in line with higher domestic consumption. With growth of the sector lower than real GDP growth, the share of the agriculture sector is estimated to decline to 8.8% (1999: 9.4%).

Palm Oil and Palm Kernel Oil

After a bumper crop in 1999 when **crude palm oil** (CPO) production increased significantly by 26.9% to 10,554,000 tonnes, production of CPO is expected to grow marginally this year. In the first eight months of 2000, CPO production achieved 6,440,000 tonnes (January-August 1999: 6,568,000 tonnes), or 1.9% lower than the same period in 1999. CPO production for 2000 is expected to reach 10,650,000 tonnes, an increase of 0.9% over the previous year as shown in Table 4.6. The increased output is due to an additional 108,300 hectares coming into production, bringing total matured area to 2,965,000 hectares, mainly from new plantations in Sabah and Melaka. The

Table 4.6

Oil Palm Area and Palm Oil Production

	1999	2000 *	Annual Growth Rate (%)	
			1999	2000 *
Planted areas ('000 hectares)	3,313	3,463	7.6	4.5
Matured areas ('000 hectares)	2,857	2,965	10.0	3.8
Production ('000 tonnes)				
Crude palm oil	10,554	10,650	26.9	0.9
Palm kernel oil	1,339	1,410	21.7	5.3
Yield (tonnes/hectare)	19.26	18.88	20.5	-2.0

* Estimate.

bulk of palm oil production (70.3%) is expected to continue to come from Peninsular Malaysia, with the remaining production from Sabah (25.3%) and Sarawak (4.3%).

With continuing interest in oil palm planting, total hectareage planted is expected to increase by 4.5% to 3,463,000 hectares in 2000 (1999: 3,313,000 hectares). Sabah with 928,000 hectares (29.4%), Johore (17.2%) and Pahang (16.3%) are expected to be the three most important oil palm growing states. Practically all of the oil palm is cultivated as an estate crop with smallholdings accounting only for 9% of total hectareage. In terms of composition of ownership, the private sector accounted for 2,113,000 hectares (67%) while Government agencies such as the Federal Land Development Authority (FELDA) and Federal Land Consolidation and Rehabilitation Authority (FELCRA) Berhad collectively accounted for the rest.

The competition in oils and fats is expected to intensify with higher world output of soya oil (2.4%), rapeseed oil (15.6%) and sunflower oil (3.2%). Palm oil stocks are expected to remain above one million tonnes as the increase in production has not been matched by an increase in exports. Hence, prices are expected to remain low. Steps being taken to increase competitiveness include reducing the cost of production, increasing output per hectare and maximising utilisation of palm oil

by-products. A recent breakthrough in the non-edible application of palm oil was an invention by the Malaysian Palm Oil Board (MPOB) to extract biochemical components for use as pulp in paper production. A new product, a soil stabiliser, has been identified which can be applied to improve plantation roads for use under all weather conditions. As an effort towards enhancing productivity and reducing the utilisation of labour, MPOB has also developed a mechanical cutter for use in harvesting ripe palm fruit bunches in young palms.

In line with the increase in palm oil production, **palm kernel oil** output is expected to increase by 5.2% to 1,410,000 tonnes in 2000 (1999: 1,340,000 tonnes). In the first eight months of this year, production increased by 2.3% to 850,670 tonnes (January-August 1999: 831,914 tonnes).

Timber

Sawlog production in 2000 is expected to record a small increase of 1.2% (1999: 0.6%). For the first eight months of the year, production of sawlogs in the three regions of Peninsular Malaysia, Sabah and Sarawak increased by 8% to 15,718 thousand cubic metres (January-August 1999: 14,550 thousand cubic metres). As such, value added of the forestry sector is expected to increase by 1.5% to RM3,284 million (1999: RM3,237 million). Given the increasing local utilisation of sawlog for higher value-added products such as medium-density fibreboard, chipboard, particleboard, laminated veneer lumber and furniture, the domestic consumption of sawlogs is expected to increase by 12.3% to 17,048 thousand cubic metres (1999: 15,181 thousand cubic metres). Out of the total sawlog production of 22,055 thousand cubic meters (1999: 21,799 thousand cubic meters), 71.7% will be consumed locally (1999: 69.1%). Under the National Forest Policy, each state is subjected to a cutting coupe where there is a restriction on the amount of timber to be felled each year. To increase existing stock of timber, an estimated 175,492 hectares (1999: 155,369 hectares) in Sabah are being replanted with fast growing species.

Rubber

In the first eight months of 2000, **rubber** output declined by 20.5% to 421,254 tonnes (January-August 1999: 529,800 tonnes). Rubber production

for the whole of 2000 is expected to contract by 8.9% to 700,000 tonnes (1999: 768,800 tonnes) due to weak prices and declining hectarages, as shown in *Table 4.7*. Total land under rubber declined by 2.4% to 1,430,700 hectares (1999: 1,464,800 hectares) due to conversion of rubber land into housing, industry and recreation areas as well as for oil palm cultivation.

Several steps have been taken to increase latex and rubber wood production. In order to increase output, old rubber trees are being replanted with new high yielding clones in the Rubber Research Institute of Malaysia (RRIM) 2000 series. As a means to overcoming labour shortages, a new fertiliser that releases nutrients at a slower rate has been introduced, reducing the frequency of fertilizer application. The low tapping intensity system or 'LITS', a new tapping technology that can reduce tapping frequency by stimulating latex from rubber trees was also introduced. At the same time, the rubber products manufacturing industry is being expanded to produce high value-added products from rubber, particularly from latex.

Table 4.7
Rubber Area, Yield and Production

			Annual Growth Rate (%)	
	1999	2000 ^e	1999	2000 ^e
Total area ('000 hectares)	1,464.8	1,430.7	-6.6	-2.3
Smallholdings	1,207.1	1,170.9	-12.1	-3.0
Estate	257.7	259.8	32.0	0.8
Yield (kg per hectare)				
Smallholdings	876	857	-2.7	-2.1
Estate	1,226	1,153	0.2	-6.0
Total production ('000 tonnes)	768.8	700.0	-13.2	-8.9
Smallholding	585.8	557.0	-14.7	-4.9
Estate	183.0	163.0	-8.0	-10.9
% of world production	11.6	10.4	—	—

^e Estimate.

Source: Ministry of Primary Industries and Department of Statistics.

Table 4.8

Production of Other Agriculture, Livestock and Fishing ('000 tonnes)

			Annual Growth Rate (%)	
	1999	2000 ^e	1999	2000 ^e
Paddy	2,038.0	2,195.0	4.8	7.7
Cocoa	83.7	88.0	-7.2	5.2
Pepper	21.5	24.1	0.8	11.7
Pineapple	82.6	73.0	-10.3	-11.6
Tobacco ¹	72.1	78.9	-24.8	9.3
Fruits ²	782.0	820.0	-31.1	4.8
Fishing ³	1,247.4	1,249.5	2.7	0.2
Livestock ⁴	908.3	980.4	-2.6	7.9

¹ Green tobacco leaves.

² Consists of major fruits namely durian, carambola, guava, rambutan, mangosteen, banana and papaya.

³ Marine fish landings only.

⁴ Including beef, poultry, swine and mutton.

^e Estimate.

Source: Ministry of Agriculture and Ministry of Primary Industries.

Other Agriculture (including livestock) and Fishing

Value added of **other agriculture (including livestock)** is expected to increase to RM5,145 million or 2.3% (1999: RM5,030 million). **Livestock** production, as shown in *Table 4.8*, is expected to expand by 7.9% (1999: -2.6%) due to higher production of broilers by 8.6% to 803,120 tonnes (1999: 739,520 tonnes), given higher domestic consumption. Production of beef and mutton increased by 42.7% and 31.7%, respectively. In the fishing sector, **fish landing** output is expected to increase by 0.2% to 1.25 million tonnes due to an increase in productivity and an increase in the number of deep-sea vessels. **Aquaculture harvest** is anticipated to expand by 6.6% to 157,412 tonnes in 2000 (1999: 147,720 tonnes) due to the increase in breeding areas by 4.3% to 119,311 units with a total area of 20,824 hectares (1999: 18,918 hectares).

The production of **cocoa** is expected to increase by 5.2% to 88,000 tonnes (1999: 83,668 tonnes).

Although there is an anticipated contraction in hectareage of 1.2% to 110,000 hectares (1999: 111,385 hectares), production is still expected to increase due to a higher yield of 14.9% to 863.36 kg/hectare (1999: 751.16 kg/hectare). The increase in productivity can be attributed to the rehabilitation of cocoa plants through bud-grafting. Of the total hectareage, Sabah accounts for 56.7%, Sarawak 25.8% and Peninsular Malaysia the remaining 17.5%.

Pepper production is expected to increase by 11.7% to 24,060 tonnes (1999: 21,537 tonnes) with the ratio of black pepper to white pepper produced at 9:1 (1999: 7.4:2.6). The largest producing state is Sarawak accounting for 99.8% of production. The increase in production is partly due to the increase in hectareage as well as efforts to promote low-cost planting, enhanced efficient fertiliser application as well as increasing demand. Malaysia accounts for 11.1% (1999: 10.1%) of the world's supply and currently ranks fifth in the world.

Mining Sector

The value added in the **mining sector** is expected to increase marginally by 0.6 % (1999: - 3.1%), as shown in *Table 4.9*. This is due to a small increase in output of crude petroleum (including condensates) and natural gas to cater for an increase in domestic consumption. Tin output decreased due to declining reserves and low prices. The share of the mining sector to real GDP is estimated to decline to 6.8% (1999: 7.2%).

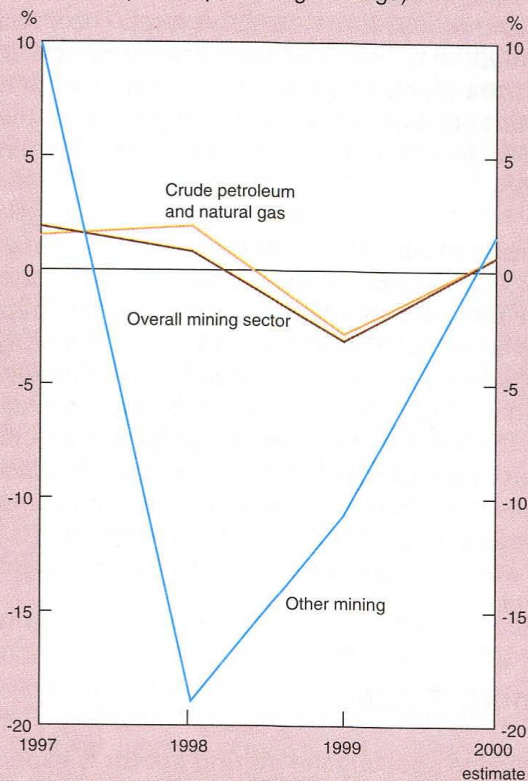
Table 4.9

Value Added in the Mining Sector in 1987 Prices

	RM million		Annual Growth Rate (%)	
	1999	2000 ^e	1999	2000 ^e
Mining Sector	13,974	14,058	-3.1	0.6
Crude Petroleum & Natural gas	13,427	13,503	-2.8	0.6
Other mining	547	555	-10.8	1.5

^e Estimate.

Chart 4.3
Value-Added For Mining Sector
at 1987 Constant Price
(annual percentage change)



Crude Petroleum and Gas

In the first eight months of 2000, the production of **crude petroleum** (including condensates) increased by 2.3% to 695,823 barrels per day (January-August 1999: 680,210 bpd). Consequently, as shown in *Table 4.10*, crude petroleum production is expected to increase by 0.4% to 695,718 bpd (1999: 694,868 bpd) in line with PETRONAS production target. Peninsular Malaysia is expected to contribute 59% of output, Sarawak 27.8% and Sabah 13.2%.

In respect of crude petroleum exploration activities, a new field has been found in Sabah. In the first half of the year, 22 oil exploration wells and 12 development and production wells were explored compared with 13 oil exploration wells and 45 development and production wells in 1999.

During the first eight months of this year, production of natural **gas** increased by 2.2% to 936,554 million standard cubic feet (mmscf) compared with the

Table 4.10

Production of Crude Petroleum and Gas

	1999	2000 ^e	Annual Growth Rate (%)	
			1999	2000 ^e
Crude petroleum (bpd) ¹	694,868	695,718	-4.2	0.4
Natural gas (mmscf/d) ²	3,720	3,882	-3.4	4.6

¹ Including condensates.

² Excluding flaring and reinjection.

^e Estimate.

Source: PETRONAS.

same period in 1999 at 916,204 mmscf. For the whole of 2000, production of natural gas is expected to record an increase of 4.6% to 3,882 mmscf per day (mmscf/d) (1999: 3,720 mmscf/d) given the higher demand for liquefied natural gas (LNG) abroad, particularly from Japan and South Korea.

The domestic consumption of natural gas is expected to increase by 1.2% to 1,500 mmscf/d in 2000 (1999: 1,486 mmscf/d), with 62.1% consumed as energy, in particular, by Tenaga Nasional Berhad, and 22.9% by the industrial sector. In order to meet the higher demand for natural gas, production began in the Resak gas field in January 2000, while three new gas fields are expected to begin production in 2002 and another five in 2003. In 2000, a total of 218 gas fields and seven gas wells are in existence compared with 214 gas fields and two gas wells in 1999.

Tin

During the first seven months of 2000, **tin** output declined by 11.2% to 3,604 tonnes (January-July 1999: 4,059 tonnes). For the whole year, output of tin is expected to decrease by 16.9% to 6,100 tonnes (1999: 7,340 tonnes), as shown in *Table 4.11*, due to depleting tin reserves and generally depressed tin prices. The number of tin mines in operation therefore declined from 43 mines as at June 1999 to 37 mines as at June 2000. The

Table 4.11

**Production, Number of Mines and
Employment in
the Tin Mining Industry**

	1999	2000	Annual Growth Rate (%)	
			1999	2000
Production ('000 tonnes)	7.3	6.1 ^e	-16.4	-16.9 ^e
Number of mines ¹	43	37	22.9	-14.0
Dredges ¹	1	2	0	100
Gravel pumps ¹	27	25	35.0	-7.4
Open cast ¹	15	10	7.1	-33.3
Workers employed ¹	1,878	1,707	48.0	-9.1

¹ As at end of June.

^e Estimate.

Source: Ministry of Primary Industries.

number of workers employed has also been reduced, likewise, declining from 1,878 workers to 1,707 workers. The domestic consumption of tin is expected to increase by 8.8% to 6,400 tonnes (1999: 5,884 tonnes), of which 59.4% is used in solder production, 11.7% in pewter, 13.3% in tin insulation and 15.6% in other uses.

Construction Sector

Underpinned by higher domestic demand in selected segments of the property market and higher investment by the private sector, value added in the construction sector is envisaged to grow by 3.1% in 2000 (1999: -5.6%). The better performance is also in response to renewed interest bolstered by the continued availability of more affordable houses, relatively low interest rates, relaxation of eligibility conditions for Government housing loans, more withdrawal options provided by the Employees' Provident Fund and higher disposable incomes. Growth in the sector is also supported by the continued implementation of privatised and public infrastructure projects. With the moderate growth in the construction sector, its share to real GDP is estimated to fall slightly to 3.4% (1999: 3.6%).

The construction of residential property remained active. Under the Seventh Malaysia Plan (1996-2000), a target of 800,000 units had been set. By the end of 1999, about 70% of the target had been achieved. New housing schemes continued to be developed. Of the 110,644 units approved by the Ministry of Housing and Local Government to be constructed within the first six months of 2000, 25.8% of the approved units were for low-cost housing, 38.7% medium-cost houses, with the remaining 35.5% higher-end houses. Developers were, nevertheless, still selective, launching new projects where demand existed, in particular large cities.

A total of 57,925 units of residential properties were launched in housing schemes in the first half of 2000 (January-June 1999: 48,200 units). Condominium/apartment units made up the largest proportion (39.4%), located primarily in Selangor and Kuala Lumpur. Unlike in previous years, condominium/apartment units built were within the more affordable range. The supply of higher-end condominiums, however, was still in excess with rentals at depressed levels.

Sales of newly launched units were mixed, with sales performance of 61% (14,029 units sold) for condominium/apartment and 56% (7,877 units sold) for two- to three-storey terrace houses. Loans for the purchase of residential properties continued to rise increasing from RM12,062 million in the second half of 1999 to RM12,585 million in the first half of 2000. Loans approved by the Housing Loan Division of the Treasury to Government employees also showed a similar trend, increasing to RM27,285 million for 459,009 borrowers at end-August 2000 compared with RM25,840 million for 438,885 borrowers at end-1999.

Viewed in the context of the property market, the housing sector is going through a period of consolidation. This is reflected in the movement in the Malaysia House Price Index (IHRM). Even though IHRM in the first half of 2000 (198.5) is 3.2% higher compared with the previous six months, this rate of increase has slowed down. In the second half of 1999, the rate of increase was higher at 10.8%, compared with the first half of 1999. The index of semi-detached houses showed the highest rate of increase at 15.8% compared with the corresponding period of 1999, followed by detached houses 14.8%, terraced houses 14.1% and high-rise units 11.2%. At the state level, all

states registered positive movement in the index, with Selangor recording the highest increase of 23.1%, followed by Pahang 11.6%, Kuala Lumpur 9.3% and Penang 9%.

The oversupply in office and commercial space still poses a problem to the non-residential property sector as the overhang acts as a drag on growth in the sector. Shopping complexes valued at RM12,700 million and purpose-built office valued at RM7,340 million were still vacant throughout the country. A total of 10.9 million square metres (sq.m) of office space stocks was available in the market during the first half of 2000, with occupancy rate at 79%. Another 2.45 million sq.m. is under construction, of which 70.6% is in Kuala Lumpur. In respect of retail space, Kuala Lumpur, Selangor, Penang and Johor accounted for 70% of the total of 5.28 million sq.m. of retail space of shopping complex in the country. Against a backdrop of consolidation, the average occupancy rate of retail units in shopping complexes increased to 73% at end of June 2000 (end of 1999: 70.9%). The take-up rate was also quite high in prime locations like Kuala Lumpur where it was about 79%.

Construction activities in industrial sites were generally subdued. 1,503 units of industrial projects were completed during the first half of 2000, to total 70,647 units nationwide with 52% of sites located in Selangor and Johor. The total number of transactions for January-June 2000 at 3,300, constituted a decline of 18.6% compared with July-December 1999. Total value, on the other hand, showed an increase of 7.9% to RM2,257 million and 49.8% over second half of 1999 and first half 1999, respectively (January-June 1999: RM1,507 million and July-December 1999: RM2,092 million). Most of the transactions (36.5%) were in Selangor.

In the development of hotel buildings, as at the end of the first half of 2000 the existing stock of hotels stood at 1,817 hotels with 124,871 rooms. Out of the total, 164 hotels are four- and five-star hotels and the remaining are three-star and below and budget hotels. Another 22,000 rooms are expected to be added to the present supply. The Government's efforts in boosting the tourism industry by giving two alternate Saturdays off for civil servants and several campaigns to attract foreign travellers are expected to further generate demand for the hotel and leisure property industry.

Hotel occupancy rates improved to 54% in the first half of 2000 in Kuala Lumpur (January-June 1999: 49.2%).

The construction of low- and medium-cost houses continue to be supported through the Government's housing programmes. Various funds were set up for low-cost housing, including the Fund for Hard Core Poor, Fund to Accelerate the Construction of Low-cost Housing and Revolving Fund for Low-Cost Housing. Using these funds, about 36,000 units have been completed with another 57,000 units under construction. Under the Public Low-Cost Housing Programme, about 24,394 units have been completed and another 19,459 units are under construction. A total of 21,016 units of low cost houses are also being constructed under the Integrated Housing Programme, to cater for the rising housing needs of squatter settlements within Kuala Lumpur and other major cities.

Value added of the construction sector has also been mainly supported by the development of infrastructure projects. Increased allocation were provided for the construction of schools, public roads and amenities. Deferred privatised infrastructure projects were revived with loans made available by *Bank Pembangunan dan Infrastruktur Berhad*. Among the major projects are the development of Cyberjaya, construction of a power plant by the Independent Power Producer in Yan, Kedah, expansion of port facilities including Tanjong Pelepas, Johor, West Port of Port Klang, Bintulu Port and the implementation of highway projects such as the KL Traffic Dispersal System, New North Klang Straits Bypass and the construction of the Express Rail Link (ERL) from Kuala Lumpur Sentral to Kuala Lumpur International Airport (KLIA), KL Monorail and Kuala Lumpur Sentral.

Services Sector

Consonant with brisk activities in the economy, the overall services sector is expected to expand by 4.9% in 2000 (1999: 3.3%). With the expansion, the total value added of the services sector, estimated at RM109,941 million, will constitute 53% of total GDP in 2000 in line with efforts to further promote the services sector as a source of new growth for the economy. Within the overall services sector, the principal impetus to growth

is expected to come from the rapid expansion in the transportation, storage and communications sub-sector which is expected to increase by 6.7%. Wholesale and retail trade, hotels and restaurants sub-sector is expected to record a growth of 5.9% while growth in the finance-related services sub-sector is expected to register an increase of 4.2%. In tandem with the expansion in the provision of public services in particular health, education and social services, value added of the Government services sub-sector is expected to increase by 3.9%. Overall, the share of the services sector, however, is estimated to decline to 53% (1999: 54.3%).

Services provided by the **transport, storage and communications sub-sector** is expected to increase at a higher rate of 6.7% in 2000 (1999: 4.8%) on account of higher contribution from air and major port services as well as from the expansion of information and communications technology (ICT) and knowledge business activities. With the anticipated higher tourist arrivals and the addition of long haul flights, passenger revenue of Malaysia Airlines (MAS) increased by RM3,207 million or 19.5% in the first six months of 2000 (January-June 1999: RM2,685 million, 4.8%) from the handling of 8.1 million passengers. With manufacturers seeking greater speed and efficiency in the shipment of their goods, cargo handling by MAS increased significantly by 44.8% to 183,500 tonnes, including cargo through its subsidiary MASKargo. Keretapi Tanah Melayu Berhad (KTMB), likewise, performed satisfactorily. Its commuter services carried a total of 13.1 million passengers in the first eight months of 2000, an increase of 14.2% compared with the corresponding period of 1999. The upgrading of its freight transport facilities contributed to 52% of the increase in KTM cargo handled which amounted to 3.5 million tonnes over the same period in 1999.

The strong performance in trade contributed significantly towards higher container traffic volume, with double-digit growth in the major ports of Pasir Gudang Port, Penang Port and Bintulu Port. Overall, the volume of cargo handled by the eight major ports in the country increased by 11.2% to 77.9 million freight weight tonnes (fwt) (January-June 1999: 7%; 70 million fwt) while container cargo handled increased by 21.1% to 2.2 million twenty-foot equivalent units (TEUs) (January-June 1999: 1.8 million TEUs). Tanjong Pelepas

Port, which began commercial operations in January 2000, handled 77,746 TEUs of container cargo from January to July 2000, is expected to emerge as a major transshipment hub in the region. The expansion of port facilities envisaged for Port Klang and Penang Port will further increase the capacity of ports in cargo handling.

In respect of the **communications** services industry, demand for telecommunications services remains favourable. The number of cellular phone subscribers increased to 3.6 million subscribers at end-June 2000 (end-June 1999: 2.7 million subscribers). Subscription for internet services also increased. The original internet services provider, Malaysia Institute of Micro-electronic Systems (MIMOS) Berhad, saw its subscription base increased to 326,930 subscribers at end-August 2000 (end-1999: 255,100 subscribers) while TMNet's subscription base increased even more to 712,000 (end-1999: 405,300 subscribers). Fixed lines operated by Telekom Malaysia Berhad accounted for over 95% of total fixed line subscribers. As at end-August, the number of subscribers increased by 5.5% to 4.5 million subscribers (end-August 1999: 4.3 million subscribers).

Underpinned by the strong growth of the manufacturing sector in 2000 and in anticipation of tourist arrivals reaching 8.5 million, the performance of the **wholesale and retail trade, hotels and restaurants sub-sector** is expected to increase further by 5.9%. The Business Expectations Survey for Limited Companies indicated a capital outlay of RM235 million for the sector in the first half of 2000, an increase of 65.6%, compared with the second half of 1999. With this increase in outlay, it is expected that gross revenue of the sector will increase by RM22,693 million during that period. The favourable performance of wholesale and retail activities is also reflected in higher collection of sales and service taxes. Sales tax collection increased by RM3,870 million or 40.7% in the January to August 2000 period while service tax collection increased by RM1,127 million or 17% (January-August 1999: 5.5% and -1.5%, respectively).

The tourist sub-sector is also expected to benefit from higher tourist arrivals. An increase in tourist arrivals, mainly from Singapore, Japan and China is likely to contribute towards higher revenue from

Table 4.12

**Services Sector Performance in
1987 Prices
(%)**

	Annual Growth Rate		Share of GDP	
	1999	2000 ^a	1999	2000 ^a
Electricity, gas and water	4.8	6.3	3.4	3.4
Transport, storage and communications	4.8	6.7	8.1	8.0
Wholesale and retail trade, hotels and restaurants	2.8	5.9	15.2	15.0
Finance, insurance, real estate and business services	1.7	4.2	12.3	11.9
Government services	6.9	3.9	7.4	7.1
Other services	1.3	2.8	7.9	7.6
Total	3.3	4.9	54.3	53.0

^a estimate.

tourist expenditure which is projected to increase by RM13,300 million in 2000 (1999: RM13,000 million). To cater to the higher tourist arrivals, there has been much investment in hotel accommodation in recent years. The hotel occupancy rate in Kuala Lumpur improved, increasing to 54% in the first six months of 2000 (1999: 49.2%). Several tourist destinations in the island resorts of Langkawi, Pangkor, Redang Island and highland resorts also recorded hotel occupancy rates of more than 70%.

Value added of the **finance, insurance, real estate and business services** sub-sector, which accounted for 22.5% of total services, is projected to increase by 4.2% in 2000 (1999: 1.7%). This is reflected in the loan approvals of the banking system, which turned around to increase by 19.5% to average RM10,400 million at end-July 2000 (1999: monthly average of RM8,700 million). The combined premium income grew strongly by 16.7% to RM6,300 million in the second quarter of 2000 (second quarter 1999: 3.8% to RM5,400 million) supported by higher activities in insurance services,

Table 4.13

**Growth Performance Indicators for
Transport, Storage,
Telecommunications, Electricity and
Water Supply
(January-August)**

	Annual Growth Rate (%)	
	1999	2000
Malaysia Airlines		
Revenue from cargo	-3.0	44.8
Revenue from passengers	4.8	19.5
KTMB		
Revenue from cargo	-21.7	46.3
Revenue from passengers	-8.2	-3.4
Eight major ports		
Cargo throughput	7.0	11.2
Containerised cargo	30.8	21.1
Telekom Malaysia Berhad¹		
Business subscribers	-2.9	5.5
Residential subscribers	-1.5	5.5
Tenaga Nasional Berhad		
Electricity consumption	3.4	13.3
Installed capacity	0.6	7.2
Public Works Department		
Water consumption	1.5	0.8
Total production ²	2.4	3.0

¹ end of period.

² for whole year.

Source: MAS, KTMB, TELEKOM, TNB, PWD and various port authorities.

particularly in regard to life and general insurance. The real estate market is consolidating due to excess supply in certain segments of the property market. The overall number and value of properties transacted during the first six months of 2000, nevertheless, increased by 5% and 15.3%, respectively, compared with the corresponding period of 1999.

Services provided by the **electricity, gas and water** sub-sector is expected to increase by 6.3% in 2000 (1999: 4.8 %), contributed mainly by the increase in manufacturing activities. Electricity consumed by the industrial sector increased by 15.9% and commercial sector, 10.2% during the first eight months of 2000. The volume of water supplied to customers is expected to increase by 3% to 10,634 million litres per day (mld) (1999: 10,324 mld) while total consumption in the first eight months of 2000 increased marginally by 0.8%.

The **Government services sub-sector** is expected to expand 3.9% in 2000 (1999: 6.9%). The estimated increase is attributed to the salary adjustment of civil servants which took effect in January 2000. To complement the accommodative monetary stance, the fiscal stimulus will continue to be expansionary with public expenditure focused mainly on the expansion of activities aimed at upgrading and enhancing the development of facilities, particularly in education, health and social services.