

External Trade, Balance of Payments and Foreign Exchange Rate

Overview

Malaysia's external position is envisaged to remain fundamentally strong despite the slowdown in global economy. The current account of the balance of payments continues to record a surplus for the fourth consecutive year. While the surplus is estimated to be lower at 7.9% of Gross National Product (GNP), it is nevertheless, a significant surplus. The services deficit is expected to improve on account of higher inflows from transportation and travel. Malaysia's trade pattern is expected to remain unchanged with the major trading partners being the United States (US), Japan, Singapore and the European Union (EU). Malaysia's strong external position is further supported by its pegged currency regime, which continued to provide stability and predictability, particularly to Malaysian exporters and importers.

Export Performance

Malaysia's gross export earnings (free-on-board or f.o.b. prices) are estimated to decline by 10.6% in 2001 after recording a strong growth of 16.1% in 2000. The contraction is largely due to the slowdown in global economy and slackening demand in electronic products. Export of manufactured goods is expected to account for 87.2% of the total value of exports (2000: 86.8%) and remain a significant contributor to Malaysia's total export earnings.

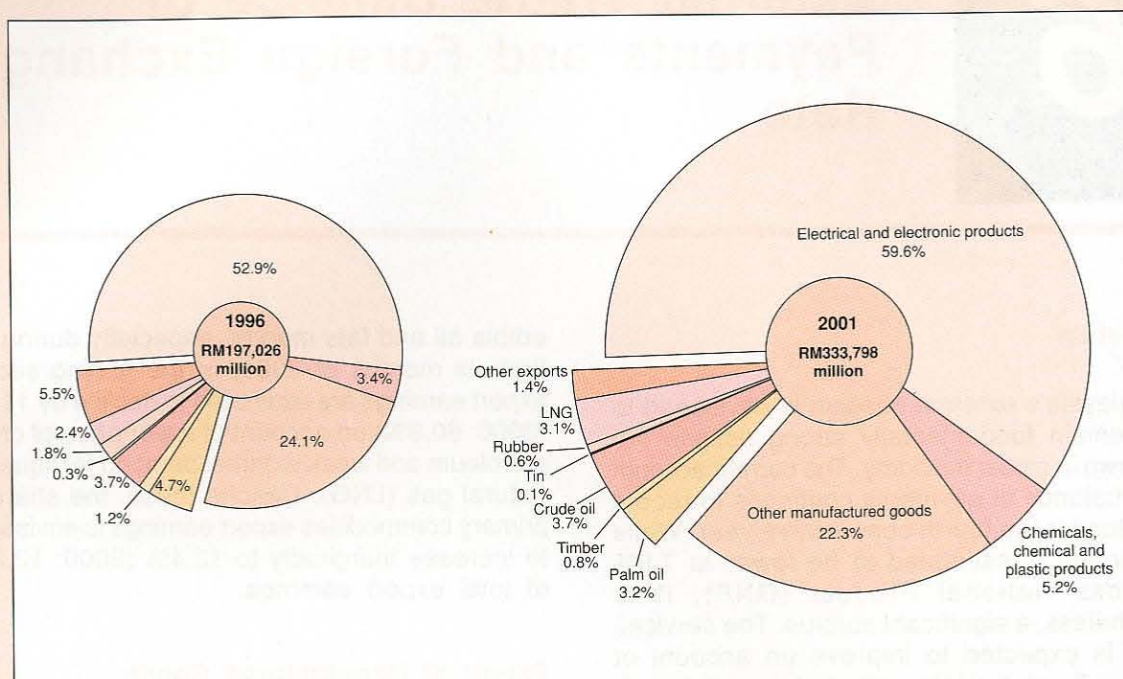
Export earnings of major agricultural commodities are expected to decline by 6.8% (2000: -20.2%), largely due to lower prices of palm oil and palm kernel oil arising from oversupply in the global

edible oil and fats market, especially during the first six months of 2001. In the mining sector, export earnings are estimated to decline by 11.2% (2000: 60.9%) on account of lower price of crude petroleum and weak external demand for liquefied natural gas (LNG). Despite these, the share of primary commodities export earnings is envisaged to increase marginally to 12.4% (2000: 12.2%) of total export earnings.

Export of Manufactured Goods

During the first seven months, export of manufactured goods contracted by 5.9% (January-July 2000: 19.9%) to RM169,316 million, accounting for 86.4% of total gross exports, as shown in *Table 6.1*. The weaker performance was largely due to the greater-than-expected downturn in global chip sales as well as slowdown in the economies of Malaysia's major trading partners. Exports of electrical and electronic products, as a group, despite experiencing a contraction, continued to be the single largest contributor and accounted for 68.5% of total manufactured export earnings in the first seven months. The export growth of the sub-component of electronics, which constitute 48% of manufactured exports, contracted sharply by 13.1% (January-July 2000: 15.1%). While non-electronic products such as textiles and wood products also declined further, other products, particularly chemicals and chemical products, petroleum products and other miscellaneous manufactured products have shown some resilience and continued to record positive export growth. Consequently, the share of miscellaneous manufactured products, chemicals and chemical products and petroleum products to total manufactured exports increased to 6.4%, 6%

CHART 6.1
Export Structure



Note: Figures in diagram refer to percentage of total.

Source: Department of Statistics.

and 3.6% (January-July 2000: 5.6%, 5.3% and 3%), respectively. The resilience in the export performance of these products shows that they have the potential to be important export earners in the future.

The US, Singapore, the EU and Japan remained major export markets for Malaysia, accounting for about two third of total manufactured exports during the first seven months of 2001, as shown in *Table 6.2*. The US continued to be the single largest importer of Malaysia's manufactured goods with a share of 23.1%, followed by Singapore (17%), the EU (14.5%) and Japan (11.9%).

Electronics, Electrical and Machinery Appliances

Export earnings of **electronics, electrical and machinery appliances** declined by 8.9% to RM116,044 million (January-July 2000 : 18.7%

or RM127,254 million), thus reducing its share in manufactured exports to 68.5% (January-July 2000: 70.7%). Export of electronics as a group contracted by 13.1%, mainly due to weak overseas orders for personal computers and its peripherals. Weak external demand also contributed to lower exports of semiconductors of 6.3% (January-July 2000: 4%) as world-wide demand for chips continued to fall, as shown in *Table 6.3*. The massive build-up of inventory and manufacturing capacity in the global electronics industry has resulted in over supply and hence, lower export prices. Export of electrical products which include consumer and household electrical appliances as well as industrial and commercial electrical products, on the other hand, increased by 2.4% (January-July 2000: 29.1%), due largely to higher exports of office machines and telecommunications equipment in industrial and commercial electrical products. Thus, a better product mix within electrical and electronics sector coupled with improved cost effectiveness and

TABLE 6.1
Manufactured Exports
 (January-July)

	RM million		Change (%)		Share (%)	
	2000	2001	2000	2001	2000	2001
Electronics, electrical and machinery appliances	127,254	116,044	18.7	-8.9	70.7	68.5
Textiles, apparel and footwear	5,945	5,447	11.4	-8.4	3.3	3.2
Wood products	7,678	6,871	38.6	-10.5	4.3	4.1
Rubber products	2,789	2,679	-8.6	-3.9	1.5	1.6
Food, beverages and tobacco	3,188	3,273	2.9	2.7	1.8	1.9
Petroleum products	5,532	6,151	136.2	11.2	3.0	3.6
Chemicals, chemical and plastic products	9,493	10,186	44.2	7.3	5.3	6.0
Non-metallic mineral products	1,471	1,411	13.8	-4.1	0.8	0.8
Iron and steel, and metal products	4,917	4,960	9.0	0.9	2.8	3.0
Transport equipment	1,605	1,423	-46.9	-11.0	0.9	0.9
Miscellaneous manufactured products	10,088	10,870	24.0	7.7	5.6	6.4
Total	179,964	169,316	19.9	-5.9	100.0	100.0

Source: Department of Statistics.

higher efficiency have helped to cushion the adverse impact of the slump in the chip industry. Efforts continued to be taken to deepen and widen the industrial base, particularly higher-end value-added products including higher-end wafer fabrication. The increasing trend towards miniaturisation, digitalisation and the development of new application for electronics and electrical equipment as well as new software application augur well for the industry as these will provide new demand for the electronics industry in Malaysia. In addition, the increasing trend towards outsourcing practised by major multinational

companies will benefit Malaysian electronics contract manufacturers.

Chemicals, Chemical and Plastic Products

Total exports of **chemicals, chemical and plastic products** continued to grow by 7.3% (January-July 2000: 44.2%) despite the weak global economy, as shown in *Table 6.4*, contributed mainly by higher exports of organic chemicals, article of plastics and manufactured fertilizers. Export of plastics in primary form, however, fell following lower sales orders from overseas

TABLE 6.2

Major Destinations of Manufactured Exports¹ (January-July)

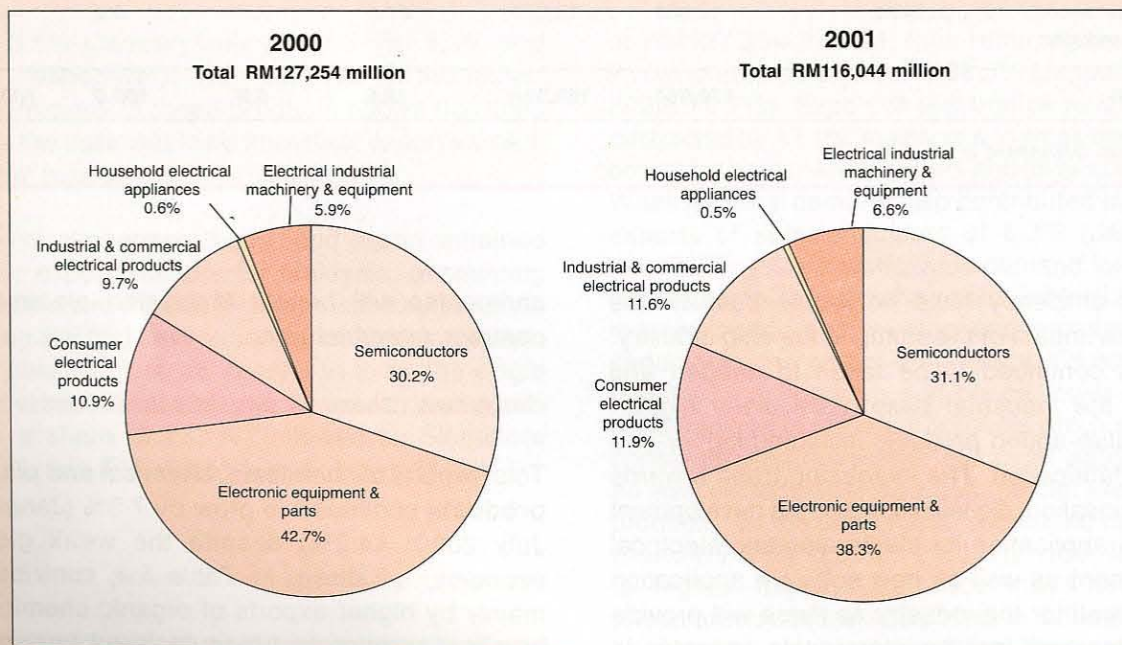
	RM million		Share (%)		Change (%)
	2000	2001	2000	2001	2001
United States	40,941	37,878	23.8	23.1	-7.5
Singapore	32,750	28,470	18.9	17.0	-13.1
European Union	25,837	23,788	14.9	14.5	-7.9
Japan	18,921	19,581	10.9	11.9	3.5
Hong Kong SAR	8,424	7,862	4.9	4.8	-6.7
China	3,931	5,652	2.3	3.4	43.8
Taiwan	6,657	4,795	3.8	2.9	-28.0
Others	35,521	36,066	20.5	21.9	1.5
Total	172,982	164,092	100.0	100.0	

¹ Includes Standard International Trade Classification (SITC) 1,5,6,7 and 8.

Source: Department of Statistics.

CHART 6.2

Exports of Electronics, Electrical and Machinery Appliances (January-July)



Note: Figures in diagram refer to percentage of total.

Source: Department of Statistics.

TABLE 6.3
Major Destinations for Exports of Semiconductors
 (January-July)

	RM million		Share (%)		Change (%)
	2000	2001	2000	2001	2001
Singapore	11,395	9,580	29.6	26.5	-15.9
United States	7,677	6,782	19.9	18.8	-11.7
Japan	3,255	3,324	8.4	9.2	2.1
Netherlands	1,777	2,452	4.6	6.8	37.9
Hong Kong SAR	1,802	2,438	4.7	6.7	35.3
Taiwan	2,736	2,086	7.1	5.8	-23.8
Germany	1,809	1,493	4.7	4.2	-17.5
Others	8,079	7,962	21.0	22.0	-1.4
Total	38,530	36,118	100.0	100.0	-6.3

Source: Department of Statistics.

TABLE 6.4
Export of Chemicals, Chemical and Plastic Products
 (January-July)

	RM million		Share (%)		Change (%)
	2000	2001	2000	2001	2001
Organic chemicals	2,311	2,891	24.3	28.4	25.1
Plastic in primary form	1,940	1,885	20.4	18.5	-2.8
Chemical materials	1,443	1,394	15.2	13.7	-3.4
Articles of plastics	1,329	1,507	14.0	14.8	13.4
Fertilizers	312	380	3.3	3.7	21.8
Others	2,158	2,129	22.8	20.9	-1.3
Total	9,493	10,186	100.0	100.0	7.3

Source: Department of Statistics.

electronics industry. Singapore, the US, Japan and People's Republic of China (China) remained the major export destinations for chemicals and chemical products, accounting for 84.5% of total export value during the first seven months of 2001.

Textiles, Apparel and Footwear

During the first seven months of 2001, export receipts of **textiles, apparel and footwear**, as a group, declined by 8.4% compared to a strong growth of 11.4% in the corresponding period of 2000, as shown in *Table 6.5*. The downtrend was mainly due to lower demand from export markets as well as increased price competition from lower cost producers in the region. Exports of textiles decreased by 12.2% (January-July 2000: 19.9%), reflecting weaker external demand as well as lower export prices for yarn and synthetic textiles as some textiles manufacturers dumped yarn in the market to clear stocks. Similarly, export of apparel which accounted for about half of total exports of this industry group dipped by 4.4% (January-July 2000: 3.3%), reflecting lower offtakes, particularly from the

US and the EU markets. Export receipts of footwear also softened following lower orders from major importers, such as Singapore and Italy.

Wood and Rubber Products

Export receipts of **wood products** fell by 10.5% (January-July 2000: 38.6%) during the first seven months of 2001, largely on account of lower exports of major components such as veneer and plywood and wooden furniture. The slower-than-expected Japanese economic recovery as well as de-stocking activities in the major timber markets slackened the exports of veneer and plywood by 6.9% (January-July 2000: -3.1%). Similarly, export sales of wooden furniture and furniture components decreased on account of the softening in major markets, especially the US.

The decline in export earnings of **rubber products** moderated to 3.9% (January-July 2000: -8.6%). Export of rubber gloves, which constitute 69.4% of total exports of the sector, registered a strong growth of 89.4%. Despite this higher volume exported, export receipts for rubber gloves were

TABLE 6.5
Export of Textiles, Apparel and Footwear
(January-July)

	RM million		Share (%)		Change (%)
	2000	2001	2000	2001	2001
Textiles	2,856	2,507	48.0	46.0	-12.2
Apparel	2,859	2,734	48.1	50.2	-4.4
Footwear	230	206	3.9	3.8	-10.4
Total	5,945	5,447	100.0	100.0	-8.4

Source: Department of Statistics.

lower due to a sharp decline in prices of 50%. Similarly, the decline in the export of tyres moderated by 1.3% (January-July 2000: -10%) on the back of lower regional sales.

Iron and Steel and Non-Metallic Mineral Products

The slower domestic demand and overcapacity in the **iron and steel** industry have spurred local manufacturers to intensify efforts in marketing abroad. As a result, export of fabricated metal products grew by 8.6%, driven by a 25.4% increase in export of structural base metal products. Export of iron and steel products, such as tubes and pipes increased strongly by 50.1% to account for about 12.6% (January-July 2000: 8.3%) of the total exports of the sector. Exports of flat-rolled products and iron and steel bar, however, fared poorly due largely to lower export prices and competition from regional producers. As a whole, the industry's exports increased marginally by 0.9% (January-July 2000: 9%).

Export sales of **non-metallic mineral products** declined by 4.1% (January-July 2000: 13.8%). The decline was on account of weaker export of clay and refractory construction materials and mineral manufactures due to lower export prices and competition from overseas low-cost producers. Exports of lime, cement and fabricated construction materials, on the other hand, continued to improve while glass and glassware increased significantly by 21.6% and 24.9%, respectively.

Other Manufactured Products

Exports of **petroleum products** comprising refined petroleum products, residual products and gases recorded a growth of 11.2% (January-July 2000: 136.2%) or RM6,151 million during the first seven months of 2001. The increase was due to a growth of 12.7% in refined petroleum products which accounted for 78.8% of total exports of petroleum products. Exports of liquefied propane and butane, however, slowed in tandem with the regional slowdown in manufacturing activities.

Export earnings from **food, beverages and tobacco products** as a group, rose marginally by 2.7% (January-July 2000: 2.9%). The increase in export of manufactured food almost stagnated at 0.1% (January-July 2000: 1.4%) on account of lower exports of flour and fats and oils. Exports of beverages and tobacco products, however, registered strong growth of 14.7% and 10.6%, respectively, in the first seven months compared to 16.3% and 4.9% during the corresponding period of 2000.

Exports of **transport equipment**, which includes road and railway vehicles and associated equipment and parts, contracted further by 11.4% (January-July 2000: -46.7%). Even though exports of parts and accessories for motor vehicles increased by 4.7% (January-July 2000: 27.7%), a sharp contraction in the exports of motorcars and other motor vehicles more than offset the increase in parts and accessories exports.

Total exports of **miscellaneous manufactured goods**, including professional and scientific instruments, photographic equipment, optical goods, and miscellaneous manufactured articles accounted for 6.4% of total manufactured exports. Export receipts from these products increased, however, at a slower rate of 7.7% (January-July 2000: 24%).

Export of Primary Commodities

Export earnings from primary commodities comprising agriculture produce and mineral products are expected to decline further by 9.3% in 2001 compared with a strong growth of 12.1% in 2000. Export earnings from **agricultural** commodities are, however, expected to record a smaller decline of 6.8% (2000: -20.2%) due to a lower decline in the export volume of saw logs, rubber and sawn timber. These three commodities constitute slightly more than a third of total earnings from agricultural commodities. Export earnings from the **mining** sector are also expected to decrease by 11.2% (2000: 60.9%), mainly on account of lower price of crude oil and LNG.

TABLE 6.6

Primary Commodity Exports (January-July)

	2001 January-July	2001*	Change (%)	
			2001 January-July	2001*
Palm oil¹				
Volume ('000 tonnes)	6,208	10,600	29.1	19.6
Unit value (RM/tonne)	862	999	-30.3	-11.0
Value (RM million)	5,352	10,588	-10.0	6.4
Palm kernel oil				
Volume ('000 tonnes)	396	775	44.7	44.0
Unit value (RM/tonne)	1,269	1,310	-48.4	-36.0
Value (RM million)	502	1,015	-25.4	-7.9
Sawlogs				
Volume ('000 cubic metre)	2,723	5,100	-29.1	-21.3
Unit value (RM/cubic metre)	330	324	-14.7	-15.7
Value (RM million)	898	1,650	-39.5	-33.7
Sawn timber				
Volume ('000 cubic metre)	1,454	2,650	-14.3	-7.9
Unit value (RM/cubic metre)	939	974	-13.6	-7.3
Value (RM million)	1,365	2,580	-25.9	-14.6
Rubber				
Volume ('000 tonnes)	468	825	-16.9	-11.1
Unit value (RM/tonne)	240	239	-12.4	-7.5
Value (RM million)	1,122	2,115	-27.1	-17.7
Pepper				
Volume ('000 tonnes)	17	28	20.4	19.1
Unit value (RM/tonne)	7,739	7,143	-55.6	-54.3
Value (RM million)	132	200	-46.5	-45.6
Cocoa				
Volume ('000 tonnes)	10	15	54.3	31.5
Unit value (RM/tonne)	3,436	3,520	18.1	22.3
Value (RM million)	35	53	82.2	60.8
Crude petroleum				
Volume ('000 tonnes)	9,286	16,750	-2.4	0.5
Unit value (RM/tonne)	795	731	0	-14.5
Unit value (USD/barrel)	27.53	25.30	0	-14.5
Value (RM million)	7,384	12,243	-2.5	-14.0
Liquefied natural gas (LNG)				
Volume ('000 tonnes)	9,306	15,130	2.3	-2.1
Unit value (RM/tonne)	736	690	3.7	-5.6
Value (RM million)	6,847	10,440	6.1	-7.6
Tin				
Volume ('000 tonnes)	13	21	0	1.9
Unit value (RM/tonne)	19,110	18,800	-10.7	-10.9
Value (RM million)	248	395	-10.7	-9.2
Total Value (RM million)	23,884	41,278	-8.3	-9.3

* Estimate.

¹ Includes crude palm oil, processed palm oil and palm stearin.

Palm Oil and Palm Kernel Oil

Palm oil export receipts fell by 10%, as shown in Table 6.6, brought about by weak prices resulting from oversupply in the oil and fats market. As the price of palm oil is expected to be higher during the remaining months, earnings from palm oil are envisaged to turn around by 6.4% after a sharp deceleration of 31.3% in 2000. The turnaround is on account of stronger growth in export volume of 19.6%.

In tandem with the weaker performance of palm oil, export receipts from **palm kernel oil** contracted by 36%. With an anticipated improvement in the price of palm kernel oil in the second half of the year, export earnings from palm kernel oil for the whole year are expected to record a smaller decline of 7.9% (2000: -33.6%).

CHART 6.3
Palm Oil - Exports and Price

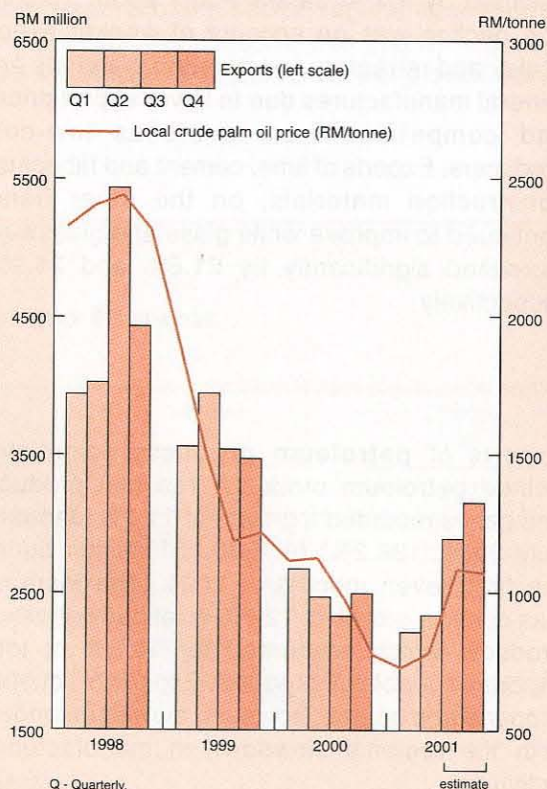
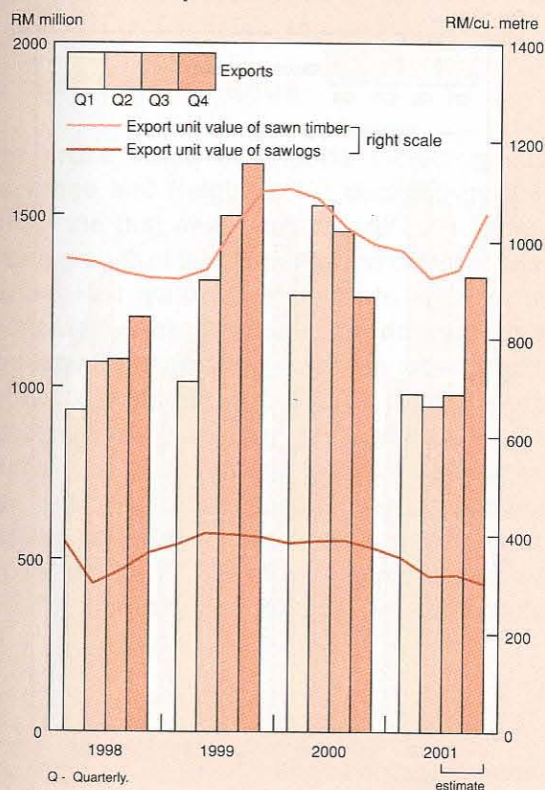


CHART 6.4
Sawn Timber and Sawlogs -
Exports and Unit Value



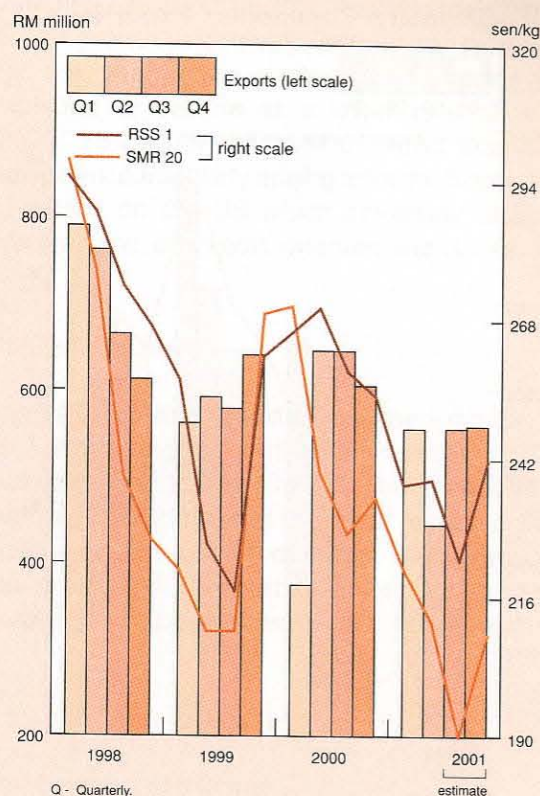
Saw Logs and Sawn Timber

Export receipts in 2001 from **saw logs** are estimated to be lower at RM1,650 million (2000: RM2,489 million) following an anticipated contraction in both export volume of 21.3% and export unit value of 15.7%. The lower export unit value is on account of price competition from Indonesia and other types of wood of comparable quality. As for **sawn timber** export receipts, it is anticipated to decline by 14.6% following a decline in both export volume of 7.9% and unit value of 7.3%.

Rubber

Higher domestic demand for rubber has led to lower volume available for export. The price of rubber is also anticipated to be lower given the oversupply position in the international market.

CHART 6.5
Rubber - Exports and Price



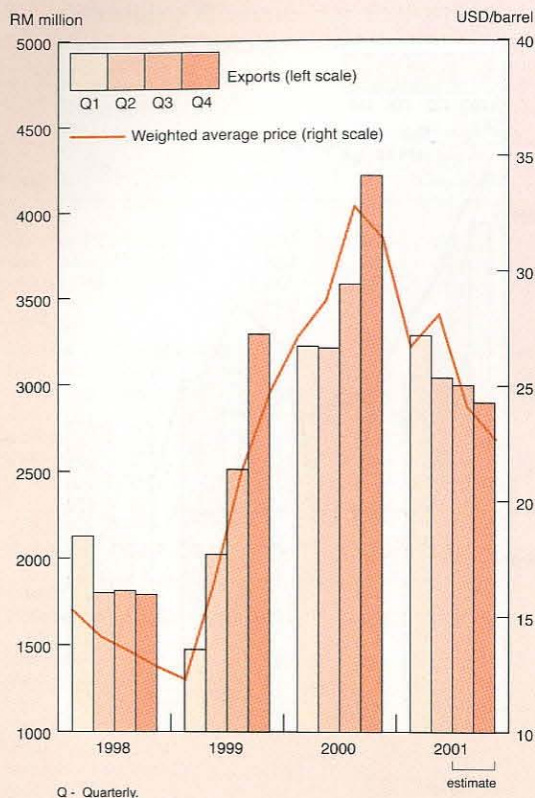
Consequently, with the envisaged decline in rubber export volume of 11.1% and unit value of 7.5%, export earnings from rubber are expected to decline by 17.7% (2000: 9.7%).

Other Agriculture Commodities

Export receipts from **cocoa** beans grew strongly by 82.2% to RM35 million, following a marked increase in export volume of 54.3%. For the year as a whole, however, export receipts are expected to increase by 60.8% to RM53 million in the light of the anticipated slower growth of export volume in the remaining months of the year.

With respect to **pepper**, given the excess supply in the international market, export unit value of pepper is expected to decline by 54.3% to RM7,143 per tonne (2000: RM15,630 per tonne).

CHART 6.6
Crude Oil - Exports and Price

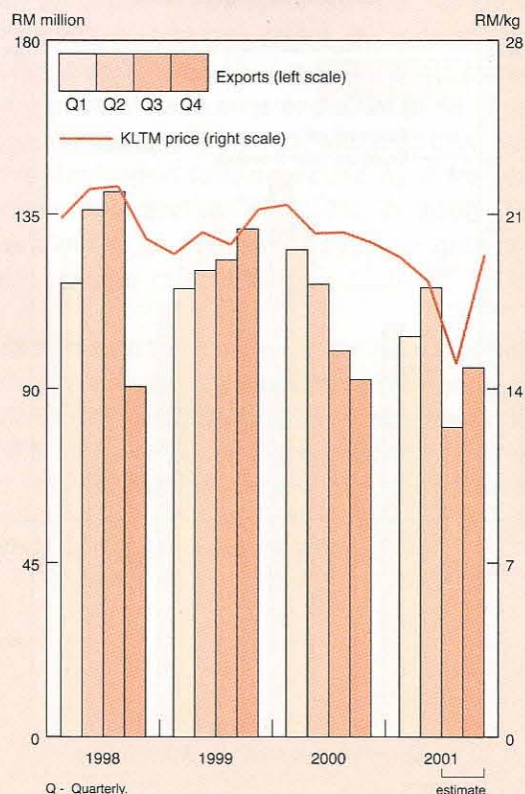


As such, despite higher export volume of 19.1%, export earnings are expected to decline sharply by 45.6% to RM200 million (2000: RM367 million).

Crude Petroleum and Liquefied Natural Gas

For the whole of 2001, export volume of **crude petroleum** is expected to almost stagnate at 16,750 tonnes (2000: 16,670 tonnes). Coupled with lower prices, export earnings from crude petroleum are expected to decline by 14.5% to RM12,243 million (2000: RM14,240 million). Export unit value is envisaged to decrease by 14.5% to RM731 per tonne or approximately USD25.30 per barrel (2000: USD29.58 per barrel).

CHART 6.7
Tin - Exports and Price



Export unit value and volume of **LNG** are expected to decline by 5.6% and 2.1%, respectively as a result of slowdown in industrial activities of importing countries, particularly Japan, the Republic of Korea and Taiwan. Consequently, export earnings are expected to decline by 7.6% to RM10,440 million in 2001 (2000: RM11,300 million).

Tin

During the first seven months of 2001, **tin** prices showed a declining trend and is expected to remain weak for the remaining months of the year. Consequently, for the whole year, export unit value of tin is anticipated to decline by 10.9%, while the export volume is expected to increase marginally by 1.9% to 21,000 tonnes.

Hence, export earnings from tin for this year are anticipated to continue to decline by 9.2% (2000: -11.4%).

Import Performance

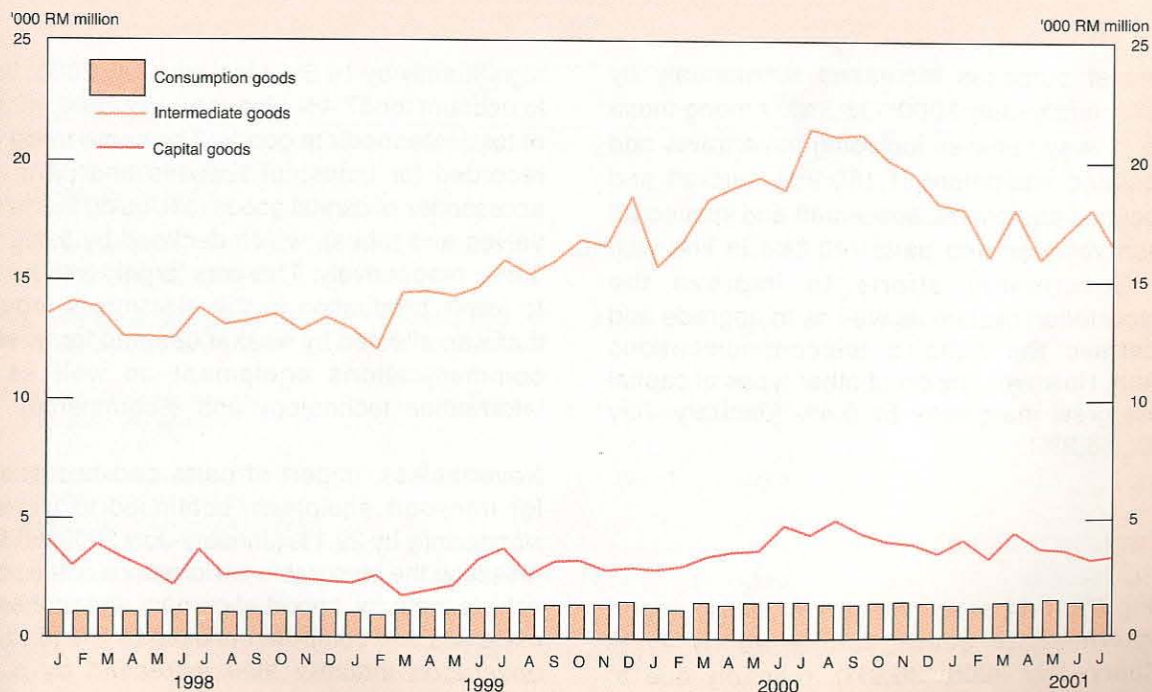
The gross value of imports including cost, insurance and freight (c.i.f.) declined by 5.5% during the first seven months of 2001, after a strong growth of 29.4% during the corresponding period last year. Components of imports, particularly intermediate goods registered significant deterioration in growth rates. Capital goods, constituting 15.8% of total imports, increased marginally by 1.9% after a marked increase of 43.6% during the same period last year, reflecting limited capital renewal and capacity building activities. Intermediate goods, which accounted for 72.3% of total imports, declined by 7.7% (January-July 2000: 30.9%) on account

of the deceleration in manufacturing output. Consumption goods also declined by 0.9% (January-July 2000: 20.7%), resulting mainly from slower growth in domestic private consumption. For the year as a whole, gross imports are expected to decline at a lower rate of 9.7% (2000: 25.7%) on account of world economic slowdown, particularly arising from the September 11 attack on the US which adversely affected the demand of export oriented industries.

Capital Goods

Import of **capital goods** increased marginally by 1.9% during the first seven months of 2001 (January-July 2000: 43.6%). The components that have contributed to the lower increase were mainly capital goods of other than transport equipment and transport equipment for industrial purposes. Import of transport equipment for

CHART 6.8
Import of Capital, Intermediate and Consumption Goods



Source: Department of Statistics.

TABLE 6.7

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

	RM million		Change (%)		Share (%)	
	2000	2001	2000	2001	2000	2001
Capital goods	25,814	26,298	43.6	1.9	14.7	15.8
Intermediate goods	129,886	119,945	30.9	-7.7	73.9	72.3
Consumption goods	9,981	9,893	20.7	-0.9	5.7	6.0
Others (including dual use goods)	6,275	6,072	21.4	-3.2	3.6	3.7
Imports for re-exports	3,686	3,732	-28.5	1.3	2.1	2.2
Total	175,641	165,941	29.4	-5.5	100.0	100.0

Source: Department of Statistics.

industrial purposes increased substantially by 24% (January-July 2000: -35.3%). Among these were railway vehicles including hovertrains and associated equipment (1,160.9%), aircraft and associated equipment, spacecraft and spacecraft launch vehicles and parts (40.2%) in line with the Government efforts to improve the transportation system as well as to upgrade and modernise the nation's telecommunications system. However, import of other types of capital goods grew marginally by 0.4% (January-July 2000: 56.2%).

Intermediate Goods

During the first seven months of 2001, import of intermediate goods contracted by 7.7% (January-July 2000: 30.9%), primarily due to lower demand of the export oriented industries. Import of thermionic valves and tubes declined

significantly by 14.8% (January-July 2000: 30%) to account for 37.4% (January-July 2000: 40.5%) of total intermediate goods. The same trend was recorded for industrial supplies and parts and accessories of capital goods (excluding thermionic valves and tubes), which declined by 5.9% and 3.8%, respectively. This was largely attributable to lower production in the electronics industry that was affected by weaker demand for wireless communications equipment as well as for information technology and e-commerce.

Nevertheless, import of parts and accessories for transport equipment continued to increase significantly by 29.1% (January-July 2000: 56.9%), reflecting the favourable performance of the motor vehicle industry. Import of primary and processed materials and components used by the food and beverages industry also increased by 6.1%, resulting from the expansion in food and beverage consumption. In line with the growth in domestic

TABLE 6.8
Import of Capital Goods by End Use
 (January-July)

	RM million		Change (%)		Share (%)	
	2000	2001	2000	2001	2000	2001
Capital goods (except transport equipment)	24,215	24,316	56.2	0.4	93.8	92.5
Transport equipment (industrial)	1,599	1,982	-35.3	24.0	6.2	7.5
Total	25,814	26,298	43.6	1.9	100.0	100.0

Source: Department of Statistics.

TABLE 6.9
Import of Intermediate Goods by End Use
 (January-July)

	RM million		Change (%)		Share (%)	
	2000	2001	2000	2001	2000	2001
Food and beverages, primary and processed mainly for industry	2,165	2,296	-11.1	6.1	1.7	1.9
Industrial supplies, primary and processed	39,905	37,560	24.8	-5.9	30.7	31.3
Fuel and lubricants primary, processed, others	6,755	7,096	120.1	5.1	5.2	5.9
Parts and accessories for transport equipment	2,394	3,091	56.9	29.1	1.8	2.6
Parts and accessories of capital goods (except thermionic valves and tubes)	26,053	25,060	32.1	-3.8	20.1	20.9
Thermionic valves and tubes	52,615	44,842	30.0	-14.8	40.5	37.4
Total	129,886	119,945	30.9	-7.7	100.0	100.0

Source: Department of Statistics.

transportation industry, the demand for import of fuel and lubricants continued to increase by 5.1% (January-July 2000: 120.1%). With the overall decline in the import of intermediate goods, its share was slightly reduced to 72.3% (January-July 2000: 73.9%).

Consumption Goods

In tandem with slower private consumption spending, import of consumption goods contracted marginally by 0.9% during the first seven months of 2001 (January-July 2000: 20.7%). This was mainly due to the decline in the imports of durables and semi-durables, while other categories of consumption goods increased during the same period, as shown in *Table 6.10*. Notable increases were registered for imports of transport equipment and food and beverages, primary and processed, which increased sharply by 36.8% and 10.4% (January-July 2000: 17.2% and 7.8%), respectively. Imports of non-durables including

perfumery, cosmetics and toilet preparations also increased by 4.2% (January-July 2000: 2.8%). Import of consumer durables, comprising household electrical and non-electrical products, watches and clocks as well as jewellery declined by 2% (January-July 2000: 49.4%), while import of semi-durables of clothing and footwear, household furnishing and articles of plastic contracted significantly by 21% (January-July 2000: 56.1%).

Others

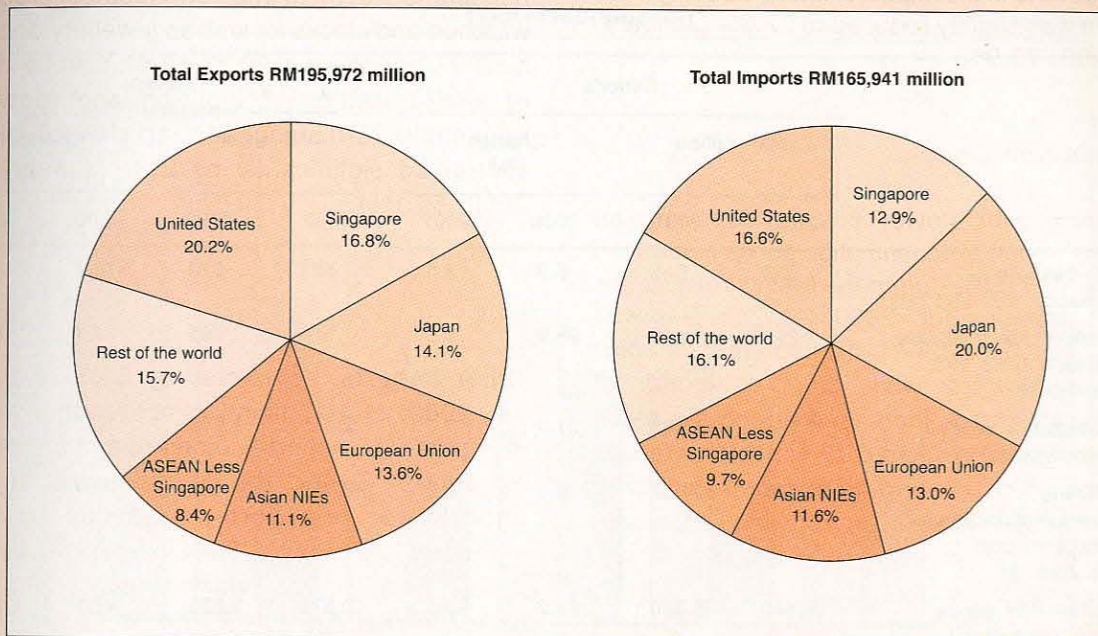
Other imports, contracted by 3.2% (January-July 2000: 21.4%) mainly attributed to a decline in import of transport equipment and passenger motorcars. During the period under review, **imports for re-exports**, expanded by 1.3% (January-July 2000: -28.5%). After discounting imports for re-exports, retained imports contracted by 5.7% (January-July 2000: 31.7%).

TABLE 6.10
Import of Consumption Goods by End Use
(January-July)

	RM million		Change (%)		Share (%)	
	2000	2001	2000	2001	2000	2001
Food and beverages, primary and processed mainly for household consumption	3,654	4,033	7.8	10.4	36.6	40.8
Transport equipment (non-industrial)	50	69	17.2	36.8	0.5	0.7
Other consumer goods	6,277	5,791	29.7	-7.7	62.9	58.5
Durables	1,263	1,237	49.4	-2.0	12.7	12.5
Semi-durables	2,659	2,101	56.1	-21.0	26.6	21.2
Non-durables	2,354	2,452	2.8	4.2	23.6	24.8
Total	9,981	9,893	20.7	-0.9	100.0	100.0

Source: Department of Statistics.

CHART 6.9
Direction of Trade
 (January-July 2001)



Note: Figures in diagram refer to percentage of total.

Source: Department of Statistics.

Direction of Trade

Malaysia's total trade declined by 5.8% during the first seven months of 2001 (January-July 2000: 23.4%). Total exports contracted by 6% (January-July 2000: 18.8%), while total imports declined by 5.5% (January-July 2000: 29.4%). In terms of proportion, exports accounted for 54% of total trade while imports, 46%. Malaysia's balance of trade continued to register a strong surplus of RM30,031 million during the period (January-July 2000: RM32,814 million). The sizeable surplus was recorded for the forty-fifth consecutive month since November 1997. Malaysia's trade pattern remained unchanged with the major trading partners being the US, Japan, Singapore and the EU, accounting for about two-third (January-July 2000: 64.1%) of total trade. Although trade with ASEAN (other than Singapore) contracted by 4.6% (January-July 2000: 34.9%) its share to total trade remains at about 9% (January-July 2000: 8.9%). Trade

with the Newly Industrialised Economies (NIEs) contracted by 14.4%, thereby reducing its share to 11.3% (January-July 2000: 12.5%).

The United States

The **United States** remains as Malaysia's largest trading partner, accounting for 18.6% of Malaysia's total trade in the first seven months of 2001 (January-July 2000: 18.7%). Imports from the US contracted by 4.8% and accounted for 16.6% of Malaysia's total imports while exports declined by 7.4% to account for 20.2% of total exports. Malaysia continued to register a fairly high trade surplus of RM12,082 million (January-July 2000: RM13,847 million) against the US. Major exports were machines in particular automatic data processing machines, electrical machines, office machines as well as transport, telecommunications and sound recording and reproducing apparatus and equipment, which

TABLE 6.11

Trade with the United States
(January-July)

	Exports				Imports			
	RM million		Change (%)		RM million		Change (%)	
	2000	2001	2000	2001	2000	2001	2000	2001
Food, beverages, tobacco, oils and fats ¹	595	515	-5.2	-13.5	581	670	-12.1	15.4
Inedible crude materials, mineral fuels and lubricants ²	1,217	1,189	96.0	2.3	516	586	1.1	13.6
Manufactured goods, intermediate ³	2,266	2,059	31.9	-9.1	2,855	3,100	10.7	8.6
Machinery, telecommunications and transport equipment ⁴	33,519	30,487	5.0	-9.0	22,250	20,248	18.4	-9.0
Manufactured goods, final products ⁵	5,140	5,320	11.3	3.5	2,373	2,639	47.1	11.2
Miscellaneous ⁶	90	104	10.5	15.4	407	349	10.1	-14.2
Total	42,827	39,674	8.1	-7.4	28,981	27,592	18.1	-4.8

¹ Includes SITC codes 0,1 and 4.² Includes SITC 2 and 3.³ Includes SITC 5 and 6.⁴ Includes SITC 7 only.⁵ Includes SITC 8 only.⁶ Includes SITC 9 only.

Source: Department of Statistics.

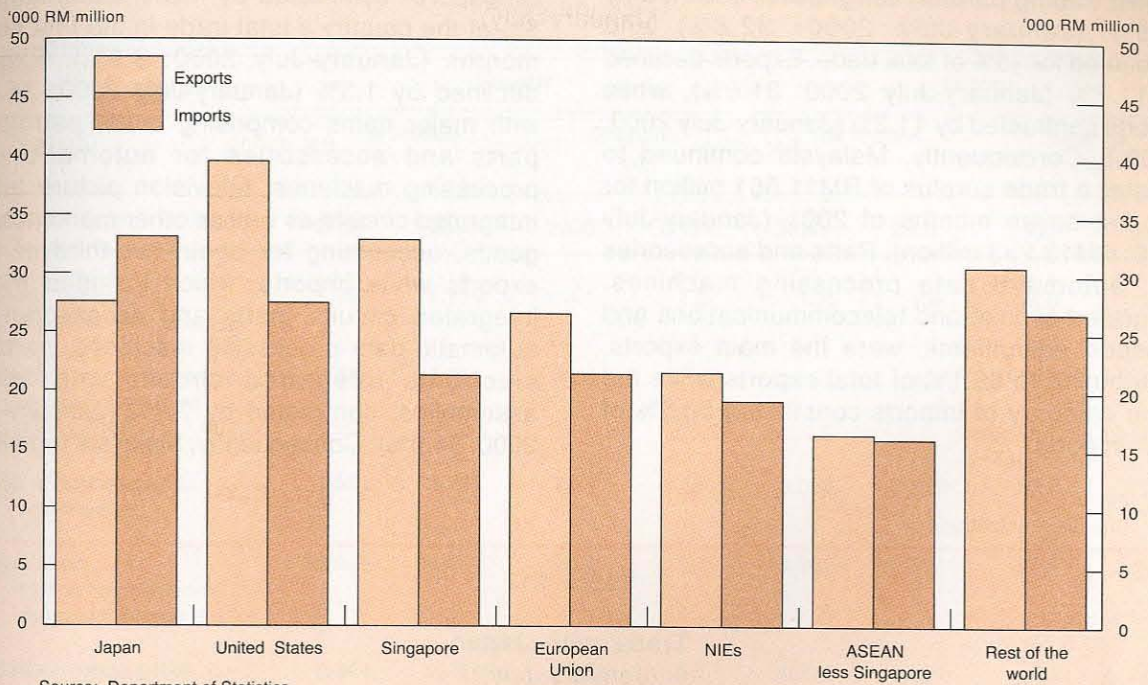
accounted for the bulk 76.8% of total exports to the US. The main commodities imported from the US were parts for electronic integrated circuits and micro-assemblies, offset printing machines, parts and accessories for automatic data processing machines as well as pumps for liquids.

Japan

Japan continues to be Malaysia's second largest trading partner. Total trade with Japan, however, contracted by 5.9% (January-July 2000: 35.2%) to account for 16.8% of Malaysia's total trade. Exports to Japan expanded by 2.8%, accounting for 14.1% of Malaysia's total exports. The main

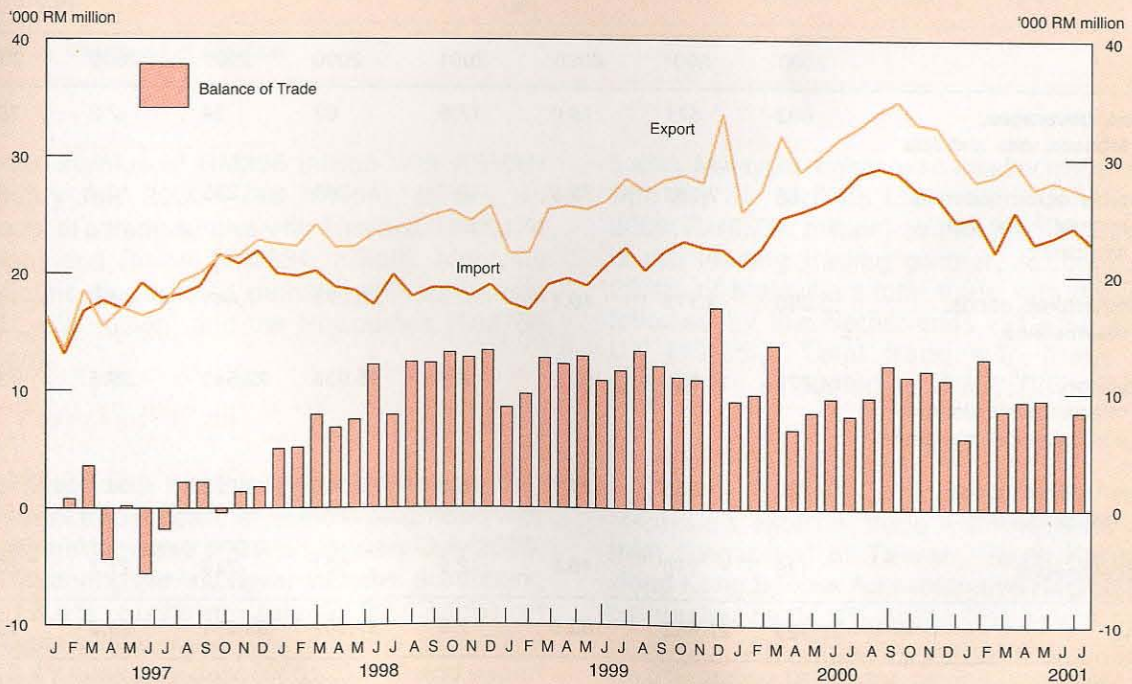
exports were LNG, parts and accessories for automatic data processing machines, television receivers, electronic micro-assemblies and plywood. Imports from Japan, on the other hand, contracted by 12.1% as Malaysia's domestic activities continued to moderate during the first half of the year. Import items were mainly electronic integrated circuits, machines and mechanical appliances, parts and accessories for automatic data processing machines and transport equipment. With exports outpacing imports, the trade balance, though continued to be in favour of Japan, improved to RM5,550 million in the first seven months of 2001 (January-July 2000: RM10,884 million).

CHART 6.10
Balance of Trade by Countries
 (January-July 2001)



Source: Department of Statistics.

CHART 6.11
Balance of Trade



Source: Department of Statistics.

Singapore

Malaysia's external trade with her third largest trading partner, **Singapore**, declined by 11.5% (January-July 2000: 32.8%) and accounted for 15% of total trade. Exports declined by 11.7% (January-July 2000: 31.6%), while imports contracted by 11.2% (January-July 2000: 34.6%). Consequently, Malaysia continued to register a trade surplus of RM11,561 million for the first seven months of 2001 (January-July 2000: RM13,233 million). Parts and accessories for automatic data processing machines, integrated circuits and telecommunications and transport equipments, were the main exports, contributing to 69.1% of total exports while the same category of imports constituted 58.5% of total imports.

ASEAN

Malaysia's trade with **ASEAN** (other than Singapore) contracted by 4.6% accounting for 9% of the country's total trade in the first seven months (January-July 2000: 8.9%). Exports declined by 1.3% (January-July 2000: 34.9%) with major items comprising crude petroleum, parts and accessories for automatic data processing machines, television picture tubes, integrated circuits as well as other manufactured goods, accounting for about two-third of total exports while imports, which included mainly integrated circuits, parts and accessories for automatic data processing machines, parts for electronic integrated circuits and micro-assemblies, contracted by 7.8% (January-July 2000: 34.9%). Consequently, Malaysia registered

TABLE 6.12

Trade with Japan
(January-July)

	Exports				Imports			
	RM million		Change (%)		RM million		Change (%)	
	2000	2001	2000	2001	2000	2001	2000	2001
Food, beverages, tobacco, oils and fats	693	571	-19.0	-17.6	63	54	-2.3	-13.4
Inedible crude materials, mineral fuels and lubricants	7,168	7,363	78.3	2.7	280	255	10.4	-9.1
Manufactured goods, intermediate	3,090	3,179	10.1	2.9	8,273	7,441	25.8	-10.1
Machinery, telecommunications and transport equipment	14,077	14,537	30.2	3.3	25,938	22,540	39.5	-13.1
Manufactured goods, final products	1,738	1,853	21.7	6.6	2,346	2,222	54.1	-5.3
Miscellaneous	158	178	-16.6	12.9	907	719	21.7	-20.7
Total	26,923	27,682	33.9	2.8	37,807	33,231	36.2	-12.1

Source: Department of Statistics.

TABLE 6.13

Trade with Singapore (January-July)

	Exports				Imports			
	RM million		Change (%)		RM million		Change (%)	
	2000	2001	2000	2001	2000	2001	2000	2001
Food, beverages, tobacco, oils and fats	1,797	1,779	-14.1	-1.0	138	156	16.0	12.8
Inedible crude materials, mineral fuels and lubricants	2,381	2,327	81.3	-2.3	3,951	4,460	62.7	12.9
Manufactured goods, intermediate	3,531	3,285	19.8	-7.0	3,058	2,533	32.5	-17.2
Machinery, telecommunications and transport equipment	26,941	22,786	38.0	-15.4	14,852	12,535	31.8	-15.6
Manufactured goods, final products	2,044	2,107	10.3	3.1	1,312	1,024	47.3	-22.0
Miscellaneous	666	709	2.1	6.4	817	724	-10.3	-11.4
Total	37,361	32,993	31.6	-11.7	24,128	21,431	34.6	-11.2

Source: Department of Statistics.

a trade surplus of RM396 million with ASEAN (January-July 2000: -746 million), largely on account of a trade surplus with Thailand (RM1,174 million) and Brunei (RM634 million). Malaysia continues to register deficits with Indonesia (RM1,478 million) and the Philippines (RM756 million).

The European Union

Total trade with the **European Union**, another important trading partner, almost stagnated with a marginal increase of 0.2% (January-July 2000: 11.1%) during the first seven months, accounting for 13.4% (January-July 2000: 12.6%) of Malaysia's total trade. With imports expanding by 12.4% (January-July 2000: 20.7%) and export earnings declining by 7.9% (January-July 2000:

5.4%), Malaysia registered a smaller trade surplus with the EU of RM5,138 million (January-July 2000: RM9,799 million). Within the EU, Germany is the leading trading partner, accounting for 22.4% of Malaysia's total trade with the Union, followed by the Netherlands (21.5%) and the UK (19.6%). Total trade with these three economies amounted to RM30,726 million.

Newly Industrialised Economies

Malaysia's external trade with the **NIEs** (other than Singapore) of Taiwan, South Korea and Hong Kong Special Administrative Region (SAR) contracted by 14.4% in the first seven months of 2001, after registering a strong growth of 22.5% during the same period last year. Trade with these economies constituted 11.3% of

Malaysia's total trade (January-July 2000: 12.5%). Exports, which comprised mainly machines, telecommunications and transport equipment as well as LNG and crude petroleum, contracted by 14.3% while imports, constituting mainly machinery, telecommunications equipment and cathode-ray television picture tubes, declined by 14.5%. Consequently, Malaysia registered a trade surplus of RM2,408 million against these economies (January-July 2000: RM2,753 million). Taiwan remains the largest trading partner, accounting for 37.7% of Malaysia's total trade with NIEs, followed by Hong Kong SAR (31.5%) and South Korea (30.8%). In terms of trade balance, Malaysia registered a surplus with Hong Kong SAR (RM4,553 million) and South Korea (RM561 million) but encountered trade deficit with Taiwan (RM2,705 million).

Others

Total trade with **China** continued to grow strongly by 16.5% during the first seven months of 2001 (January-July 2000: 37.5%). Exports, which comprised mainly electrical machines, aerial reflectors for television and radio as well as crude petroleum and palm oil, increased markedly by 27.8%, while imports comprising mainly machines and printed circuits as well as aerial reflectors for television and radio registered a slower growth of 6.4%. Consequently, Malaysia's trade position with China registered a surplus of RM560 million compared to a deficit of RM667 million in the previous year.

During the same period under review, total trade with **Australia** and **New Zealand** contracted by

TABLE 6.14

Trade with the European Union (January-July)

	Exports				Imports			
	RM million		Change (%)		RM million		Change (%)	
	2000	2001	2000	2001	2000	2001	2000	2001
Food, beverages, tobacco, oils and fats	1,545	1,649	-22.2	6.8	543	615	14.0	13.3
Inedible crude materials, mineral fuels and lubricants	1,497	1,138	35.3	-24.0	311	416	17.1	33.7
Manufactured goods, intermediate	2,206	2,088	10.3	-5.3	3,690	4,062	10.7	10.1
Machinery, telecommunications and transport equipment	20,094	18,240	4.8	-9.2	13,277	14,693	24.0	10.7
Manufactured goods, final products	3,492	3,443	13.2	-1.4	913	1,203	18.7	31.7
Miscellaneous	188	182	8.8	-1.8	489	613	29.8	25.5
Total	29,021	26,740	5.4	-7.9	19,223	21,602	20.7	12.4

Source: Department of Statistics.

6.4% (January-July 2000: 18.5%). Exports to both countries declined by 11.6% (January-July 2000: 25.9%), while imports expanded marginally by 1.1% (January-July 2000: 9.3%). Despite these, Malaysia continues to register a trade surplus of RM1,123 million. Exports were mainly crude petroleum, automatic data processing machines and televisions, while most of the import items were dairy products, wheat and sugar. Total trade with **West Asia** continued to increase strongly by 11.5% (January-July 2000: 56.5%). Exports were mainly intermediate and final manufactured goods and machinery, which expanded by 11.8% (January-July 2000: 16.3%). Imports were mainly crude petroleum and petroleum products which recorded an expansion of 11.2% (January-July 2000: 133.5%). Even

though growth of exports was higher than imports, Malaysia continued to record a deficit of RM178 million (January-July 2000: -RM181 million). Trade surpluses also continued to be recorded with **South Asia** and **Africa**, amounting to RM3,580 million (January-July 2000: RM4,462million) and RM839 million (January-July 2000: RM855 million), respectively.

Balance Of Payments

The current account of the balance of payments is expected to continue to record a surplus for the fourth consecutive year in 2001. The surplus in the current account, however, is envisaged to narrow partly due to lower surplus in the goods account and rising deficit in the transfers account.

TABLE 6.15

Trade with the NIEs of Asia¹ (January-July)

	Exports				Imports			
	RM million		Change (%)		RM million		Change (%)	
	2000	2001	2000	2001	2000	2001	2000	2001
Food, beverages, tobacco, oils and fats	989	821	4.1	-16.9	143	180	0.0	25.4
Inedible crude materials, mineral fuels and lubricants	5,051	4,598	72.8	-9.0	401	294	39.0	-26.7
Manufactured goods, intermediate	4,183	3,542	14.8	-15.3	5,556	4,748	38.3	-14.5
Machinery, telecommunications and transport equipment	14,091	11,810	11.1	-16.2	14,979	12,745	21.9	-14.9
Manufactured goods, final products	856	791	-6.5	-7.6	1,046	975	39.2	-6.7
Miscellaneous	153	153	35.4	0.0	448	364	18.5	-18.7
Total	25,327	21,715	19.3	-14.3	22,574	19,307	26.3	-14.5

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

Source: Department of Statistics.

TABLE 6.16

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

	Exports				Imports			
	RM million		Change (%)		RM million		Change (%)	
	2000	2001	2000	2001	2000	2001	2000	2001
ASEAN (including Singapore)	53,992	49,409	32.6	-8.5	41,505	37,451	34.7	-9.8
China	5,950	7,602	24.3	27.8	6,616	7,042	52.1	6.4
South Asia	6,283	5,362	2.3	-14.7	1,821	1,782	5.9	-2.1
West Asia	3,647	4,078	16.3	11.8	3,827	4,256	133.5	11.2
Australia	5,309	4,613	28.6	-13.1	3,447	3,376	8.4	-2.1
New Zealand	681	683	8.5	0.4	682	797	13.8	16.8
Central & Eastern Europe	538	813	34.9	51.0	327	242	85.2	-26.1
Africa	1,713	1,680	-7.0	-1.9	858	841	25.1	-2.0
Total	78,113	74,241	26.4	-5.0	59,084	55,788	36.9	-5.6

Source: Department of Statistics.

The deficit in the financial account, on the other hand, is expected to improve on account of lower net outflows in portfolio investments and other investments. Consequently, the overall position of the balance of payments is expected to turn around and record a surplus of RM459 million after experiencing a large deficit of RM3,702 million in the previous year.

Current Account

The **goods account** of the balance of payments is expected to continue to register a surplus of RM69,175 million in 2001 (2000: RM79,247 million). The surplus is, however expected to be smaller on account of a sharp decline in the export of goods of 10.8% (2000:17%), following the slowdown in global economy and a smaller

decline in import of goods of 3.8% (2000: 26.2%). The **services account** is envisaged to improve with a smaller deficit of RM7,694 million (2000: -RM11,212 million), resulting from higher inflows from transportation and travels. The inflow in the transportation account is expected to increase further by 2.1% in 2001 (2000:17.4%), following the Government's efforts to further promote the utilisation of domestic port and shipping services, particularly Port Klang, and Tanjung Pelepas Port as regional transshipment hubs.

Net inflow in the **travel account**, comprising business and personal travel as well as payments for education and pilgrimage, is envisaged to increase strongly by 27.9% (2000: 62.9%). In the first six months of 2001, travel receipts expanded by 41.4%. In contrast, receipts in the second half are expected to contract by 1.4%

TABLE 6.17

Current Account of the Balance of Payments
(RM million)

	2000			2001 ^a		
	Receipts	Payments	Net	Receipts	Payments ¹⁵	Net
Goods	374,031	294,784	79,247	333,464	264,289	69,175
Services account	52,346	63,558	-11,212	53,471	61,165	-7,694
Transportation	11,118	22,470	-11,352	11,350	21,719	-10,369
Travel	17,789	7,797	9,992	21,202	8,420	12,782
Other services	22,960	32,865	-9,905	20,434	30,564	-10,130
Government transactions	479	426	53	485	462	23
Income	7,973	36,527	-28,554	6,273	33,900	-27,627
Compensation of employees	1,242	1,862	-620	1,340	2,434	-1,094
Investment income	6,731	34,665	-27,934	4,933	31,466	-26,533
Current transfers	2,735	10,257	-7,522	2,352	11,136	-8,784
Current account	437,085	405,126	31,959	395,560	370,490	25,070

^a Estimate.

on account of the impact of the September 11 attack on the US. For the whole year, travel receipts are estimated to increase strongly by 19.2% (2000: 30.5%). This is mainly due to the intensive promotion on tourism as well as increase in inbound travellers attending major international conferences, exhibitions and sporting events. Outflows in the travel account are expected to increase by 8% to RM8,420 million (2000: 4%) largely on account of expenditures on education and pilgrimage.

The **government transactions account** is expected to continue to register a small net inflow of RM23 million in 2001 (2000: RM53 million). Payments, mainly comprising expenditure incurred by Malaysian embassies and technical assistance provided by the Government to other developing countries, are estimated to expand by 8.5% to

RM462 million in 2001 (2000: -1.4%). Receipts largely from expenditure by foreign embassies are expected to increase marginally by 1.3% (2000: 5.3%).

The **income account** of the balance of payments is expected to record a smaller deficit. Receipts from investment income, which include mainly returns from the external assets of Bank Negara Malaysia as well as income from Malaysian investments abroad are expected to decline by 26.7% to RM4,933 million (2000: 5.4% and RM6,731 million). As receipts from Malaysian investments overseas are not likely to offset the repatriation of profits and dividends by foreign companies operating in Malaysia, the investment income component will continue to record a deficit, however, slightly lower, amounting to RM26,533 million (2000: -RM27,934 million).

Net outflow associated with **current transfers** comprising largely of remittances by foreign workers is expected to continue to increase to RM8,784 million, against RM7,522 million in 2000, given the presence of the large number of foreign workers in the country. The total amount of transfer payments is likely to increase substantially by 8.6% in 2001 (2000: 6.7%), mainly due to higher remittances by foreign workers. Current transfer receipts from abroad, on the other hand, are estimated to decrease strongly by 14% in 2001 (2000: -10.2%) largely on account of lower remittance by Malaysians working abroad. After taking into account the deficits in the income and current transfers components, the **current account** of the balance of payments is expected to record a lower but sizeable surplus of RM25,070 million or 7.9% of GNP (2000: RM31,959 million or 10.2% of GNP). Thus, the nation's balance of payments position is expected to remain fundamentally strong.

Financial Account

In the **financial account**, a lower net outflow of RM17,948 million is expected to be registered compared to RM23,848 million in 2000. This is largely attributable to the lower outflows in the portfolio and other investment account. The relatively smaller inflow anticipated from direct investments, amounting to RM5,642 million (2000: RM6,694 million), amongst others, reflects Malaysia's substantial investments abroad and lower net inflows of foreign direct investment. The **other investment account**, including loans, trade credits and bank deposits, is expected to record a deficit of RM20,261 million (2000: -RM21,147 million), resulting from the on-going external loan repayment exercise by the private sector following debt restructuring efforts.

With the surplus in the current account more than sufficient to meet the deficit in the financial

CHART 6.12
Net International Reserves

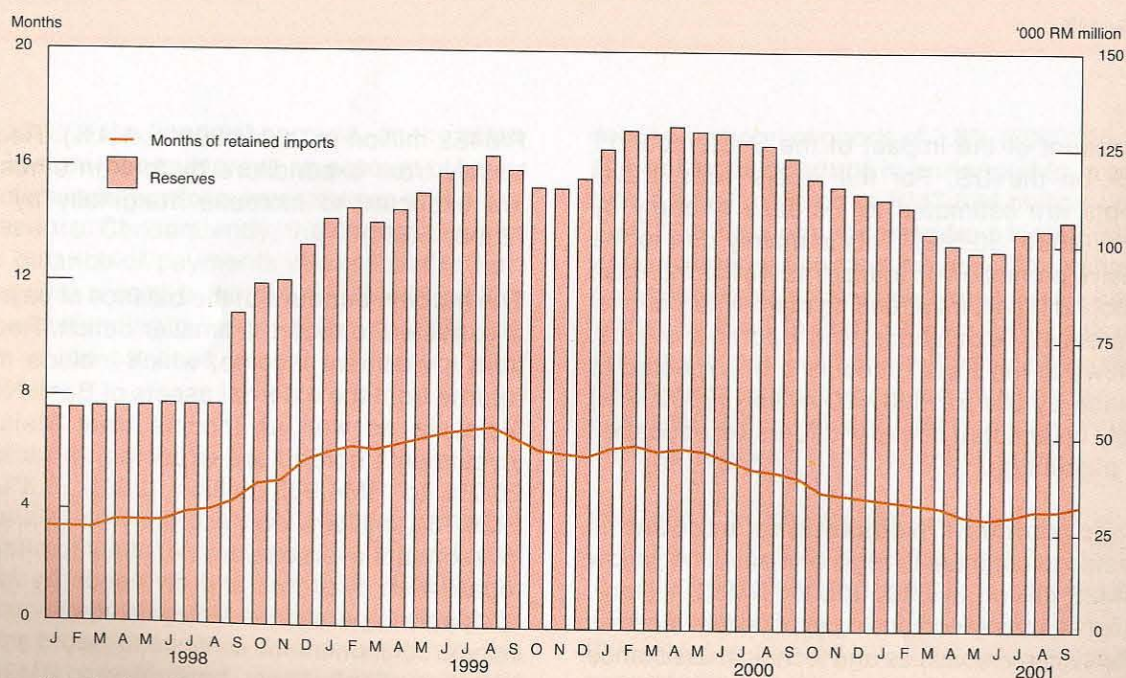


TABLE 6.18

Performance of the Ringgit Against Selected Currencies

RM per foreign currency ¹	End Jan. 2001	11 Sept. 2001	Change (%)	12 Sept. 2001	End Sept. 2001	Change (%)
US Dollar	3.8000	3.8000	0.0	3.8000	3.8000	0.0
Pound Sterling	5.5543	5.5360	0.3	5.6069	5.5938	0.2
Euro	3.5194	3.4179	3.0	3.4639	3.4761	-0.4
Deutschemark	1.7994	1.7475	3.0	1.7711	1.7773	-0.3
Japanese Yen (100)	3.2624	3.1294	4.3	3.1819	3.1867	-0.2
Singapore Dollar	2.1786	2.1686	0.5	2.1861	2.1527	1.6
Thai Baht (100)	8.9257	8.4964	5.1	8.5547	8.5518	0.0
Philippine Peso (100)	7.7024	7.4060	4.0	7.4255	7.4006	0.3
Indonesian Rupiah (100)	0.0402	0.0417	-3.6	0.0420	0.0393	6.9

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.

account, and after taking into account the net outflows of RM6,663 million (2000: -RM11,814 million) due to errors and omissions, which includes foreign exchange revaluation loss, the **overall position** of the balance of payments is expected to record a surplus of RM459 million in 2001 (2000: -RM3,703 million).

Malaysia's **net international reserves** has improved since end of May 2001, increasing by RM14,398 million or USD3,789 million during the period June to end-September 2001. As at end-September 2001, Malaysia's net international reserves amounted to RM112,934 million (USD29,720 million) as compared to its lowest record for the year of RM98,536 million (USD25,931 million) at 30th May 2001. The reserve position is adequate to finance 4.6 months of retained imports. The increase in reserves

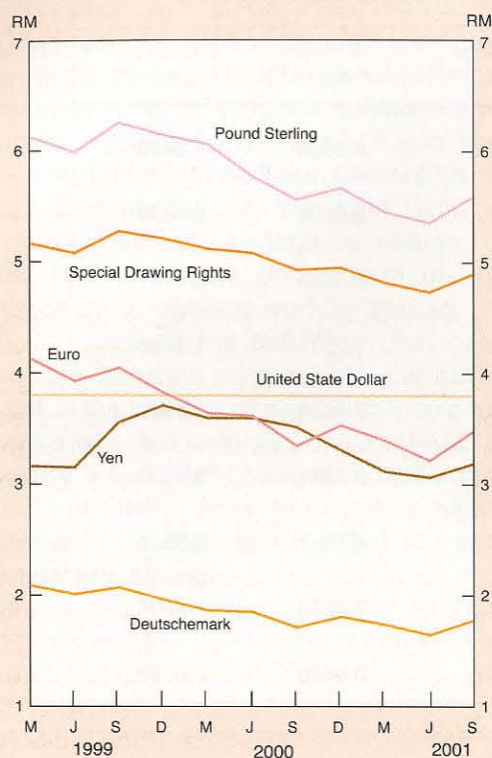
was attributable to the continued inflows from trade, foreign direct investment as well as inflows of portfolio funds, which more than offset the payments for services and external loan repayments.

Foreign Exchange Rate

The ringgit remained pegged at RM3.80 to the US dollar since 2 September 1998 and continued to provide stability to Malaysian financial markets. The ringgit appreciated moderately within the range of 0.3%-5.1% against most major and regional currencies as at 11 September 2001 *vis-a-vis* its position at end-January 2001, as shown in Table 6.18. The Indonesian rupiah, however, appreciated by 3.6% against the ringgit,

CHART 6.13

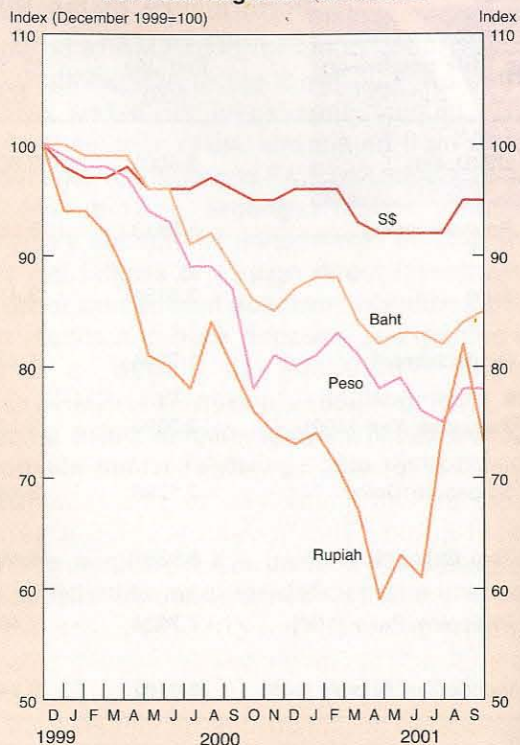
Exchange Rate of the Malaysian Ringgit Against Major Currencies



Source: Bank Negara Malaysia.

CHART 6.14

Performance of the Malaysian Ringgit Against Selected Regional Currencies



Note: An increase in the index represent an appreciation of the currency against the Ringgit.

largely attributable to the positive political development in the republic. Nevertheless, in the wake of the September attack on the US and the subsequent uncertainty on the US economic recovery and deteriorating global economic conditions, the US dollar experienced some weakening. Subsequently, the ringgit's

performance was mixed, depreciating marginally against the yen, euro and deutschemark, and appreciating against the pound sterling, Philippine peso and the Singapore dollar. The ringgit, however, reversed its depreciation against the Indonesian rupiah.