

Overview

The economy is poised for stronger growth...

The economy is envisaged to register stronger growth in 2002, following better export performance and continued pick-up in domestic demand. Brighter external prospects due to the economic recovery of the United States (US) and a rebound in global electronics demand, especially from the East Asian countries, have hastened Malaysia's export recovery, beginning early 2002. Export has somewhat broadened beyond the electronics sector, aided by the softening of the US dollar against regional currencies to which the ringgit is pegged.

In the domestic sector, the multiplier effects of the fiscal stimulus measures have provided the impetus for continued economic expansion. Rising consumer confidence arising from improving employment prospects and higher commodity prices are expected to raise consumer spending further as the year progresses. The accommodative monetary policy and intensified efforts to speed up the implementation of public sector projects as well as increased activity in the construction sector are expected to result in a stronger domestic demand in 2002. Overall, with gross domestic product (GDP) expanding by 2.5% in the first half of 2002 and expected to strengthen further in the second-half, the full-year growth is projected to be in the range of 4%-5%, achieving the forecasted rate in Budget 2002. The services and manufacturing sectors are the major contributors to growth.

With the value of exports continuing to exceed that of imports coupled with improvements in terms of trade arising from higher commodity prices, the external trade position is projected to record a sizeable surplus of RM51,038 million.

Given that the current account is likely to record net inflows while the net outflows of the financial account is expected to reduce significantly, the overall position of the balance of payments is expected to record a surplus for the second consecutive year. As a result, the rising trend of the nation's external reserves is also envisaged to continue. In line with economic recovery, national income is expected to increase by 6.1% to RM327,713 million with per capita income rising by 3.8% to RM13,361 (2001: -3.5%; RM12,867). Per capita purchasing power parity, is estimated to increase by 3.3% to USD8,418 (2001: -2.2%; USD8,146).

Inflation remained low and stable in the first seven months of the year with Consumer Price Index (CPI) at 1.8% (January-July 2001:1.5%). Price pressures were seen mainly in transport and communication following the upward tariff rebalancing for domestic telephone calls in March and marginal price increases in diesel, petrol and liquefied petroleum gas (LPG) in May. For the second half of the year, the stronger recovery in domestic demand is expected to exert mild pressure on prices, resulting in inflation increasing marginally higher but still low at around 2% for the whole year.

Domestic Demand Performance

Economic growth is driven largely by domestic demand...

Given the positive impact of the filtering-through fiscal stimulus measures and the recovery in external demand, private sector has begun to resume its role to generate economic growth, though not as dynamic as before the 1997 financial crisis. The better performance of the **private sector** is reflected in the positive turnaround in the overall private expenditure, as shown in

TABLE 2.1

Gross Domestic Product (GDP) by Aggregate Demand
(in 1987 prices)
2001-2003

	Change (%)			Contribution to GDP growth (percentage point)			Share of GDP (%)		
	2001	2002 ⁴	2003 ⁵	2001	2002 ⁴	2003 ⁵	2001	2002 ⁴	2003 ⁵
GDP				0.4	4.0-5.0	6.0-6.5			
Aggregate Domestic Demand¹	2.8	4.8	7.3	2.4	4.3	6.7	89.8	90.3	91.5
Private Expenditure	-3.0	5.1	9.0	-1.8	3.0	5.4	58.8	59.2	61.0
Consumption	2.8	5.9	7.6	1.2	2.8	3.6	46.4	47.1	47.9
Investment	-19.9	1.8	14.4	-3.0	0.2	1.8	12.4	12.1	13.1
Public Expenditure	15.9	4.3	4.0	4.2	1.3	1.3	31.0	31.1	30.5
Consumption	17.6	4.7	8.5	2.0	0.6	1.2	13.5	13.6	13.9
Investment	14.5	4.1	0.5	2.2	0.7	0.1	17.5	17.5	16.6
Change in Stocks				-2.3	1.6	-0.5	-1.1	0.5	0.0
External Sector	3.1	-15.1	-2.0	0.3	-1.7	-0.2	11.3	9.2	8.5
Export ²	-7.5	3.6	7.5	-8.8	3.9	8.1	108.2	107.5	109.1
Import ²	-8.6	5.8	8.4	-9.1	5.6	8.3	96.9	98.3	100.6
GNP³ in RM billion	309.0	327.7	353.1						
(in current value)	-1.4	6.1	7.8						

¹ Excluding change in stock.

² Goods and non-factor services.

³ Gross National Product.

⁴ Estimates.

⁵ Forecast.

Table 2.1. Expanding by 5.1% in real terms (2001: -3%), private sector contribution to GDP growth is envisaged to register a favourable 3 percentage points (2001: -1.8 percentage points), which is much higher than the estimated contribution by **public sector** expenditure of 1.3 percentage points (2001: 4.2 percentage points). The public sector overall expenditure is expected to increase, though moderately, by 4.3%, after expanding by 15.9% in 2001 as a result of the expansionary budget stance. The slight increase in public sector spending is in line with Government's consolidation policy towards achieving a balanced budget over the medium term. As the momentum of economic activity in the private sector gets stronger in the second half of the year, aggregate **domestic demand** is projected to expand further by 4.8%

(2001: 2.8%). The fairly sustained strong growth is largely attributable to the overall consumption spending, particularly private consumption.

The strength of **private consumption** spending, amongst others, is due to the improvement in disposable income arising from the recovery in export earnings and the positive impact of an upward salary revision in the civil service sector as well as a reduction in individual income tax rate. Other contributory factors are better employment opportunities, higher commodity prices and positive wealth effect on the back of the modest recovery of the stock market. The favourable trend is reflected in several key consumption indicators including imports of consumption goods, sales of passenger cars, sales tax collections and consumer credit cards,

which have increased significantly between 7.7% to 39% for the first half of the year. As at end of June 2002 consumption credit has increased significantly to RM75,674 million compared to RM63,349 million during the same period last year as shown in *Chart 2.1*. With better consumer sentiment, private consumption expenditure growth is forecast to increase more than double at 5.9% (2001: 2.8%) and contribute 2.8 percentage point to GDP growth (2001: 1.2 percentage point).

In tandem with improving business confidence as the economy bounced back from negative growth in the third and fourth quarters of 2001, **private investment** outlays are expected to return to a positive territory of 1.8% (2001: -19.9%). Although growth is expected to be modest, a sturdy increase in capital expenditure is anticipated to occur during the second half of the year as more firms, particularly those involved

in export-oriented industries, edge up their capacity utilisation to meet stronger overseas orders as well as to replenish stock at an optimal level to fulfil future demand. The ongoing fiscal stimulus programs which include implementation of several privatised projects is expected to boost private investment. These projects include the KL Monorel, Lebuhraya Baru Pantai, Penyuraian Trafik Lingkaran Kajang and Penyuraian Trafik KL Barat.

The pick-up in private capital outlays is reflected in several key investment indicators. These include sales of commercial vehicles, production of ready-mixed concrete and sales of cement and concrete products which increased between 3.9% and 22.7% during the first half of the year. Another important indicator is the import of capital goods, which experienced a significant turnaround to record a positive growth of 16.5% in the second quarter (Q1 2002: -15.2%). As at end of June 2002, the amount of loan disbursements for manufacturing and construction sectors was almost sustained at RM66,070 million and RM39,281 million, respectively, as shown in *Chart 2.2*. Business confidence is envisaged to build up further as reflected by a substantial increase in the value of proposed investment in respect of application for manufacturing received by the Malaysian Industrial Development Authority (MIDA). The value in respect of application amounted to RM2,082 million, an increase of 16.2% compared to the same period in May-June, 2001. The previous sixteen months saw negative growth rates, except for the months of April 2001 and January 2002. The bulk of the applications received were in electrical and electronics, non-metallic mineral products, transport equipment, chemicals and petrochemicals and food manufacturing. Signs of recovery of domestic investment have emerged recently, as reflected in the sharp turnaround in applications involving an investment value of RM3,977 million, an increase of 67.6% compared to the corresponding period in 2001 (January-June 2001: -77.5%).

In line with the Government's intention to consolidate its financial position without compromising its supporting role to stimulate business activities and the pursuit of its socio-economic objectives, **public investment** is

CHART 2.1

Private Consumption Indicators

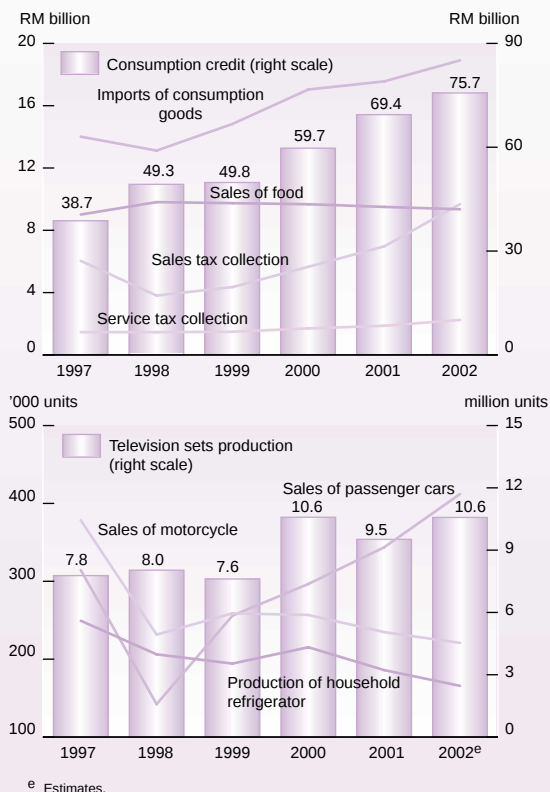
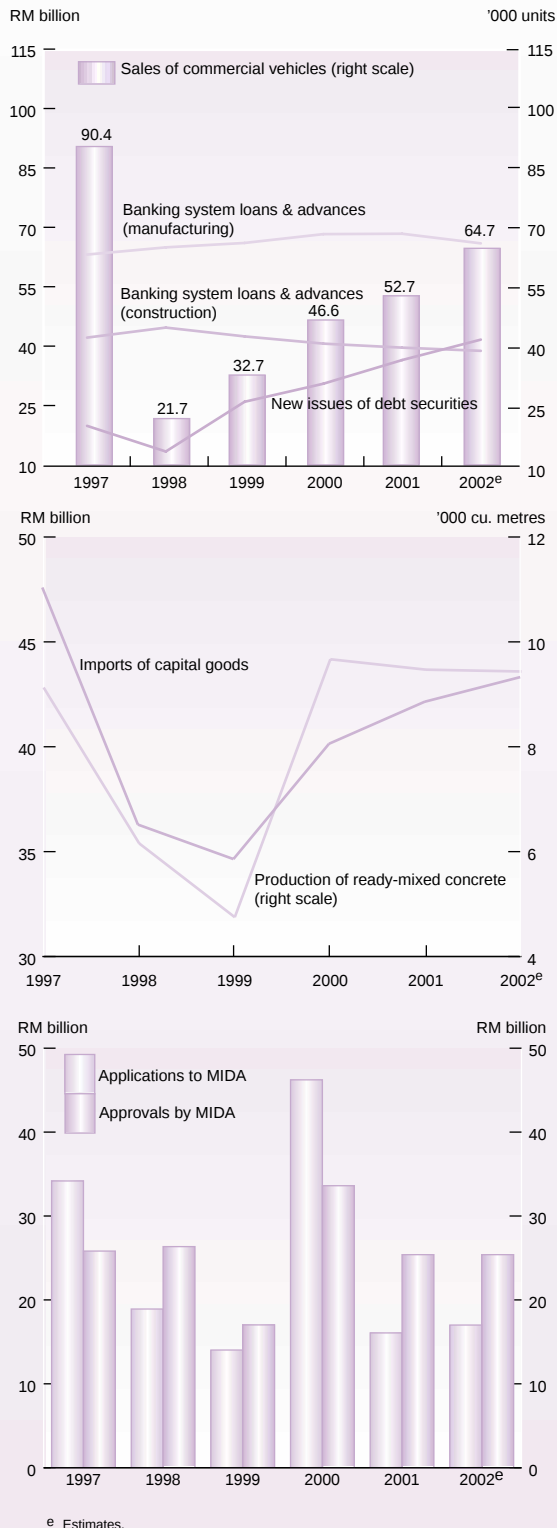


CHART 2.2

Private Investment Indicators



estimated to continue to increase, albeit at a much slower rate of 4.1% in 2002 (2001: 14.5%). The expected increase in public capital outlay is to improve the nation's capacity as well as to enhance human resource development so as to facilitate the transformation of the economy into one based on knowledge. In respect of **public consumption**, a slightly higher expenditure is expected for supplies and services mainly due to upgrading of the Government's administrative machinery to enhance its delivery system as well as higher emolument arising from new salary revisions. The rate of increase in public consumption, is therefore estimated to moderate slightly by 4.7% (2001: 17.6%).

Sectoral Performance

All sectors are expected to register positive growth...

On the supply side, all sectors of the economy are expected to register positive growth rates with growth accelerating in all sectors except for agriculture which is projected to moderate, to 1.1% (2001: 1.8%), as shown in *Table 2.2*, due to lower palm oil production. The services sector, which is expected to expand by 5.3%, is envisaged to continue to be the driving force in generating economic growth, contributing 3 percentage points to GDP growth in 2002. Growth in the sector is expected to emanate from the finance, insurance, real estate, and business services sub-sectors, in line with the upturn of the economy and improving domestic demand and complemented by significant improvement in the manufacturing sector.

Output of the manufacturing sector improved gradually since February, led by increasing orders for semiconductors and other electronic goods. The momentum is expected to accelerate with improved performance in the second half of the year, supported by a gradual increase in final demand from overseas markets, particularly the Asia Pacific region. The revival of the domestic semiconductor and electronic components sub-sectors have also benefitted supporting industries such as plastics, chemicals and fabricated metal and machinery. Value added in the manufacturing sector, therefore, recorded a growth of 1.6% in the first half and is projected to strengthen further to 8.7% in the second half of the year, thus

TABLE 2.2

Gross Domestic Product by Sector
(in 1987 prices)
2001-2003

	Change (%)			Contribution to GDP Growth (percentage point)			Share of GDP (%)		
	2001	2002 ^e	2003 ^f	2001	2002 ^e	2003 ^f	2001	2002 ^e	2003 ^f
Agriculture, forestry and fishing¹	1.8	1.1	3.4	0.2	0.1	0.3	8.7	8.4	8.2
Mining	1.6	2.0	2.5	0.1	0.2	0.2	7.6	7.4	7.2
Manufacturing	-6.2	5.1	8.5	-2.0	1.6	2.6	30.2	30.4	31.2
Construction	2.3	3.8	4.5	0.1	0.1	0.2	3.4	3.4	3.3
Services	5.7	5.3	5.9	3.1	3.0	3.3	56.4	57.0	57.0
Electricity, gas and water	6.9	7.2	7.5	0.3	0.3	0.3	4.2	4.3	4.4
Transport, storage & communication	7.5	5.4	6.0	0.6	0.5	0.5	8.7	8.8	8.8
Wholesale & retail trade, hotel & restaurants	3.0	3.8	5.0	0.4	0.6	0.8	15.1	15.0	14.9
Finance, insurance, real estate and business services	9.5	8.2	7.7	1.2	1.1	1.1	13.6	14.1	14.3
Government services	4.6	4.3	4.5	0.3	0.3	0.3	7.2	7.2	7.1
Other services	2.9	3.2	4.4	0.2	0.3	0.3	7.7	7.7	7.6
Less imputed bank service charges	12.8	11.9	10.6	1.0	1.0	1.0	8.5	9.1	9.5
Plus import duties	0.4	12.8	14.6	0.0	0.3	0.4	2.3	2.4	2.7
GDP	0.4	4.0-5.0	6.0-6.5	0.4	4.0-5.0	6.0-6.5	100.0	100.0	100.0

¹ Includes livestock and horticulture.

^e Estimates.

^f Forecast.

giving an overall growth rate of 5.1% for 2002 (2001: -6.2%).

The mining sector, however, is expected to record a slight improvement with a growth of 2% (2001: 1.6%), largely due to higher output of crude oil and gas expected during the second half of the year. The construction sector is forecast to grow more strongly by 3.8%, benefitting vastly from the impact of fiscal stimulus measures such as construction of houses, single session schools, colleges and rural infrastructure projects.

Manufacturing Sector

Manufacturing sector staged significant improvement...

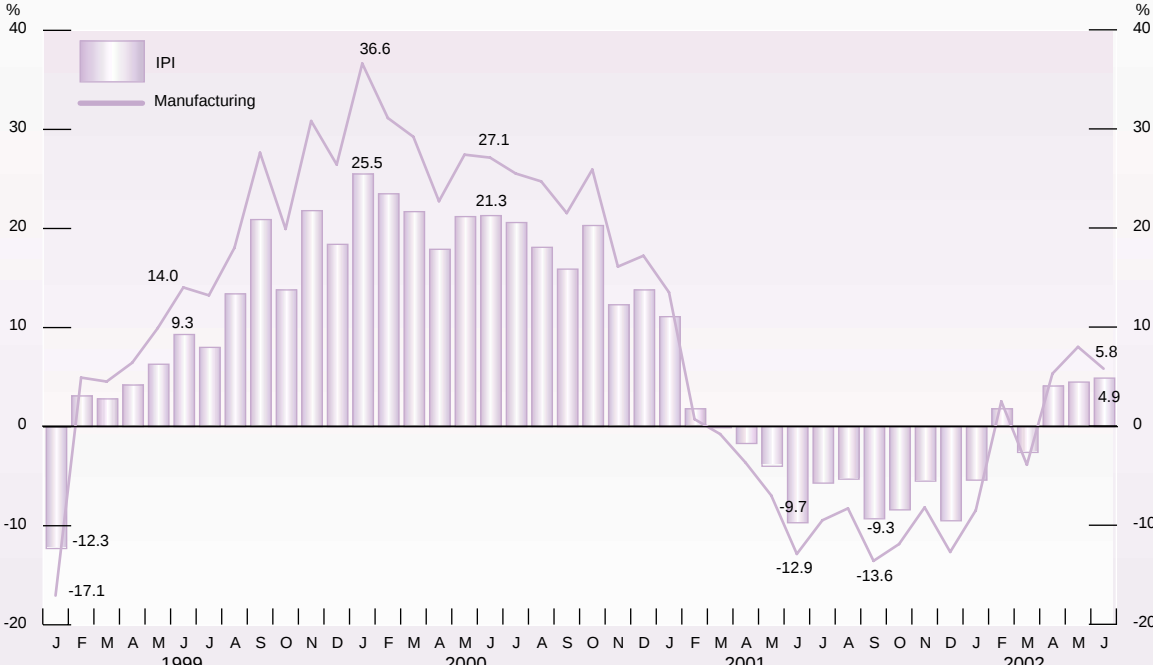
Signs of a turnaround in the manufacturing sector have become more visible in the second quarter

of 2002. After experiencing 11 months of consecutive decline, output of the manufacturing sector has improved from -11% recorded in the fourth quarter of 2001 to bounce back with three straight months of positive growth since April 2002, as shown in *Chart 2.3*. A steady recovery of the sector is anticipated for the rest of the year, on account of a revival in external demand and sustained growth in domestic consumption.

The external outlook has turned positive with the slump in the electronics industry showing signs of bottoming out. Decline in worldwide semiconductor sales has moderated to 1.6% in the second quarter, a significant improvement from a -25% in the previous quarter. The book-to-bill (BTB) ratio of North America's electronics equipment industry has recovered to above one point in four straight months since March this year, as shown in *Chart 2.4*, an early signal that the output of Malaysia's semiconductors is heading for a recovery.

CHART 2.3

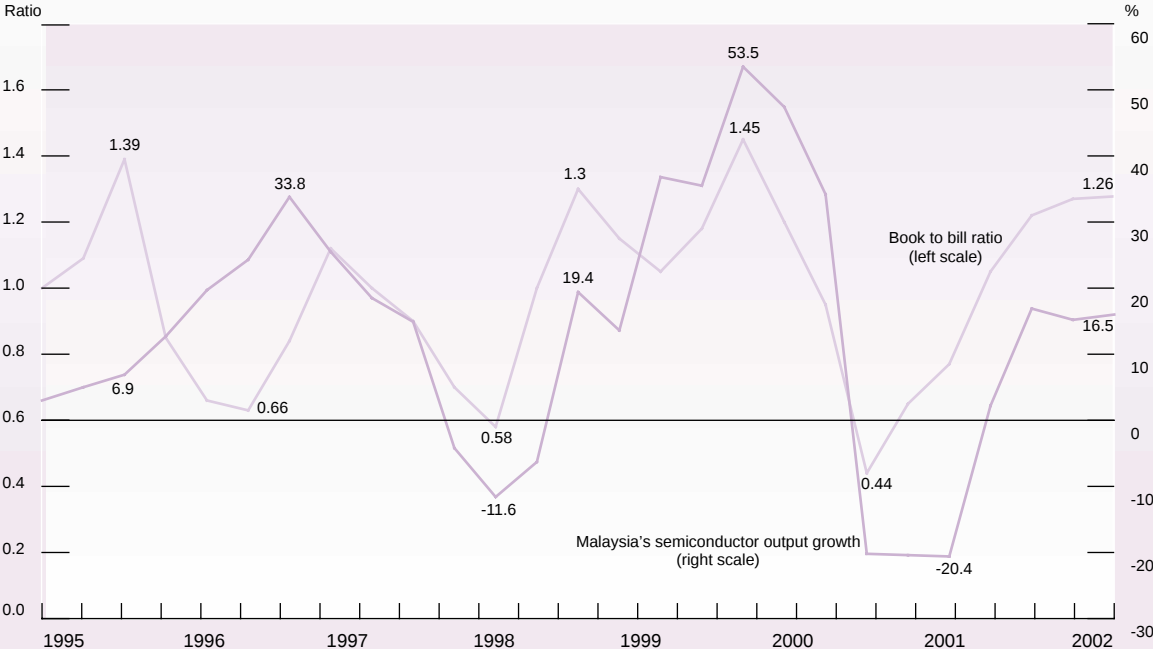
Industrial Production Index (IPI) (% annual change)



Source: Department of Statistics.

CHART 2.4

Book-to-bill Ratio and Output Growth of Malaysia's Semiconductors



Source: Materials and Equipment International, US.
Industrial Production Index , Statistics Department.

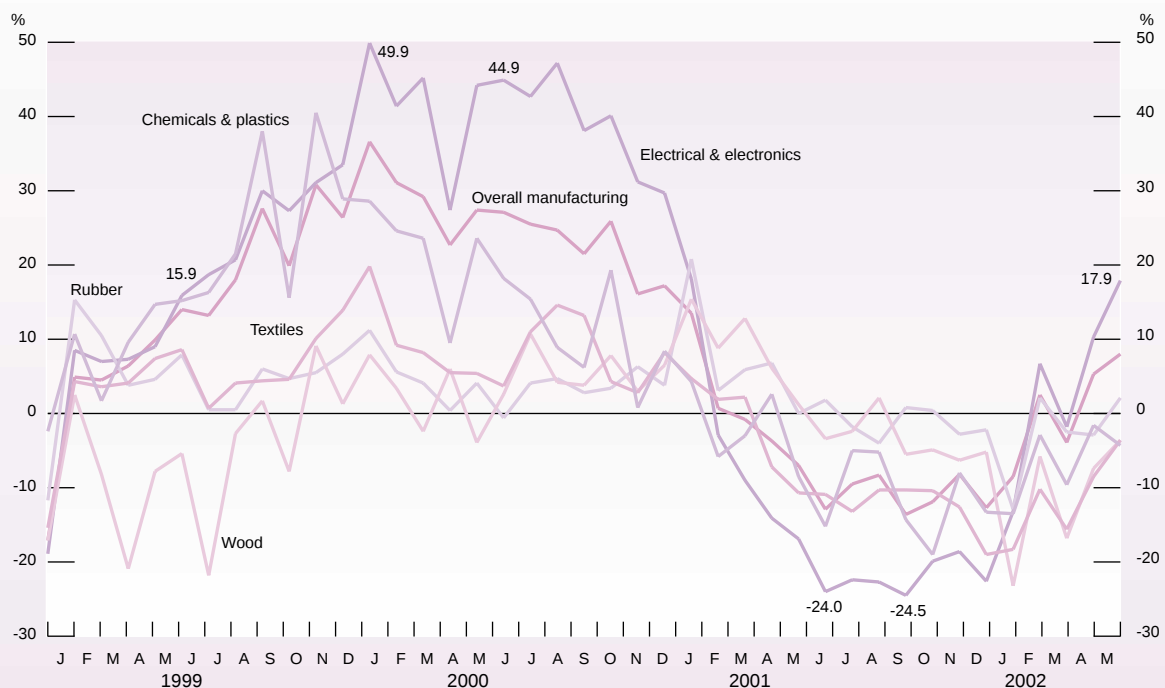
There was a sharp turnaround in the domestic **electrical and electronics (E&E)** industry which recorded a significant growth of 13.3% in June compared to -1.8% in March. The semiconductors and electronic component sub-sector in particular, recorded four consecutive months of positive growth since February, after 12 months of decline. Following protracted inventory liquidation in semiconductors in 2001, orders began to pick up largely due to replenishment of stocks in the first half of 2002. Imports of intermediate goods also rebounded by 3.3% in second quarter (Q1 2002: -1.3%), indicating a strong pick-up in manufacturing output in the months ahead. Capacity utilisation for the sector remained generally above 70% in the first half of the year. As growth in external demand and domestic consumption continues to accelerate, the capacity utilisation rate is expected to improve further to above 80% by end of 2002.

Consumer confidence has held up better and consumer spending has been firm. Except for the long holidays in December 2001 and February this year, when production had scaled down, output of the transport equipment industry recorded double-digit growth for 16 straight months. Construction-related material industries, such as iron and steel as well as non-metallic minerals, has chalked up stronger output growth with the ongoing implementation of fiscal stimulus projects and sustained growth in the housing sub-sector.

Slightly more than half of the output of the manufacturing sector, as shown in *Table 2.3*, is **export-oriented**, with E&E accounting for more than 40%. The strong recovery of E&E has contributed significantly to the performance of the manufacturing sector, as shown in *Chart 2.5*. Output of semiconductors, transistors,

CHART 2.5

Growth of Manufacturing Sector Led by The Electrical & Electronic Industry



Source: Industrial Production Index, Department of Statistics.

TABLE 2.3

Manufacturing Production Index (January-June)

Sectors	Change (%)				Share (%)	
	2001	2002	2002		2001	2002
			Q1	Q2		
Export-oriented industries:	-6.7	1.9	-5.0	9.3	52.0	52.3
Electrical, electronics and machinery:	-9.3	5.0	-3.0	13.6	39.0	40.3
<i>Semiconductors</i>	-14.0	10.4	-0.8	23.5	28.0	30.5
<i>Ventilating & air conditioning</i>	19.9	17.7	13.5	21.8	2.2	2.5
Wood products	6.6	-10.8	-15.4	-6.2	4.2	3.7
Rubber products	6.2	-2.6	-4.6	-0.5	4.6	4.4
Textiles, wearing apparel and footwear	-3.5	-10.9	-14.9	-6.7	3.4	3.1
<i>Knitting mills</i>	-6.6	-5.7	-23.7	11.5	0.3	0.3
<i>Wearing apparel</i>	-8.3	-12.2	-17.5	-6.0	1.3	1.1
Professional, scientific, measuring and controlling equipment	-17.4	-0.3	-12.9	12.2	0.8	0.8
Domestic-oriented industries:	3.3	0.9	-1.6	3.3	48.0	47.7
Transport equipment	18.7	15.4	17.4	13.0	4.2	4.8
Construction related products	10.0	5.5	4.0	10.0	11.1	11.5
Food, beverages and tobacco	7.0	1.2	2.0	0.4	10.0	10.0
Chemicals and chemical products	3.0	-5.3	-4.9	-5.8	11.5	10.7
<i>Synthetic resins</i>	-9.3	9.5	1.1	18.6	1.0	1.1
<i>Paints, varnishes and lacquers</i>	8.4	14.1	24.5	4.7	0.4	0.4
Plastic products	-12.1	-5.9	-15.4	4.0	7.0	6.5
Paper and paper products	4.8	7.0	-2.1	16.3	1.4	1.5
Crude oil refineries	19.6	0.9	4.3	-2.4	1.4	1.3
Miscellaneous products of coal and petrol	-2.2	-14.1	0.3	-26.8	0.3	0.3
Glass and glass products	-5.3	-9.2	2.7	-18.5	0.4	0.4
Non-ferrous metal	-18.3	1.8	-9.9	13.0	0.7	0.8
Total	-2.2	1.4	-3.4	6.4	100.0	100.0

Source: Industrial Production Index, Department of Statistics.

integrated circuits and other electronic parts and components started to show sequential increases in the early part of the year. Demand is picking up across the board, particularly for personal computers (PCs), telecommunications equipment, consumer electronics as well as automobile and industrial electronic components, driven largely by restocking activity and increases in some end-market demand from consumer and automobile electronic segments.

With increasing orders, capacity utilisation of the semiconductor contract manufacturers has also improved from an average of 35% in 2001 to 50%-60% in the second quarter of 2002. As capacity utilisation increased above breakeven levels, most semiconductor manufacturers have generally stopped the austerity measures taken in the previous year by normalising working days to cope with increasing orders. Improved spending on consumer durables and higher

external demand resulted in strong increases in production of household E&E products, such as television sets which increased by 8.7% and air conditioners by 7.5% during the first six months of 2002.

While the semiconductors sub-sector has somewhat recovered, the overall recovery in 2002 may be softer than expected. Reports from the Semiconductor Industry Association (SIA), US, indicate that global spending in information technology (IT) products is envisaged to grow by 3% in 2002. Given the weaker-than-expected corporate earnings in the US during the first half of 2002, corporate capital expenditure is expected to be subdued. Reports from major computer and telecommunications equipment companies in Europe and US also point to a weaker global growth in the PCs and cellular phone markets.

While there are signs to indicate a slower recovery in US due to the negative wealth effect arising from the slumped equity market, some positive signs have emerged in the Asia Pacific region (excluding Japan) recently. Semiconductor sales in the Asia Pacific region (excluding Japan) recorded a positive growth of 19% in the first six months of 2002. If the trend is sustained, it will help to cushion the effects from the possible slowdown of the US economy. Overall, it is projected that the output of semiconductors will continue to grow at a modest pace. Growth is expected to gather momentum, though at a softer pace in the third quarter and strengthen further in the fourth quarter, attributable to stronger seasonal sales during the period with recovery in end-demand from overseas market.

The **textiles and apparel industry** also showed improvements in the second quarter with output recording a slower decline of 6.7% (Q2 2001: -9.6%). A positive outlook is anticipated for the second half of 2002. There are clear signs of recovery for the clothing sub-sector, which recorded an increase of 15.6% in sales in the second quarter compared to the previous quarter due to pick-up in domestic and external demand. Going forward, the sector is forecast to improve further as some producers have embarked on

investments in high-tech equipment and improving product quality and productivity as well as brand building, undertaken during the economic downturn in 2001. Consequently, they are in a better position to compete when external demand recovers in line with better global economic performance.

Production of the **wood-based industry**, comprising plywood, joinery, flooring and sawn timber, fell by 10.8% in the first six months (January-June 2001: 6.6%), particularly due to lower exports of plywood to Japan. However, while the sector is still experiencing contraction on a year-on-year basis, some early signs of bottoming out have emerged lately with overall output of wood products recording a moderate decline of 6.2% in the second quarter compared to -15.4% in the previous quarter. Currently the sector, excluding the furniture industry, operates between 55%-60% of its capacity, with 75% of its output exported. Production capacity is expected to improve further to 70% due to stronger demand from other importing countries such as South Korea and Taiwan. On the other hand, the sales of **furniture and fixtures** recorded an increase of 16% during the first six months of 2002, with capacity utilisation generally above 70%. The stronger demand was on account of greater efforts by furniture manufacturers to promote Malaysian wood products through furniture fairs and exhibitions, and the continuous improvements in design to meet the changing needs of industrial and household demand.

Output of the **rubber industry** fell by 2.6% for the first half of 2002 (January-June 2001: 6.2%). All products under this sector recorded negative growth except catheters, which recorded an increase of 16% (January-June 2001: -7.3%). Production of rubber gloves, the major contributor to the industry, contracted by 5% (January-June 2001: 11.8%) due to over supply and depressed export prices, especially in the first quarter of 2002. However, the prices of latex products began to pick up in the second quarter compared to the previous quarter, reflecting improving external demand and increasing price of latex. Meanwhile, output of tyres and tubes

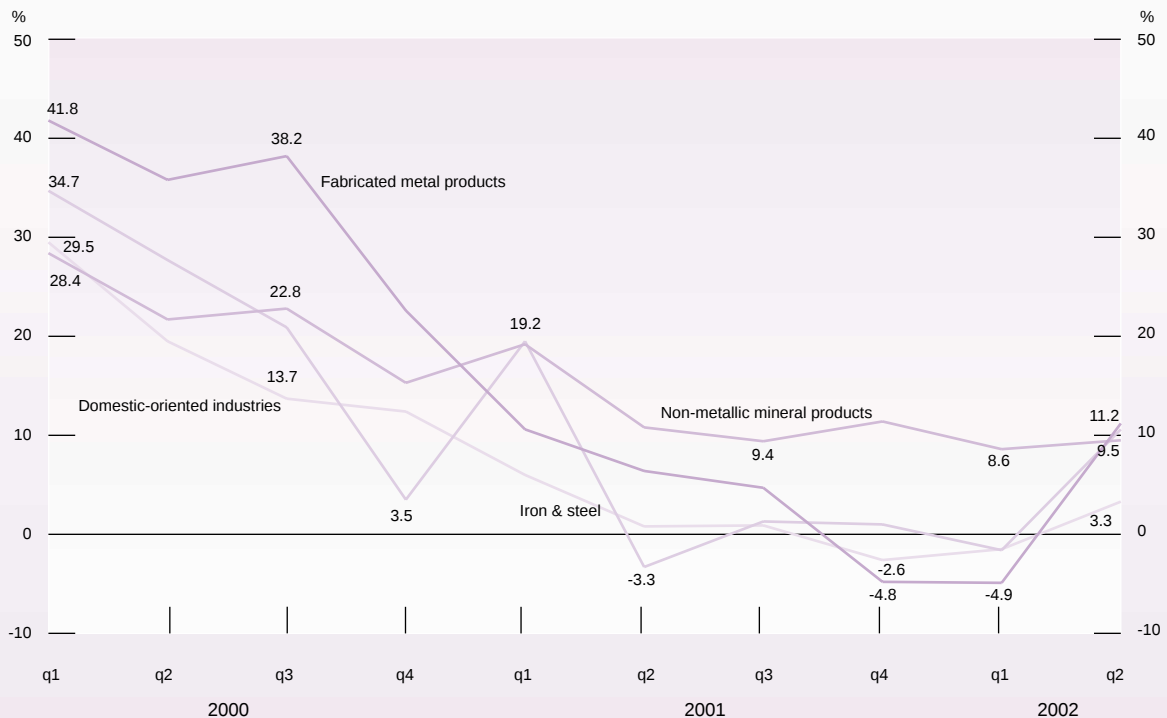
recovered and registered a marginal growth of 0.9%. With increasing number of new passenger cars, the tyre industry is expected to stage a higher growth for the rest of the year.

A broad-based recovery is expected in the **domestic-oriented industries** in 2002. The thrust of Budget 2002 in providing tax incentives to individuals and upward salary revisions and bonuses for civil servants helped boost domestic spending. Higher consumer spending on passenger cars continued to bolster domestic demand. The recovery of domestic electronics output also led to the revival of supporting industries such as plastics and chemicals. The strong performance of the housing sub-sector also contributed positively to the overall growth of construction-related material industries, as shown in *Chart 2.6*.

Production of **transport equipment** continued to surge following strong sales of both passenger and commercial vehicles. Output of the sector remained positive with a double digit growth of 15.4% during the first six months of 2002 (January-June 2001: 18.7%) with the production of cars below 1,600 cc increasing by 31.2%. The strong performance of the industry was backed by an easy credit environment which offered low interest rates with longer repayment periods as well as affordable down payments. The brisk sales of motor vehicles in 2001 continued in 2002. Total vehicle sales in the first six months increased strongly by 20.3% compared to the same period in 2001. Most notably, sales of commercial vehicles registered a robust growth of 22.7%, reflecting improved business confidence. Sales of passenger cars continued its double-digit growth of 19.9%. These trends are expected to continue

CHART 2.6

Construction-related Products Contribute Significantly to Domestic-Oriented Industries



q Quarterly.

Source: Industrial Production Index, Department of Statistics.

as the year progresses, fuelled by higher demand arising from improved consumer confidence as a result of better income and employment prospects. In addition, intensive promotional activities by car dealers as well as higher loan availability for civil servants are expected to further boost sales.

Construction-related industries are expected to benefit from the ongoing implementation of fiscal stimulus projects as well as sustained performance of the housing sub-sector. On the whole, the industry recorded a growth of 5.5% (January-June 2001: 10%). Cement and concrete continued to record a positive growth of 13.1% (January-June 2001: 18.4%). Demand is estimated to grow stronger this year, partly aided by the increased utilisation of cement in several ongoing and planned public infrastructure projects to be implemented in 2002/2003. Similarly, production of ceramic and tiles also expanded by 4.1% during the first six months to meet increasing demand from the housing sub-sector. Currently, the non-metallic mineral industry especially the ceramic producers, are operating above 80% capacity. Likewise, the iron and steel industry is generally expected to perform better due to the positive effects of fiscal stimulus as well as better external demand. As a result, capacity utilisation is expected to increase to over 65% compared to 55% in 2001.

The **food industry** recorded a slower growth of 1.2% (January-June 2001: 7%) with a turnover amounting to RM4,500 million, of which slightly more than one-third was exported. Most notably, export of food to the People's Republic of China has increased rapidly by 79.5% in the first six months of 2002, with palm and palm kernel oil constituting the bulk. Processing of fish and crustacea recorded a higher output growth of 13.7% (January-June 2001: 12.4%), with production of canned fish remaining positive at 17.3%. Output of food products that recorded positive growth are refined sugar, 19.9% (January-June 2001: -9.5%), canned pineapples, 14.2%,

(January-June 2001: -7.5%), full cream powdered milk, 13.9% (January-June 2001: -11%) and milk drinks, 10.7% (January-June 2001: -2.5%), reflecting higher consumer spending.

Output of the **industrial chemical** industry also showed signs of recovery following the better performance of the transport equipment and electronics sub-sectors as well as the construction sector. Chemical products especially paint, varnishes and lacquers recorded a higher growth of 14.1% (January-June 2001: 8.4%). The stronger growth of the products was linked to increased usage of these products in local automobile and construction-related industries. Similarly, output of synthetic resins recorded a growth of 9.5% (January-June 2001: -9.3%), attributable to higher domestic and external demand arising from the recovery of the electronics sub-sector.

Likewise, output of the **plastics industry** also turned around, and recorded a positive growth of 4% in the second quarter of 2002, after declining by 15.4% in the first quarter. For the first six months, the industry recorded a turnover of RM3,638 million of which RM1,731 million or nearly half was for the export market. Plastic products are mainly used in the packaging industry, accounting for 35% of the production, followed by 30% in the manufacture of components for E&E products. With improvements in the E&E sector and private consumption, in particular, consumption of fast-moving consumer goods that require frequent changes in design and packaging, the industry is poised for a stronger recovery towards the end of the year.

In tandem with the increased sales of vehicles, production of gasoline grew by 1.5% during the same period of 2002. Output of LPG surged by 22.3%, largely reflecting the increased consumption by households, services and small industries. Production of fuel oil, however, plummeted by 25.6%, affecting the overall performance of the **crude oil refinery** sector, which recorded a growth of 0.9% during the same period (January-June 2001: 19.6%).

Agriculture Sector

Growth in agriculture sector moderated but commodity prices trended higher...

The slower growth of the agriculture sector of 1.1% in 2002 compared to 2001 (1.8%) is mainly due to contraction in the production of crude palm oil (CPO) and fishing, as shown in *Table 2.4*. However, the positive growth of the forestry, rubber and other agriculture sub-sectors mitigated the contraction in growth of palm oil and fishing. Notwithstanding this, the Government efforts to revitalise the agriculture sector as the third engine of growth in line with the strategy to diversify the sources of growth, remains.

Overall, the production of **CPO** is expected to register a drop of 3.4% or 404,000 tonnes. This is on account of a combination of factors, such as the ongoing replanting programme implemented since 2001, the oil palm trees undergoing cyclical tree stress, as well as the hot and dry weather condition experienced from March to August. In spite of the lower production, the palm oil sub-sector still maintains its position as the major contributor to value added of the

TABLE 2.4

Value Added in the Agriculture, Livestock, Forestry and Fishing Sector (in 1987 Prices) 2001-2002

	Growth (%)		Share to Agriculture (%)	
	2001	2002 ^e	2001	2002 ^e
Agriculture, forestry and fishing	1.8	1.1	100.0	100.0
Oil palm	8.9	-2.8	34.9	33.5
Forestry & logging	0.6	1.3	16.8	16.9
Fishing	-10.0	-1.7	12.1	11.7
Rubber	-10.9	0.5	6.1	6.1
Other agriculture ^a	3.2	6.7	30.1	31.7

^e Estimates.

^a Including livestock, cocoa, padi and miscellaneous agriculture such as fruits, copra, vegetables, tobacco, tea, flowers, pepper and pineapple.

Source: Department of Statistics.

TABLE 2.5

Oil Palm Area and Palm Oil Production 2001-2002

	2001	2002 ^e	Change (%)	
			2001	2002 ^e
Planted areas ('000 hectares)	3,500	3,600	3.7	2.9
Matured areas ('000 hectares)	3,005	3,222	20.5	7.2
Production ('000 tonnes)				
Crude palm oil	11,804	11,400	8.9	-3.4
Palm kernel oil	1,532	1,480	11.2	-3.4
Yield (tonnes/hectare)	19.1	18.5	4.4	-3.1

^e Estimates.

Source: Ministry of Primary Industries.

agriculture sector with a share of 33.5% (2001: 34.9%) as shown in *Table 2.4* and *Chart 2.7*. Peninsular Malaysia continues to account for the bulk of the output of CPO (61%), followed by Sabah (34%) and Sarawak (5%).

In 2002, total hectareage planted is expected to increase by 2.9% to 3.6 million hectares, as shown in *Table 2.5*, taking into account new areas identified for the cultivation of oil palm, especially in Sabah and Sarawak. Out of this 69.2% is under private sector ownership with the remaining 30.8% owned by organised smallholders entities such as the Federal Land Development Authority (FELDA) and FELCRA Berhad. The price of CPO, which experienced a slump during the greater part of 2001 has progressively strengthened since November 2001, due mainly to reduced carryover stock and lower production at 11.4 million tonnes as well as lower soy oil production, the competitor, arising from weather conditions. In 2002, the price of CPO is expected to average RM1,305 per tonne (2001: RM893 per tonne).

For the first six months of 2002, output of **rubber** registered an increase of 3.7% to 266,281 tonnes. Total production of rubber is expected to increase only marginally by 0.5% to 550,000 tonnes (2001: 547,000 tonnes). On the other hand, total land

CHART 2.7

Value Added of Major Commodities

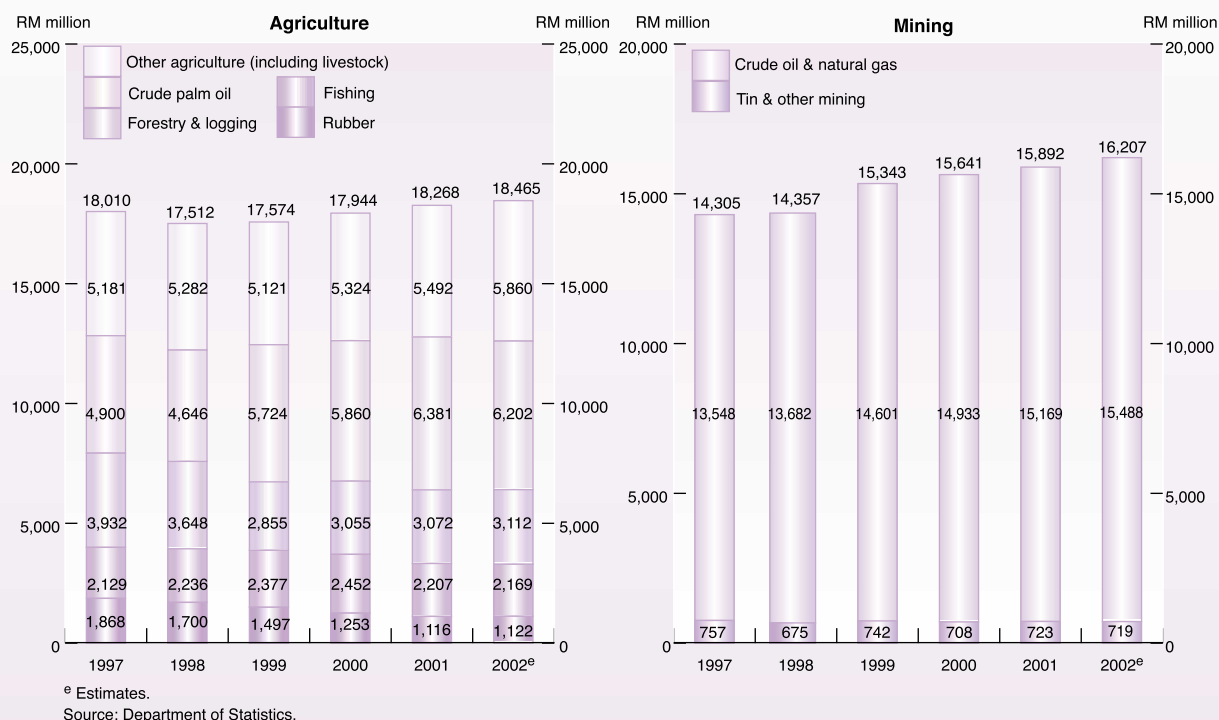


TABLE 2.6

Rubber Area, Yield and Production 2001-2002

			Change (%)	
	2001	2002 ^e	2001	2002 ^e
Total area ('000 hectares)	1,389.3	1,348.4	-2.9	-2.9
Smallholdings	1220.6	1203.1	-1.9	-1.4
Estate	168.7	145.3	-9.3	-13.9
Yield (kg per hectare)				
Smallholdings	900	920	5.9	2.2
Estate	1200	1220	4.3	1.6
Total production ('000 tonnes)	547	550	-5.7	0.5
Smallholdings	444.7	450.0	-5.7	0.5
Estate	99.5	100.0	-5.7	0.5
% of world production	8.3	8.1	-6.7	-2.4

^e Estimates.

Source: Ministry of Primary Industries and Department of Statistics.

under rubber, estimated to be 1,348 million hectares in 2002 (2001: 1,389 million hectares), as shown in *Table 2.6*, decreased by 2.9%. In order to sustain the rubber industry, various efforts continue to be undertaken by the Government, which include increasing productivity, encouraging downstream processing of rubber and co-operating with other rubber-producing countries to stabilise the price of rubber. The bulk of rubber produced comprises Standard Malaysian Rubber (SMR) 75.5%, followed by latex 20% and Ribbed Smoked Sheet (RSS) 4.5%.

Recent developments in the Government's efforts to boost the rubber sub-sector has resulted in the formation of the International Tripartite Rubber Co-operation (ITRCo) among Malaysia, Indonesia and Thailand. In an effort to increase and stabilise the price of rubber at a fair and acceptable level, the three countries agreed to implement two instruments, namely, the Supply Management Scheme (SMS) and the Agreed Export Tonnage Scheme (AETS). The SMS is aimed at reducing

rubber production by 4% through the diversification of cultivation, limiting new cultivation and expediting the replanting programme. On the other hand, AETS is aimed at reducing exports from member countries by 10%. For the period January to June 2002, the price of rubber rose on an average by 10%. This augurs well for ITRCo, as the increase is in line with the objective of its establishment, as declared on 12 December 2001 in Bali. The Bali Declaration was formalised by an agreement signed on 7 August 2002.

Under sustainable forest management policy, the total hectareage for the annual allowable extraction of permanent forests was reduced under the Eighth Malaysia Plan. Hence, the overall production of **saw logs** is not expected to experience any significant increase. Only Sarawak, with much higher timber resources still maintains the bulk of the output and is expected to increase production by 15% to 14 million cubic metres (m³). In contrast, the production of saw logs in Peninsular Malaysia and Sabah is expected to decline by 3.7% to 4 million m³ and 15% to 2.2 million m³, respectively. Similarly, sawn timber production is expected to decline in Peninsular Malaysia and Sabah by 10% and 5.6%, respectively, while in Sarawak output is projected to increase by 10.5%, mainly for the export markets in the Middle East and East Asia. On the whole, the overall production of sawn timber is projected to decline by 4.1%.

Value added in the **fishing sub-sector**, which accounts for 11.7% of agriculture sector comprises marine landing and aquaculture harvest, is expected to decrease by 1.7% in 2002. Developments in the fishing industry suggest that there is a growing interest in aquaculture as a complement to marine fishing. Aquaculture offers enormous investment opportunities in the rearing of fresh water fish (red tilapia, catfish, *patin*, *jelawat*, *haruan* and *kekutu*), marine fish (garupa and *siakap*), prawns and ornamental fish (arowana, gourami, cichlid, discus, angel, koi, barb, guppy, *ikan laga* and goldfish).

A total of 290,200 hectares of land and water areas has been identified as suitable for the development of various aquaculture projects. The 5.8% increase in output for the year in aquaculture

indicates its potential as compared to the 2.7% reduction in output for marine fishing. The enhanced interest in aquaculture is the result of the Government's efforts to further promote and develop this industry. Furthermore, advancements in aquaculture technology and higher success rates in aquaculture cultivation, which has reduced cost, helped to attract more entrants into the industry.

Other agriculture, which comprises livestock, cocoa, *padi* and miscellaneous agriculture, is envisaged to expand by 6.7% and contribute almost one-third of the share to total agriculture value added. **Livestock** value added is expected to grow by 6.3%, attributable to increase in the production of beef by 15.3% and mutton by 12.8%, as shown in *Table 2.7*. Production of swine, poultry, eggs and fresh milk is anticipated to expand by 6.6%, 6%, 5% and 10%, respectively. The production of **cocoa** is envisaged to grow by 3.9 % to a level of 60,000 tonnes. The contributing factors are the wet weather expected during the second half of the year and the ongoing rehabilitation programme, which will boost yields by about 11.1%. Of the total production, 70.7% is from smallholders and the balance, from the estates. In contrast, total hectareage under cocoa is expected to decrease by 6.4% to 65,000 hectares with the switch to other more profitable crops. In line with the Government's efforts to increase food production, area under ***padi*** cultivation is expected to increase in acreage by 5.6% to 701,000 hectares in 2002. At the same time, concerted efforts were undertaken to increase productivity and efficiency of the sub-sector through the upgrading of related infrastructures, increasing yield per hectare, reducing production cost and upgrading cultivation management. As such, *padi* production is expected to chalk up a much higher growth of 22.4%, as shown in *Table 2.7*.

Miscellaneous agriculture products, which include fruits, copra, vegetables, tobacco, tea, flowers, pepper, pineapples and others, are expected to register an increase of 9.8% in value-added for this year. Among export-oriented commodities, pepper is envisaged to increase by 18.5% on account of higher external demand. The production of tobacco (including dry tobacco leaves) is also anticipated to expand significantly

TABLE 2.7

Production of Other Agriculture
('000 tonnes)
2001-2002

	Production		Change (%)	
	2001	2002 ^e	2001	2002 ^e
<i>Padi</i>	2,100.0	2,570.0	52.5	22.4
Cocoa	57.7	65.0	-17.9	12.7
Pepper	25.4	30.1	1.6	18.5
Tobacco ¹	75.7	100.9	5.2	33.3
Fruits ²	1,580.0	1,585.7	71.0	0.4
Livestock				
<i>Meat</i> ³	953.1	1,013.2	6.8	6.3
<i>Eggs</i> ('000) ⁴	6,997.0	7,347.0	5.3	5.0
<i>Milk</i> ('000) ⁵	32.7	35.9	10.5	10.0
Flowers (million) ⁶	101.6	101.6	-3.8	0.0
Tea	22.6	-	-4.9	-
Vegetable	1,030.0	1,060.0	-	2.9
Copra	2.3	2.2	-	-4.3

¹ Green and dry tobacco leaves.

² Consists of starfruit, papaya, jackfruit, *ciku*, durian, guava, *langsats*, mangoes, mangoesteen, pineapples, banana, *rambutan*, watermelon, and other tropical fruits.

³ Including beef, poultry, swine and mutton.

⁴ Number.

⁵ Litre.

⁶ Cuttings.

^e Estimates.

Source: Ministry of Agriculture,
Ministry of Primary Industries.

by 33.3% as a result of better weather conditions and incentives such as seedlings, fertilisers and ploughing equipment provided by cigarette manufacturers. These are complemented by infrastructure and other support services given by the National Tobacco Board (LTN). The output of vegetables is anticipated to increase by 2.9% whilst the output of flowers is expected to remain unchanged as no suitable areas have been identified for flower cultivation. Fruit production, is expected to expand marginally by 0.4%, as shown in *Table 2.7*. In terms of export value, papaya is the biggest contributor, registering RM111.7 million worth of exports to major markets such as Hong Kong, Singapore, Saudi Arabia, United Arab Emirates (UAE) and France. This is followed by watermelon, contributing RM51.8 million. Other potential fruits for export include mango, *ciku* and starfruit.

Mining Sector

The mining sector continues to expand...

Value added of the **mining sector** is anticipated to expand marginally by 2% (2001: 1.6%), as shown in *Table 2.8*. The contribution is mainly from the higher production of oil and gas expected during the second half of 2002, following an increase in demand and available production capacity.

During the first six months of 2002, **crude oil** production including condensates averaged 683,200 barrels per day (bpd), reflecting a 1.3% increase compared to the same period in 2001. Similarly, production for the whole year is envisaged to increase by 2.1% , as shown in *Table 2.9* with an average of 682,000 bpd (2001: 668,200 bpd) based on the yearly work programme budget for the year. To ensure the sustainability of the country's oil reserves, production of crude oil, excluding condensates, is maintained at 600,000 bpd in line with the target set under the National Depletion Policy. Current crude oil reserves stand at 3.2 billion barrels and Petroliaam Nasional Berhad (PETRONAS) is continuing its efforts to increase the country's oil reserves by venturing into deep sea exploration and investing in advanced technologies to identify new fields as well as enhancing the oil recovery rate in existing fields.

The production of **natural gas** for the first six months contracted by 8.8% to 756,000 million standard cubic feet (mmscf) compared with 828,500 mmscf during the same period in 2001. However, total production projected for the year is anticipated to increase by 6.3% to 4,864 million standard cubic feet per day (mmscfd) (2001: 4,577 mmscfd). This is primarily due to higher domestic consumption of natural gas which is projected to increase by 16%. On the whole, natural gas consumption for Peninsular Malaysia is expected to rise by 20% to about 2,000 mmscfd. Natural gas reserve is currently estimated to be 87.5 trillion standard cubic feet. To further ensure the sustainability of the country's energy resources, the fuel diversification policy, which initially covered the use of oil, coal, gas and

TABLE 2.8

**Value Added in the Mining Sector
2001-2002**

	RM million		Change (%)	
	2001	2002 ^e	2001	2002 ^e
Mining sector	15,892	16,207	1.6	2.0
Crude oil & natural gas	15,169	15,488	1.6	2.1
Other mining	723	719	2.1	-0.6

^e Estimates.

Source: Department of Statistics.

hydro, has been expanded to include renewable energy, such as biomass, biogas, municipal waste and solar, as the fifth fuel.

Tin output, however, declined despite the increase in demand, due mainly to the reduction in the number of active tin mines. Out of 32 active mines reported at the end of March 2002, only 19 were considered to be productive and even these are operating near the end of their leasing periods. Furthermore, the tin obtained are of lower grade and from greater depth, thereby increasing production cost.

TABLE 2.9

**Production of Crude Oil and Natural Gas
2001-2002**

			Change (%)	
	2001	2002 ^e	2001	2002 ^e
Crude oil ('000 bpd) ¹	668.2	682.0	-1.8	2.1
Natural gas (mmscfd) ²	4,577	4,864	3.6	6.3

¹ Including condensates.² Excluding flaring and reinjection.^e Estimates.

Source: PETRONAS.

Construction Sector*Public works and housing segment continues to boost the sector...*

Growth in the **construction sector** continued to be bolstered by projects implemented under the fiscal stimulus programme and housing development, thus contributing to a stronger growth of 3.8% in 2002 (2001: 2.3%), as shown in *Chart 2.8*. At the same time, the Government reviewed procedures, rules, and guidelines as well as established a special task force to ensure that the implementation of public and privatised projects are carried out as scheduled and, therefore, produce the intended impact.

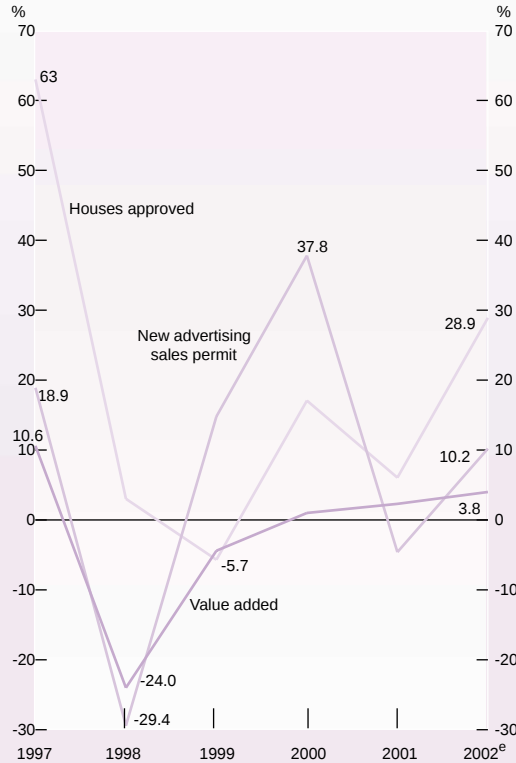
Housing property development continued to remain strong, due mainly to the stable and low interest rate. At the same time, the Government's extension of the stamp duty exemptions for the purchase of houses for another six months from January to June 2002, has managed to stimulate demand further.

The Government continued its efforts to increase the number of low-cost houses for the lower income group. Towards this end, a total of RM943 million was allocated for several low cost housing projects in 2002. Under the Public Low-Cost Housing Programme and People's Housing Project, a total of 11,200 units of low-cost houses is expected to be built compared to 7,700 units in 2001, a significant increase of 45%. At the same time, this initiative is complemented by several other special schemes, set up to build low-cost houses to be financed under the various funds, such as the Fund for the Hard Core Poor, the Fund to Accelerate the Construction of Low-Cost Housing and the Low-Cost Housing Revolving Fund.

The Government continued to monitor and address the issue of property overhang especially **commercial space**. Towards this end, the directive to local authorities not to approve any new construction of office and commercial space, except in special cases, to discourage further addition to property stock continues to be enforced. During the first quarter of 2002, the number of unsold industrial units recorded a reduction of 8.7% while vacant space in shopping

CHART 2.8

Construction Sector: Value Added and Key Indicators (% change)



^e Estimates.

Source : Department of Statistics and
Ministry of Housing and Local Government.

complexes was reduced marginally by 1.1% compared to the last quarter of 2001. In contrast, purpose-built office vacancy increased marginally by 0.7% during the same period.

Services Sector

Government strategy propels the services sector...

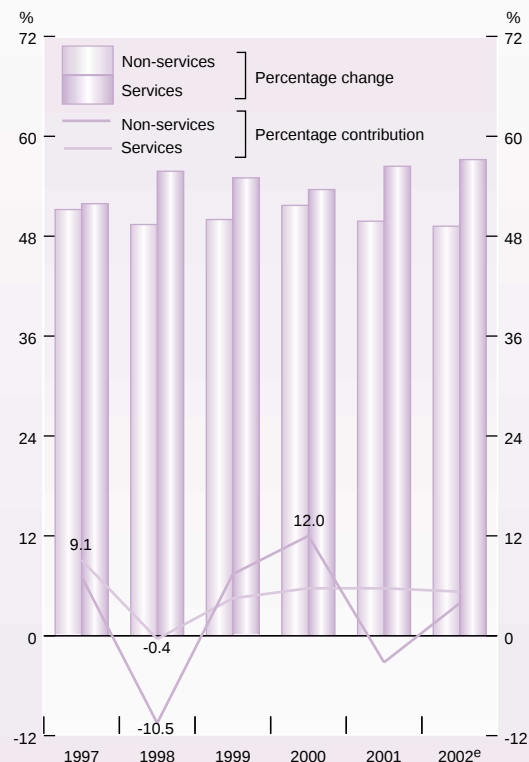
The Government's strategy to diversify sources of growth of the economy has contributed significantly to the growth of the services sector. In 2002, the services sector is expected to expand by 5.3% (2001: 5.7%) as shown in *Chart 2.9*. The sector remains the largest contributor to growth and accounts for 57% of total real GDP

(2001: 56.6%). Within the sector, growth will continue to be broad based, with bigger increases coming from the wholesale and retail trade, hotels and restaurants as well as the finance, insurance, real estate and business services sub-sectors.

The **wholesale and retail trade and hotel and restaurants** sub-sector is estimated to increase by 3.8% (2001: 3%). The stronger expansion is attributed to an increase in consumer spending and sales activity as a result of higher overall economic growth. Sales of motor vehicles increased to an average of 31,630 units per month in the first half of this year compared to an average of 26,382 units per month in 2001, a hike of 19.9%. Import of consumption goods during the first six months of 2002 increased by 8.9% as against -1.4% during the same period of 2001.

CHART 2.9

Services and Non-Services Sectors: Percentage Change and Contribution to GDP

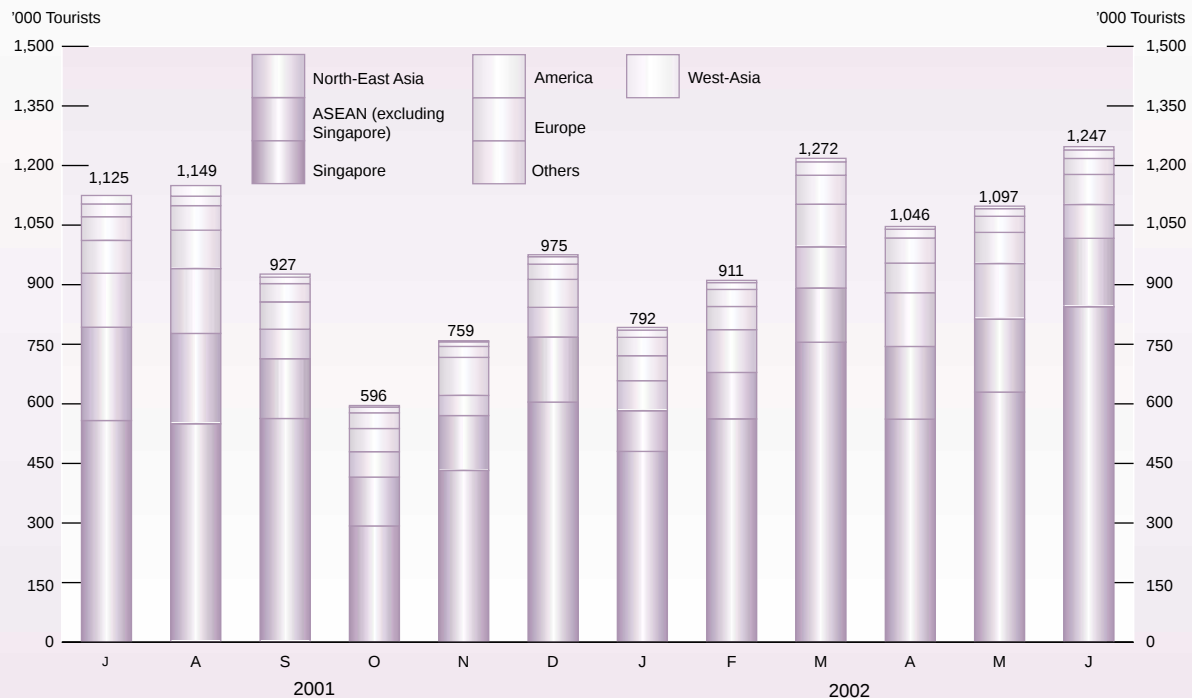


^e Estimates.

Source: Department of Statistics.

CHART 2.10

Tourist Arrivals in Malaysia (July 2001 - June 2002)



The Government's efforts to expand and develop the tourism industry have succeeded in increasing its contribution to the services sector. To further capture a bigger share of the tourism market, greater emphasis has been given to tourism promotion and product development with the setting up of the Tourism Fund totalling RM400 million by injecting an additional RM200 million in 2002. New tourism products in the pipeline are yachting, eco-tourism, agro-tourism, cultural and heritage tourism, sports tourism and health tourism. Tourist arrivals are expected to continue to show an improving trend in 2002 as shown in *Chart 2.10*. From January to June 2002, tourist arrivals averaged about 1.1 million mainly from the ASEAN countries, China, Japan, Taiwan and India, as a result of the aggressive promotional and marketing efforts by the Tourist Development Corporation (TDC) and other related agencies to promote Malaysia as the first choice destination

for tourism. With TDC focussing its marketing efforts, in particular towards Middle East countries, the number of visitors from the region is expected to increase further.

A more efficient banking system from the consolidation exercise, better global economic prospects and improved consumer confidence in the economy are among the factors that contributed to a sustained higher value-added growth of 8.2% in the **finance, insurance, real estate and business** sub-sector. An increase of 4% of total loans of the banking system, albeit lower than the 8% loan growth target, to various sectors of the economy is partly attributed to the low base lending rate of bank (BLR) at 6.39% (end-July 2001: 6.79%). The growth in this sub-sector is mainly due to the better performance of the economy which encourages borrowing from banking institutions.

The strong performance of mobile phones and internet services of the telecommunications industry and the rise in local port transshipment activities is expected to continue to contribute to the expansion in the **transport, storage and communication** sub-sector at 5.4% (2001: 7.5%). In respect of the telecommunications sub-sector, the number of cellular telephone subscribers is expected to grow by 38% in the year 2002 due to better services, improved technology and wider coverage. This is in line with the Government's concerted efforts to position Malaysia as a competitive knowledge-based economy, which has resulted in a more rapid development of ICT in the country.

Port development continued to focus on expanding capacity, upgrading and increasing equipment and facilities as well as enhancing the efficiency of ports and port-related activities with the aim of making Malaysian ports regional trading and shipping hubs. This has resulted in a strong performance of container throughput at six major ports, which recorded an increase of 14% from January to May 2002 compared to 2.3% increase in the same period last year. With the relocation of the operations of Maersk Sealand and Evergreen, two of the world's largest shipping companies, from a neighbouring country to Malaysia, the Port of Tanjung Pelepas (PTP) is expected to record a significant increase of 23% in its throughput to 2.5 million TEUs (twenty-foot equivalent units) (2001: 2 million TEUs).

Value added in the **government services** sub-sector, which includes maintaining law and order and general public services, is expected to contribute 4.3% to real GDP compared to 4.6% last year. This increase is mainly arising from the growing need for public services mainly in health, education and security.

The **electricity, gas and water** sub-sector is expected to register a sustained growth of 7.2% (2001: 6.9%). The electricity production index increased at an average 8.8% during the first six months of this year (January-June 2001: 7%) while the sales volume increased by 5.1% (January-June 2001: 5.1%). This is mainly on account of strong demand from the manufacturing sector, which began to turn around in early 2002.

Export Performance

Export growth returns to positive territory...

On the external front, export performance has generally picked up since March 2002, after experiencing negative growth over the previous twelve months on the back of an improving world economic and trade environment. With the gradually increasing momentum of economic recovery in US and the Asia Pacific region during the second half of the year, Malaysia's export earnings are expected to turn around to record a strong growth of 4.5% (2001: -10.4%).

The favourable external demand outlook is mainly driven by the better-than-anticipated export performance of manufactured goods and higher commodity prices. The earnings of manufactured goods, which accounted for 86.5% of the total value of gross exports, are expected to increase strongly by 5.4% (2001: -10.5%) arising from the global pick-up in the demand for electronics and ICT-related products. On the other hand, revenue from minerals is expected to deteriorate by 18.2% (2001: -11.9%) on account of lower volume and prices. However with the prospects of a Middle East war looming, earnings from petroleum may improve. Agricultural commodities are projected to recover firmly after encountering negative growth for two consecutive years. The projected 22.9% increase in export earnings of this sector (2001: -14.7%) is largely attributable to higher prices for palm oil.

Export of Manufactured Goods

Manufactured exports turned around to register positive growth on account of improving global electronics demand...

Manufactured exports are expected to stage a turnaround in 2002, in view of the improving outlook on external demand, particularly in the US and the Asia Pacific region as well as the anticipated recovery of the global electronics industry. With a gradual global economic recovery and a more competitive ringgit arising from the

TABLE 2.10

**Gross Exports
(January-June)**

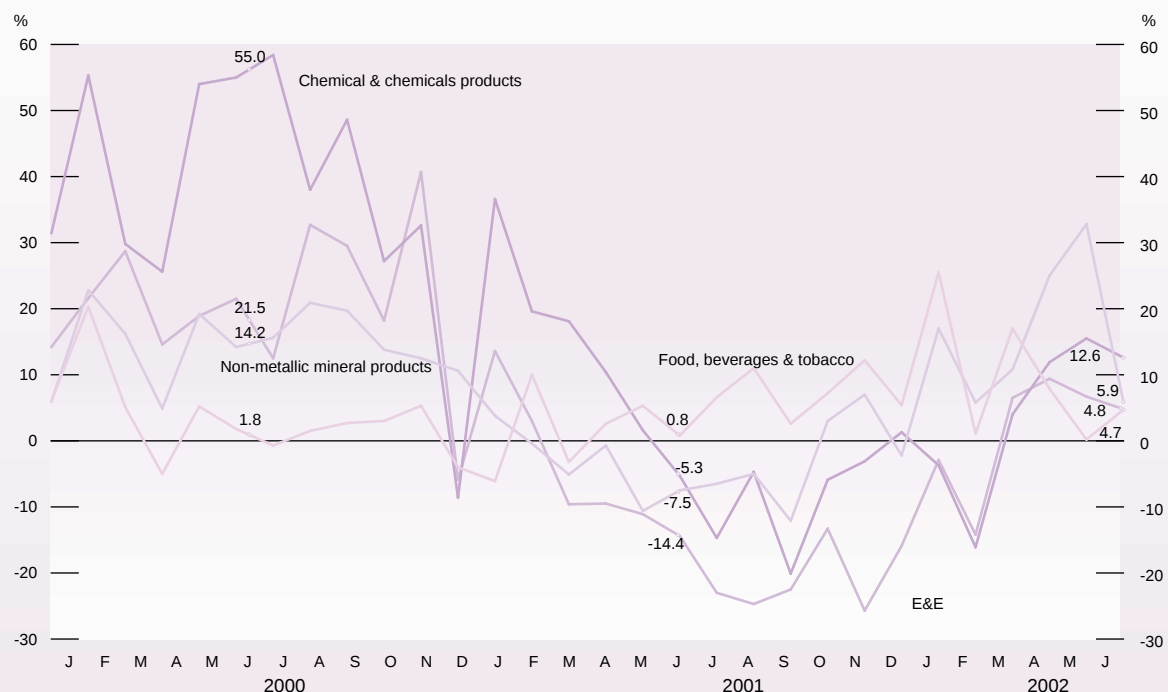
	RM million		Change (%)		Share (%)	
	2001	2002	2001	2002	2001	2002
Manufactured goods:	145,486	146,446	-3.0	0.7	86.1	86.5
Electronics, electrical machinery and appliances	101,188	103,044	-5.7	1.8	59.9	60.9
Textiles, apparel and footwear	4,647	3,964	-6.8	-14.7	2.8	2.3
Wood products	4,518	4,344	-7.8	-3.9	2.7	2.6
Rubber products	2,296	2,246	-1.8	-2.2	1.4	1.3
Food, beverages and tobacco	2,812	3,090	2.4	9.9	1.7	1.8
Petroleum products	5,203	3,781	15.3	-27.3	3.1	2.2
Chemicals, chemical and plastic products	8,792	9,142	11.9	4.0	5.2	5.4
Non-metallic mineral products	1,193	1,384	-3.7	16.0	0.7	0.8
Iron and steel, and metal products	4,328	4,319	3.5	-0.2	2.6	2.6
Transport equipment	1,264	1,660	-10.2	31.3	0.7	1.0
Miscellaneous manufactured products	9,245	9,472	9.6	2.5	5.5	5.6
Major agricultural commodities:	8,050	9,631	-7.8	19.6	4.8	5.7
Palm oil	4,546	6,259	-11.4	37.7	2.7	3.7
Sawn timber	1,177	1,053	-25.0	-10.5	0.7	0.6
Rubber	1,001	1,027	-24.2	2.6	0.6	0.6
Saw logs	751	688	-38.6	-8.3	0.4	0.4
Palm kernel oil	434	505	-26.1	16.3	0.2	0.3
Pepper	113	52	-45.4	-58.8	0.1	0.0
Cocoa	28	47	124.6	66.7	0.0	0.0
Major mining commodities:	12,239	9,778	0.2	-20.1	7.2	5.8
Crude oil	6,337	5,236	-1.7	-17.4	3.7	3.1
LNG	5,683	4,268	2.8	-24.9	3.3	2.5
Tin	219	274	-9.6	25.1	0.1	0.2
Other exports	3,203	3,481	-33.1	8.7	1.9	2.0
Gross Exports	168,978	169,336	-3.8	0.2	100.0	100.0

Source: Department of Statistics.

softening of the US dollar *vis-à-vis* the yen and the euro as well as regional currencies, manufactured exports are poised for a stronger upturn in the second half of the year. Over the first half of 2002, all major geographic regions experienced improvement in semiconductor sales, another indicator that the industry is recovering from the downturn in 2001. In particular, semiconductor sales in the Asia Pacific region, excluding Japan, recovered strongly from -17.8% in first half of 2001 to 19.3% during the same period in 2002. This reflects the increase in outsourcing activity and relocation of operations of multinational corporations (MNCs) from US and the euro area to the Asia Pacific region which is expected to benefit Malaysia.

The Worldwide Semiconductors Trade Statistics forecast global demand for semiconductors to increase by 3% for 2002 compared to a negative growth of 32% in 2001. For the year as a whole, manufactured exports are expected to turn around to register a positive growth of 5.4%, driven by E&E exports, which account for about 70% of total manufactured exports. E&E exports are expected to grow by 6.9% (2001: -13.5%). Similarly, exports of the non-electronic industries are expected to expand by 1.9% (2001: -2.7%), particularly those producing food, chemicals and chemical products, non-metallic products and machinery and transport equipment, as shown in *Chart 2.11*. The improved performance of these industries is attributable to the turnaround in

CHART 2.11

Recovery In Manufactured Exports Becoming More Broad-based

Source: Department of Statistics.

exports to US and increased intra-Asean trade as well as strong demand from China, Hong Kong Special Administrative Region (SAR) and Taiwan.

Exports of electronics recovered and registered positive growth of 8.4% during the first six months (January-June 2001: -10.5%). The sector, which comprises semiconductors and electronic equipment and parts, remained the major contributor to the overall exports of the E&E industry with a share of 51.9% of total manufactured exports. Key export drivers such as semiconductors, printed circuit boards, resistors and transformers returned to positive year-on-year growth for the last four consecutive months since March, showing signs of sustained improvement. Most notably, export of semiconductors to China, Hong Kong SAR and Taiwan increased rapidly with their combined export value exceeding that of US. Exports of household electrical appliances and audio-visual products also recovered and recorded positive

growth of 9.2% and 28.9%, respectively during the first six months of 2002.

Currently, the chemical industry constitutes the second largest manufactured exports, although it only accounts for about 6% of total manufactured export earnings. The local chemical industry, therefore, has the potential to further develop downstream products and to widen its variety of exports. With the objective of diversifying Malaysia's export base, initiatives have been taken including the development of the Eastern Corridor in Peninsular Malaysia equipped with central utility facilities to cater for the cluster of chemical and petrochemical industry. Exports of chemicals and chemical products continued to improve with earnings of RM9,142 million recorded for the first six months (January-June 2001: RM8,792 million), as shown in *Table 2.11*. Exports of plastics in primary form such as polymers and resins, which contributed 18.9% of industry total export earnings, recorded an increase of 11.8% while pharmaceutical exports surged by 14.3%.

TABLE 2.11

**Export of Chemicals, Chemical and Plastic Products
(January-June)**

	RM million		Share (%)		Change (%)
	2001	2002	2001	2002	2002
Organic chemicals	2,549	2,768	28.9	30.3	8.6
Plastics in primary form	1,548	1,731	17.6	18.9	11.8
Chemical materials	1,228	1,182	14.0	12.9	-3.8
Articles of plastic	1,297	1,274	14.8	13.9	-1.8
Fertilisers	332	271	3.8	3.0	-18.3
Others	1,838	1,916	20.8	21.0	4.2
Total	8,792	9,142	100.0	100.0	4.0

Source: Department of Statistics.

Malaysia was one of the top ten furniture exporters last year. Export of wooden furniture and components is fast growing, accounting for 35% of the total wood-based export earnings. Nevertheless, the global economic downturn in 2001 saw its export earnings decline for the first time in 2001 by 8.2%. However, with the improved

global economic performance, the exports of furniture staged a quick recovery of 9.9% to RM1,510 million in the first six months of 2002.

Malaysia is also the major producer of rubber gloves and currently supplies about 70% of the world demand for surgical gloves and 50% for

TABLE 2.12

**Major Destinations of Manufactured Exports¹
(January-June)**

	RM million		Share (%)		Change (%)
	2001	2002	2001	2002	2002
United States	32,351	34,330	22.8	23.6	6.1
Singapore	24,644	25,290	17.4	17.4	2.6
European Union	20,875	18,502	14.7	12.7	-11.4
Japan	17,187	13,680	12.1	9.4	-20.4
Hong Kong SAR	6,787	7,792	4.8	5.4	14.8
China	4,828	6,410	3.4	4.4	32.8
Taiwan	4,146	5,519	2.9	3.8	33.1
Others	31,116	33,973	22.0	23.2	9.2
Total	141,934	145,496	100.0	100.0	2.5

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

Source: Department of Statistics.

examination gloves. While the volume of exports increased by 28.9% in the first six months of 2002, its earnings were flat due to declining export prices as more players entered the market.

As for the export of textiles and apparel, Malaysia continued to face intense competition from low-cost producers. Consequently, export earnings declined by 14.7% in the first six months. Despite the keen competition, the industry players especially in apparel and knittings are expecting sales to improve, given that global economic growth remains on track.

US, Singapore, the European Union (EU) and Japan remain Malaysia's major trading partners, absorbing 63.1% of Malaysia's total exports, as shown in *Table 2.12*. In terms of share to total manufactured exports, US leads with 23.6%, followed by Singapore (17.4%), EU (12.7%) and Japan (9.4%). As for export growth, exports to Taiwan attained the highest rate at 33.1%, followed by China (32.8%), Hong Kong SAR (14.8%) and US (6.1%).

Export of Primary Commodities

Earnings from agricultural commodities increase on account of higher prices...

Export earnings from primary commodities comprising agriculture and mineral products are expected to register RM40,022 million in 2002. Export earnings from **agricultural** commodities in the first half of year recorded an increase of 19.6% due to a higher export value generated by palm oil, rubber and other agriculture sub-sector. Export receipts from the **mining** sector, however, contracted significantly by 20.1% in the first half of the year mainly on account of slower demand of crude oil and liquefied natural gas (LNG). Nevertheless, in the second half of the year, demand for the said mining commodities is expected to improve with demand for energy by importing countries such as Japan and Korea anticipated to rise due to winter requirements. This is envisaged to moderate the decline in export earnings of the mining sector by 18.2% to RM19,398 million.

CHART 2.12

Primary Commodity Exports

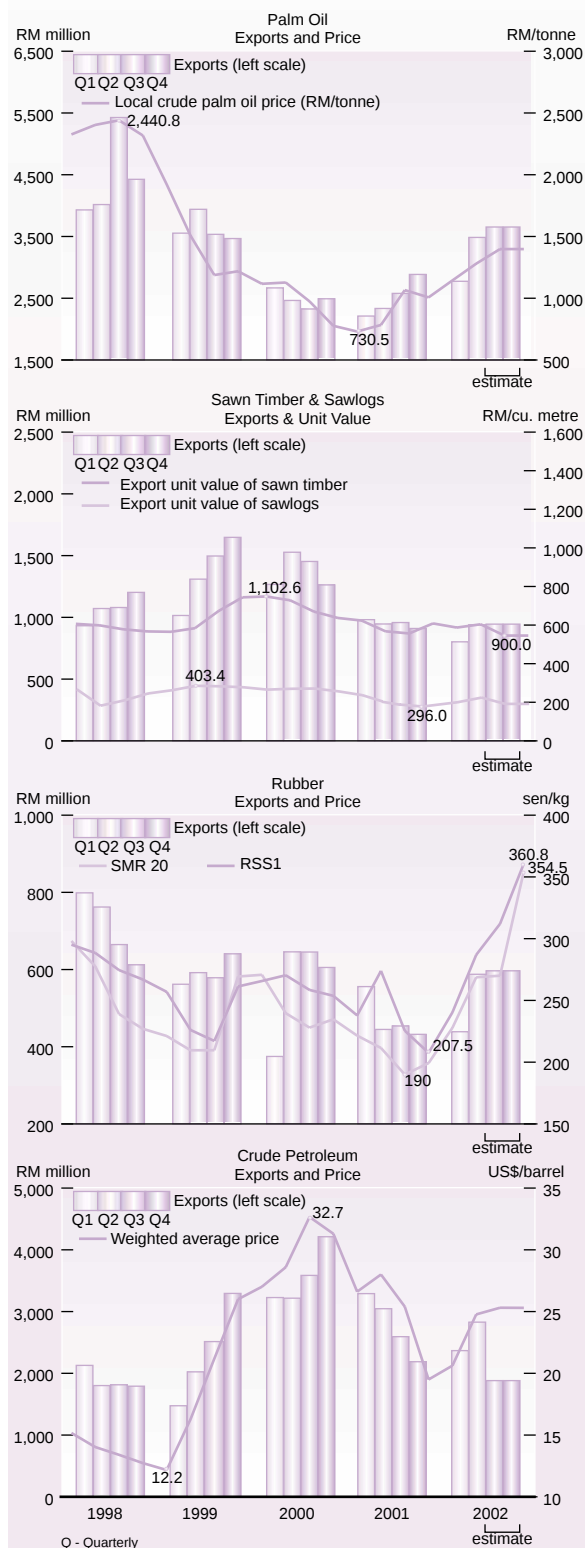


TABLE 2.13

Primary Commodity Exports (January - June)

	2001	2002	Change (%)	
			2001	2002
Palm Oil¹				
Volume ('000 tonnes)	5,339	5,123	30.1	-4.1
Unit value (RM/tonne)	851	1,222	-31.9	43.5
Value (RM million)	4,546	6,259	-11.4	37.7
Palm kernel oil				
Volume ('000 tonnes)	342.7	363.4	46.8	6.0
Unit value (RM/tonne)	1,267	1,390	-49.7	9.7
Value (RM million)	434	505	-26.1	16.3
Saw logs				
Volume ('000 cu. metres)	2,234	2,080	-29.6	-6.9
Unit value (RM/cu. metre)	336	331	-12.9	-1.6
Value (RM million)	751	688	-38.6	-8.3
Sawn Timber				
Volume ('000 cu. metres)	1,239	1,140	-13.8	-8.0
Unit value (RM/cu. metre)	950	924	-13.1	-2.8
Value (RM million)	1,177	1,053	-25.0	-10.6
Rubber				
Volume ('000 tonnes)	416	429	-12.6	3.1
Unit value (sen/kg)	241	239	-13.3	-0.4
Value (RM million)	1,000.5	1,026.6	-24.2	2.6
Pepper				
Volume ('000 tonnes)	14.3	8.7	22.4	-39.3
Unit value (RM/tonne)	7,912	6,018	-55.4	-23.9
Value (RM million)	113	52	-45.4	-53.8
Cocoa				
Volume ('000 tonnes)	8.3	10.2	93.6	21.9
Unit value (RM/tonne)	3,390	4,635	16.0	36.7
Value (RM million)	28.2	47.1	124.6	66.7
Crude petroleum				
Volume ('000 tonnes)	7,963	8,128	-3.1	2.1
Unit value (RM/tonne)	795.76	644.23	1.5	-19.0
Value (RM million)	6,336.7	5,236.3	-1.7	-17.4
Liquefied natural gas (LNG)				
Volume ('000 tonnes)	7,772	6,984	-0.8	-10.1
Unit value (RM/tonne)	731	611	3.6	-16.4
Value (RM million)	5,683.2	4,268.1	2.8	-24.9
Tin				
Volume ('000 tonnes)	11.4	17.8	0.9	56.3
Unit value (RM/kg)	19.32	15.45	-10.4	-20.0
Value (RM million)	219	274	-9.6	25.0
Total Value (RM million)	20,290	19,410	-8.9	-4.3

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

Source: Department of Statistics.

The lower production of **palm oil** is translated into a lower volume of export, which is expected to decline by 3.3% for the year. This, however, is compensated by higher prices, which have been on a bullish trend since November 2001. As such, export receipts surged by 37.7%, as shown in *Table 2.13*, mainly on account of an increase in unit value by 43.5% to RM1,222 per tonne. Similarly, export receipts from **palm kernel oil** increased by a hefty 16.3% to RM505 million during the same period. Total export earnings from palm kernel oil is envisaged to increase by 11.6% to RM942 million. As for **saw logs**, export receipts are estimated at RM1,450 million for the whole of 2002, following an anticipated decline in export volume by 10.7%. Correspondingly, **sawn timber** export receipts is forecast to increase by 2.7% to RM2,233 million, following an anticipated improvement in the unit value (10%) in the second half of the year.

The total export for **rubber**, the bulk of which is SMR, is projected to contract by 9.8% for the whole of 2002. This is partly due to the reduction in the total area under rubber cultivation and also the reduction of exports by 10% as determined by ITRCo under the Bali Declaration 2001. In contrast, the price of rubber, which has been on the upward trend since the early part of the year, is anticipated to record a 32% jump to about 300 sen per kilogram. This is due to a combination of factors affecting supply and demand. On the supply side, members of ITRCo restricted exports while the increase in production of rubber anticipated after a wintering season did not materialise. On the demand side, demand has increased on the back of the recovery of the tyre and automobile industries as well as the relaxation of import restrictions by China.

During the first six months of 2002, export receipts from **cocoa** beans increased by 66.7% to RM47.1 million because of the surge in export unit value of 36.7% to RM4,634.67 per tonne. For the entire year, export receipts are expected to increase significantly by 38.3% to RM78.7 million on account of the anticipated increase in unit value by 23% to RM4,300 per tonne. With respect to **pepper**, given the excess supply in the

international market, the export unit value of pepper is expected to decline to RM5,200 per tonne. The export volume is also expected to decline by 2% to 25,000 tonnes. Consequently, export receipts are envisaged to decrease by 30.6% to RM130 million. The export volume of **crude petroleum** is expected to decrease by 8.8% to 13.4 million tonnes (2001:14.7 million tonnes), while its price projected to stabilise at around USD24.00 per barrel (2001: USD24.92). Therefore, export revenue from crude petroleum is projected to decline by 9.8% to RM8,792 million (2001: RM9,751 million). Similarly, the unit value of **LNG** exports is forecast to record a huge decline of 23.2%, while its export volume is envisaged to decrease by a marginal 1.9% to 15.2 million tonnes. This translates into a projected decline in export earnings by 24.7% to RM10,184 million.

Import Performance

Rising imports, particularly in intermediate goods reflect improving business confidence...

With improvements in business and consumer confidence, the gross value of **imports**, including cost, insurance and freight (c.i.f.), during the first six months of 2002, turned around to increase by 2.4% (January-June 2001:-2.5%). This trend is likely to continue through the rest of the year with growth estimated at 6.4% for 2002 (2001:-9.9%), underpinned by a higher volume as price increases marginally. The acceleration in imports is mainly due to a rise in imports of intermediate and consumption goods, which expanded by 1% and 8.9%, respectively (January-June 2001: -4.2% and -1.4%), and accounts for 71.5% and 6.2% of total imports.

Import of **intermediate goods**, in particular, grew in response to the rebound in manufacturing output as well as inventory adjustments. With higher production in the electronic industry resulting from the recovery in the US economy and in global IT-related demand, import of thermionic valves and tubes increased significantly by 9.9% (January-June 2001: -10.8%). In tandem with improvements in the domestic business climate, import of parts and accessories for

transport equipment continued to surge significantly by 38.8% (January-June 2001: 34.2%), reflecting the favourable performance of the motor assembly industry and passenger car sales. Given that capacity utilisation in the manufacturing sector was below its optimum level, demand for imported fuel and lubricants contracted by 19.2% (January-June 2001: 9.1%). Import of industrial supplies and parts and accessories of capital goods (excluding thermionic valves and tubes) also recorded a negative growth of 2.3% and 9.2%, respectively. This was partly attributable to the softening of private investment during the first half of the year. With sustained consumer spending on food and beverage, import of primary and processed materials and components used in the food and beverages industry increased by 4.3%.

Import of **capital goods**, which represent 15.4% of total imports, decreased by 1% after recording a growth of 6.9% during the same period last year. Given the excess capacity in the domestic economy, imports of capital goods of other than transport equipment (industrial) recorded a decline of 10% (January-June 2001: 6.2%). Concurrent with Government efforts to modernise and upgrade the transportation system, import of transport equipment for industrial purposes continued its upward trend and expanded strongly by 106.6% (January-June 2001: 16.5%).

In line with sustained private consumer spending, imports of **consumption goods** strengthened by 8.9% (January-June 2001: -1.4%). All categories of consumption goods recorded an expansion, as shown in *Table 2.14*. Notable increases were registered for imports of transport equipment (private) and other consumer goods, which increased by 17.2% and 13.6% (January-June 2001: 46.8% and -9.1%), respectively. Imports of non-durables including perfumery, cosmetics and toilet preparations grew by 7.3% (January-June 2001: 4.6%). The import of consumer durables comprising amongst others, household electrical and non-electrical products, sporting and optical goods as well as musical instruments rose by 21% (January-June 2001: -14.1%), while imports of semi-durables including clothing and footwear, household furnishings and others expanded by 17.1% (January-June 2001: -19%).

TABLE 2.14

**Gross Imports by End Use
(January-June)**

	RM million		Change (%)		Share (%)	
	2001	2002	2001	2002	2001	2002
Capital goods	22,880	22,646	6.9	-1.0	16.0	15.4
Capital goods (except transport equipment)	21,124	19,016	6.2	-10.0	14.8	13.0
Transport equipment (industrial)	1,756	3,630	16.5	106.6	1.2	2.4
Intermediate goods	103,893	104,902	-4.2	1.0	72.5	71.5
Food and beverages, primary and processed mainly for industry	2,146	2,237	17.4	4.3	1.4	1.5
Industrial supplies, primary and processed	31,935	31,191	-4.4	-2.3	22.3	21.3
Fuel and lubricants primary and processed	6,128	4,948	9.1	-19.2	4.3	3.4
Parts and accessories for transport equipment	2,561	3,556	34.2	38.8	1.8	2.4
Parts and accessories of capital goods (except thermionic valves and tubes)	22,018	19,983	1.0	-9.2	15.4	13.6
Thermionic valves and tubes	39,105	42,987	-10.8	9.9	27.3	29.3
Consumption goods	8,312	9,053	-1.4	8.9	5.8	6.2
Food and beverages, primary and processed mainly for household consumption	3,475	3,555	10.8	2.3	2.4	2.4
Transport equipment (non-industrial)	62	73	46.8	17.2	0.1	0.1
Other consumer goods	4,775	5,425	-9.1	13.6	3.3	3.7
Durables	925	1,119	-14.1	21.0	0.6	0.8
Semi-durables	1,780	2,084	-19.0	17.1	1.3	1.4
Non-durables	2,070	2,222	4.6	7.3	1.4	1.5
Others (including dual use goods)	5,023	6,154	-6.7	22.5	3.5	4.2
Imports for re-export	3,129	3,901	-4.4	24.7	2.2	2.7
Gross Import	143,237	146,656	-2.5	2.4	100.0	100.0

Source: Department of Statistics.

Direction of Trade

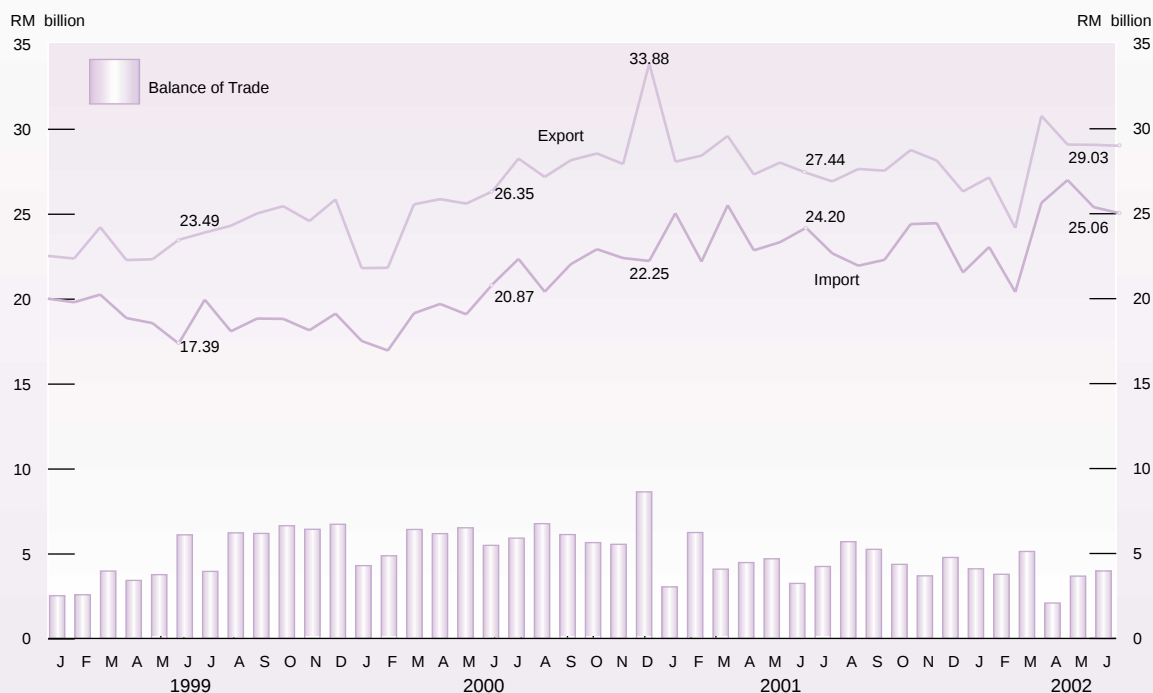
US, Japan and Singapore remain the major trading partners, with new markets emerging...

Given the positive turnaround in export growth and the acceleration in import growth, Malaysia's total trade recorded a moderate increase of 1.2% to RM316,022 million during the first half of 2002 (January-June 2001: -3.2%; Annual 2001: -10.2%), as shown in *Chart 2.13 and Table 2.15*. With exports increasing at a slightly lower rate of 0.2% compared to imports (2.4%), the external trade surplus, although continuing to narrow, remained at a sizeable level of RM22,710 million

during the period under review (January-June 2001: RM25,816 million). This favourable external trade balance position has remained in surplus for 56 consecutive months since November 1997.

In terms of direction of trade, the three traditional major trading partners of US, Japan and Singapore continued to account for the bulk of Malaysia's total trade at 48.6% (January-June 2001: 50.7%). However, the contribution by these three major trading partners has reduced slightly as trade with other regions, particularly ASEAN (excluding Singapore) and North-East Asia (excluding Japan) accelerated. The change in the external trade structure is in line with the Government's strategy to diversify into non-

CHART 2.13

Balance of Trade

Source: Department of Statistics.

traditional overseas markets. Consequently, the share of Malaysian trade with these two regions has increased to 30.7% of total trade during the period under review (January-June 2001: 26.5%).

With the continued recovery of the **US** economy, trade activities with the country expanded strongly, accounting for 19.4% of total trade for the first half of 2002 (January-June 2001: 18.6%). As a result, the US remains Malaysia's largest trading partner since 1997. Although growth of imports from the US (7.1%) was higher compared to exports (4.8%), Malaysia continues to register a fairly high trade surplus of RM9,681 million (January-June 2001: RM9,768 million). Major export items to the US were portable digital automatic data processing and storage unit, parts and accessories for automatic data processing machines, as well as walkie-talkies which account for the bulk (28.2%) of total exports to the US.

Main imports from the US were parts for electronic integrated circuits and micro-assemblies, aeroplanes and other aircraft, circuits combination of bipolar and mos technologies.

Despite some signs of recovery already taking place, the overall slowdown of economic activity in **Japan** has somewhat affected the demand for Malaysian products. As such, during the first half of the year, exports to Japan deteriorated sharply by 20.7%. Imports from the country decreased significantly by 10.4% during the same period, partly due to higher cost of Japanese products arising from the strengthening of the yen vis-à-vis ringgit. This development has relegated Japan from the second to the third position as Malaysia's trading partner. However, the trade balance continued to be in favour of Japan as Malaysian exports to the country declined (-20.7%) more rapidly than the rate of

imports (-10.4%). Major export categories consist of LNG, parts and accessories for automatic data processing machines, petroleum and crude oil while imports were mainly parts for electronic integrated circuits and microassemblies, oil and gas pipeline, motor vehicles cylinder and piston engine and mounted piezo-electric crystals.

With a lower external trade with Japan, **Singapore** is now Malaysia's second largest trading partner. However, its share of total trade fell further to

14.9% (January-June 2001: 15.1%), largely due to the continuing decline in imports by another 4.8% (January-June 2001: -8.2%). The decline in imports from Singapore reflects an increase in direct foreign trade through local ports. Exports, however, picked up moderately by 2.8% (January-June 2001: -9.1%). As receipts of exports were more than that of imports, Malaysia continues to register a trade surplus of RM11,545 million against Singapore (January-June 2001: RM9,858 million). Items such as parts and accessories

TABLE 2.15

Direction of External Trade (January-June 2002)

	Exports		Imports		Trade Balance		Total Trade	
	RM million	Share (%)	RM million	Share (%)	RM million	Share (%)	RM million	Share (%)
United States	35,538	21.0	25,857	17.6	9,681	42.6	61,395	19.4
Singapore	29,304	17.3	17,759	12.1	11,545	50.8	47,063	14.9
Japan	19,161	11.3	25,903	17.7	-6,742	-29.7	45,064	14.3
European Union	21,033	12.4	16,531	11.3	4,502	19.8	37,564	11.9
United Kingdom	4,122	2.4	3,064	2.1	1,058	4.7	7,186	2.3
Germany	3,566	2.1	5,200	3.5	-1,634	-7.2	8,766	2.8
Netherlands	6,498	3.8	1,210	0.8	5,288	23.3	7,708	2.4
France	2,296	1.4	1,958	1.3	338	1.5	4,254	1.3
Ireland	528	0.3	1,405	1.0	-877	-3.9	1,933	0.6
Italy	835	0.5	1,198	0.8	-363	-1.6	2,033	0.6
Other EU countries	3,188	1.9	2,496	1.8	692	3.0	5,684	1.9
ASEAN (excl. Singapore)	15,548	9.2	15,877	10.8	-329	-1.4	31,425	9.9
Thailand	7,327	4.3	6,014	4.1	1,313	5.8	13,341	4.2
Indonesia	3,393	2.0	4,477	3.1	-1,084	-4.8	7,870	2.5
Philippines	2,502	1.5	4,607	3.1	-2,105	-9.3	7,109	2.2
Brunei	456	0.3	6	0.0	450	2.0	462	0.1
Myanmar	450	0.3	141	0.1	309	1.4	591	0.2
Other ASEAN countries	1,420	0.8	632	0.4	788	3.5	2,052	0.7
North East Asia (excl. Japan)	29,622	17.5	30,152	20.6	-530	-2.3	59,774	18.9
China	8,855	5.2	10,481	7.1	-1,626	-7.2	19,336	6.1
Taiwan	6,689	4.0	8,405	5.7	-1,716	-7.6	15,094	4.8
South Korea	5,500	3.2	7,628	5.2	-2,128	-7.6	13,128	4.2
Hong Kong SAR	8,565	5.1	3,635	2.6	4,930	21.8	12,200	3.8
Other NEA countries	13	0.0	3	0.0	10	0.0	13	0.0
West Asia	3,638	2.1	2,313	1.6	1,325	5.8	5,951	1.9
Saudi Arabia	716	0.4	768	0.5	-52	-0.2	1,484	0.5
United Arab Emirates	1,512	0.9	182	0.1	1,330	5.9	1,694	0.5
Yemen	150	0.1	540	0.4	-390	-1.7	690	0.2
Iran	419	0.2	280	0.2	139	0.6	699	0.2
Other West Asia countries	841	0.5	543	0.4	298	1.2	1,384	0.5
Australia	3,638	2.1	2,593	1.8	1,045	4.6	6,231	2.0
New Zealand	556	0.3	623	0.4	-67	-0.3	1,179	0.4
South Asia	4,672	2.8	1,376	0.9	3,296	14.5	6,048	1.9
Central & Eastern Europe	610	0.4	249	0.2	361	1.6	859	0.3
Africa	1,736	1.0	575	0.4	1,161	5.1	2,311	0.7
Rest of the world	4,310	2.6	6,848	4.6	-2,538	-11.1	11,158	3.5
Total	169,366	100.0	146,656	100.0	22,710	100.0	316,022	100.0

Source: Department of Statistics.

for automatic data processing machines, monolithic and hybrid integrated circuits were the main category of exports, contributing to 17.7% of total exports, while motor spirit and premium, monolithic integrated circuits, and combination circuits of bipolar and mos technologies were the main category of imports.

Trade with the **EU** declined, with exports and imports decelerating by 10% and 11.7%, respectively during the first half of 2002. A relatively lacklustre economic performance of the region has resulted in lower external trade. Fortunately, with exports exceeding imports, Malaysia was able to maintain a trade surplus position with the EU of RM4,502 million (January-June 2001: RM4,657 million). Within the EU, Germany is still the leading trading partner, accounting for 2.8% of Malaysia's total trade, followed by the Netherlands (2.4%) and the United Kingdom (2.3%). Total trade with these three economies amounted to RM23,660 million (January-June 2001: RM26,807 million).

In the light of favourable economic environment in the **ASEAN** (excluding Singapore) region arising from the recovery in the world economy, external trade with ASEAN increased strongly by 12.6% to account for 9.9% of total trade in the first half of the year (January-June 2001: -2.6%, 8.9%). However, Malaysia's trade with the other economies was in the latter's favour, amounting to a deficit of RM329 million (January-June 2001: +RM308 million) for Malaysia. This is on account of a stronger import growth of 15% which is relatively higher than that of export (10.2%). Major export categories consist of parts and accessories for automatic data processing machines, parts for electronic integrated circuits and microassemblies, and monolithic integrated circuits, accounting for about 12.4% of total exports. Imports, on the other hand, were mainly natural rubber latex, hybrid integrated circuits, inductor parts and combination circuits of bipolar and mos technologies. Although there was a trade deficit of RM3,189 million against the Philippines and Indonesia, Malaysia continues to achieve a trade surplus with Thailand, Brunei and Myanmar, together amounting to RM2,072 million.

As in the case of the ASEAN region, Malaysia's trade with **North East Asia** (excluding Japan) performed even better during the same period. Trade with this region increased significantly by 25.4% to register a higher share of total trade of 18.9% (January-June 2001: -6.1%, 15.3%). However, Malaysia incurred a trade deficit of RM530 million with this region (January-June 2001: +RM2,815 million) as imports increased strongly by 34.4%, higher than the 17.4% increase in exports. The stronger import growth partly reflects the initiative of Malaysian firms to source imports from other regions, including North East Asia. Within the region, China remained the largest trading partner, accounting for 6.1% of Malaysia's total trade, followed by Taiwan (4.8%), South Korea (4.2%) and Hong Kong SAR (3.9%). Exports to this region comprised mainly digital monolithic integrated circuits, parts and accessories for automatic data processing machines, metal oxide semiconductors and transmission reception apparatus as well as petroleum and crude oil, LNG and palm oil accounting for 31.8% of the total exports. Major items imported from the region were hybrid integrated circuits, printed circuits, parts for electronic integrated circuits and micro-assemblies, metal oxide semiconductors, cathode-ray and colour television picture tubes and parts for works trucks, airports and railway tractors.

External trade with **West Asia** is relatively small, accounting for 1.9% of Malaysia's total trade (January-June 2001: 2.3%). Exports continued its upward trend, increasing moderately by 4.4% (January-June 2001: 11.6%), while imports declined by 36.6% (January-June 2001: 14.5%). The better performance of the external demand reflected the success of Government's efforts to encourage exporters to explore and further diversify export markets, as well as the impact of trade promotions. Hence, Malaysia was able to register a trade surplus of RM1,325 million (January-June 2001: -RM164 million). Within the West Asia region, Saudi Arabia and the UAE were the leading trading partners, accounting for 0.5% each of Malaysia's total trade, followed by Yemen and Iran, contributing to 0.2% each. Export items to the region were mainly articles of jewellery and parts of other precious metals, transport equipment and colour television receivers, while imports comprised mostly petroleum and crude oil.

Balance of Payments

Continues to record a sizeable surplus...

Malaysia's overall **balance of payments** position is expected to record a surplus for the second consecutive year. This is attributable to the surplus in the current account. The surplus in the current account, however, is expected to narrow mainly due to rising deficit in the income account. Despite this reduction, the current account is expected to remain large at RM23,232 million or equivalent to 7.1% (2001: 9%) of GNP. Meanwhile, the financial account is expected to register a smaller outflow suggesting inflows emanating from direct investment and a relatively smaller outflow from other investments.

Despite imports outperforming exports in terms of growth rate, the **goods** component of the current account is forecast to continue to register a surplus of RM68,190 million (2001: RM69,854 million). The surplus is on account of improvements in exports of both manufactured goods and agriculture products. Exports (f.o.b. prices) are envisaged to increase by 4.5% (2001: -10.6%) while imports (f.o.b. prices) are expected to grow at a higher rate of 6.4% (2001: -10.3%).

The **services** component of the balance of payments, which comprises transportation, travel, other services and government transactions, is expected to record a deficit of RM8,695 million (2001: -RM8,366 million), resulting from higher outflows from transportation and other services. The inflow in the transportation account is expected to increase by 1.9% in 2002 (2001: -1.9%), following ongoing efforts by the Government to promote the utilisation of domestic ports and shipping services, particularly Port Klang and PTP as regional transshipment hubs.

Net inflow on the **travel** account, comprising business and personal travels as well as payments for education and pilgrimage, is envisaged to increase by 12.4% after recording a strong growth of 44.7% in 2001. Growth in travel receipts is estimated to increase by 9.8% (2001: 37%) mainly from the expected increase in the number of tourist arrivals of 12.5 million in 2002 (2001:

10.8 million). The intensive promotion to attract tourists through hosting of major international sports events such as the World Cup Hockey and the Malaysian Grand Prix (Formula One) has contributed to the favourable performance in the travel account. Outflows in the travel account are expected to increase but by a much lower rate of 5.4% to RM10,473 million (2001: 26%), largely on account of expenditures on business travel and education.

On **government transactions**, the account is expected to continue to register a small net inflow of RM25 million in 2002 (2001: RM25 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 4.2% to RM467 million (2001: -18.5%). Receipts largely from expenditure by foreign embassies are projected to increase by 4% (2001: -3.1%).

Receipts from investment income, which include mainly returns from the external assets of Bank Negara Malaysia and income from Malaysian investments abroad, are expected to expand marginally by 1.5% to RM5,710 million (2001: -10% and RM5,623 million). As receipts from Malaysian investments overseas is not likely to offset the repatriation of profits and dividends by foreign companies operating in Malaysia, the **investment income** account is envisaged to record a deficit, amounting to RM26,633 million (2001: -RM24,609 million).

Given the presence of large numbers of foreign workers in the country, net outflows associated with **current transfers** comprising largely of remittances by foreign workers is expected to continue to increase to RM8,483 million against RM8,178 million in 2001. Transfer payments is likely to increase by 3.2% (2001: 0.3%), while current transfer receipts are estimated to increase by 0.9% (2001: -29%).

The **financial account**, comprising direct investment, portfolio investment and other investment is expected to improve with the net outflows reducing substantially to RM3,300 million (2001: -RM14,791 million). The **direct investment** account, in particular is expected to record a

TABLE 2.16

Current Account of the Balance of Payments
(RM million)
2001-2002

	2001			2002 ^e		
	Receipts	Payments	Net	Receipts	Payments	Net
Goods	334,326	264,472	69,854	349,471	281,281	68,190
Services account	54,929	63,295	-8,366	59,582	68,277	-8,695
Transportation	10,443	21,795	-11,352	10,640	23,645	-13,005
Travel	26,081	9,933	16,148	28,631	10,473	18,158
Other services	17,932	31,119	-13,187	19,819	33,692	-13,873
Government transactions	473	448	25	492	467	25
Income	7,018	32,641	-25,623	7,199	34,979	-27,780
Compensation of employees	1,395	2,409	-1,014	1,489	2,636	-1,147
Investment income	5,623	30,232	-24,609	5,710	32,343	-26,633
Current transfers	2,040	10,218	-8,178	2,059	10,542	-8,483
Current account	398,313	370,626	27,687	418,311	395,079	23,232

^e Estimates.

CHART 2.14

International Reserves



Source: Bank Negara Malaysia.

net inflow of RM3,000 million (2001: RM1,091 million). In addition, **other investment** account including loans, trade credits and bank deposits is expected to record a smaller deficit of RM6,300 million (2001: -RM13,416 million).

Malaysia's international reserves have been on a rising trend since June 2001, reversing the decline in early part of the year. As at 30th August 2002, Malaysia's international reserves amounted to RM130,128 million (USD34,244 million), an increase of RM12,904 million (USD3,396 million) from the end 2001 level. The current reserves level is sufficient to finance 5.6 months of retained imports. The increase in reserves reflected the continued inflows from trade and foreign direct investment which more than offset the payments for services and external loan repayments.

National Resource Position

Resource position remains strong despite lower savings rate...

In consonance with the build-up of international reserves, Malaysian economic fundamentals are expected to strengthen further, partly supported by a sizeable but lower surplus of RM23,232 million or 7.1% of GNP expected in the **national resource position** in 2002 (2001: RM27,687 million, 9% of GNP). The slightly lower surplus, however, is due mainly to a more moderate increase in **gross national savings** of 3.2% to RM110,781 million or 33.8% of GNP (2001: -13.9%, RM107,372 million, 34.8% of GNP) and a stronger **overall investment** (including changes in stock) expenditure. The expected pick-up in private investment outlay and a moderate increase in public sector development expenditure is envisaged to increase overall investment, which is projected to expand by 9.9% to RM87,549 million or 26.7% of GNP (2001: -14.1%, RM79,685 million, 25.8% of GNP). Conversely, the sustained growth in overall consumption spending in current values, increasing at the rate of 7.8% (2001: 6.9%), and the less rapid expansion of 6.1% in the national income (2001: -1.4%), are expected to reduce gross national savings.

CHART 2.15

Savings Investment-Gap¹



¹ Including changes in stocks.

The level of **private sector** savings is estimated to reduce slightly to 15.3% of GNP in 2002 (2001: 17.6%), resulting from an anticipated higher growth in consumption spending (7.5%) compared to disposable income (3.5%). Nevertheless, the private sector is still likely to maintain a surplus of 4.4% of GNP in its resource position (2001: 6.9%). This ample liquidity in the private sector has enabled the **public sector** to continue to finance its overall deficits partly through domestic sources. The public sector's resource position is, however, expected to be in surplus, but at a low level of 2.7% of GNP (2001: 2.1%), compared to 9.1% of GNP during the 1997 financial crisis. This is due to the impact of the expansionary fiscal policy with investment outlays of 15.8% of GNP, slightly lower than the level of savings rate of 18.5% of GNP.

Prices

Inflation remains low....

Inflationary pressures remain benign amidst slow recovery in both the domestic and global economies, particularly during the first seven months of the year. General prices are, however, expected to be under mild pressure in the second half, following a faster recovery momentum spurred by increasing external and domestic demand. Excess capacity experienced by several sectors that helped to dampen inflationary pressures in the last few quarters is, therefore envisaged to be fully utilised. The Producer Price Index (PPI), which has been experiencing negative growth since mid 2000, has turned around since end-2001, putting some pressure on prices. However, imported inflation is expected to remain low, given the subdued inflation in industrial economies. On the whole, inflation in 2002 is expected to be contained at 1.9%.

Consumer Price Index

Inflation well contained despite slightly higher prices...

For the first seven months of 2002, fewer number of Consumer Price Index (CPI) categories recorded increases in prices compared to the same period last year. Out of the nine major CPI categories, six recorded increases in prices (2001: 8) while the other three categories recorded declines (2001: 1). Generally, the increase in the indices for these major categories were lower, except that of transport and communication, beverages and tobacco as well as miscellaneous goods and services, which recorded higher rates of increases, as shown in *Table 2.17*. In spite of this, the overall CPI increased at a higher rate of 1.8% (January-July 2001: 1.5%), largely due to a significant increase of 6.4% in transport and communication, following the rebalancing of telecommunications tariffs implemented in March and the increase in the price of petrol and diesel in May as well as the fare structure for public transport. Under the telecommunications tariff rebalancing, charges for local calls were revised upward to eight sen for the first two

TABLE 2.17

Consumer Price Index (2000=100)

	Weights	Annual Change (%) (Jan-July)		
		2001	2001	2002
Total	100.0	1.4	1.5	1.8
Food	33.8	0.7	0.7	0.6
Beverages and tobacco	3.1	4.8	4.7	5.0
Clothing and footwear	3.4	-2.6	-2.4	-2.4
Gross rent, fuel and power	22.4	1.4	1.5	0.8
Furniture, furnishings and household equipment and operation	5.3	0.1	0.1	-0.4
Medical care and health expenses	1.8	2.9	2.8	2.4
Transport and communication	18.8	3.6	4.0	6.4
Recreation, entertainment, education and cultural services	5.9	-0.1	0.3	-0.1
Miscellaneous goods and services	5.5	0.7	0.5	1.1
Peninsular Malaysia		1.5	1.7	2.0
Sabah		0.6	0.7	0.6
Sarawak		0.8	1.0	0.9

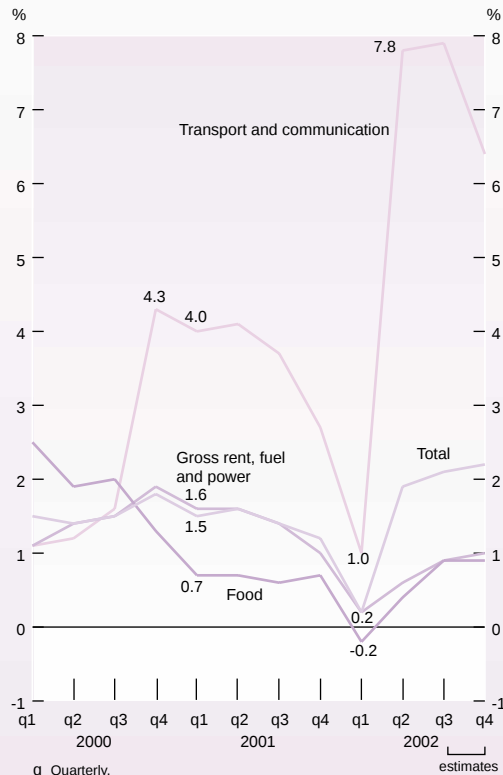
Source: Department of Statistics.

minutes and four sen for each subsequent minute. Charges for long distance calls, on the other hand, were reduced from 13 sen to 10 sen per unit with rates varying based on distance and time. However, as consumers generally make more local calls, the higher tariff for local calls pushed upwards the index for telephone charges and accounted for 45% of the increase in the overall CPI.

Under the automatic pricing mechanism, consumers are charged a fixed price for petrol, diesel and cooking gas, while the Government absorbs price increases in the form of larger subsidies or taxes forgone. At its height, the Government bore RM3.3 billion in terms of subsidy

CHART 2.16

Consumer Price Index (2000 = 100)



in 2001, when the international price of crude oil soared to an average USD24.92 per barrel. To reduce the subsidy as well as ensuring that consumers are not unduly burdened, small increases of two sen per litre for petrol and one sen per kilogram for cooking gas were announced in May 2002.

The higher prices for fish, milk and eggs as well as food away from home were offset by declines in prices of meat, sugar, fruits and vegetables, and oils and fats, as shown in *Table 2.18*. Thus, food, one of the major items accounting for about one-third of total household expenditure, recorded only a small increase in prices. With the marginal price increase, food accounted for about 10% of the rise in the CPI compared with 17% last year.

CPI by Income Group

The lower income group fares better...

The price increase had less impact on the CPI by lower income groups compared to the national average. For **income groups earning less than RM1,000 per month**, the increase in price was 1.2%, while for those **earning less than RM1,500**, the increase was 1.4% compared to the higher national average of 1.8%. Similarly, the lower income group was affected by price increases for transport and communication and food. However, given that the lower income group spends less on telephone calls, the higher tariff for local calls had a smaller impact on them, contributing to 56%-59% to the increase in their total CPI, compared to 71% for the national CPI. On the contrary, higher prices for liquor and tobacco, especially the latter, following the increase in sales tax on them of 20% announced in the 2002 Budget accounted significantly for

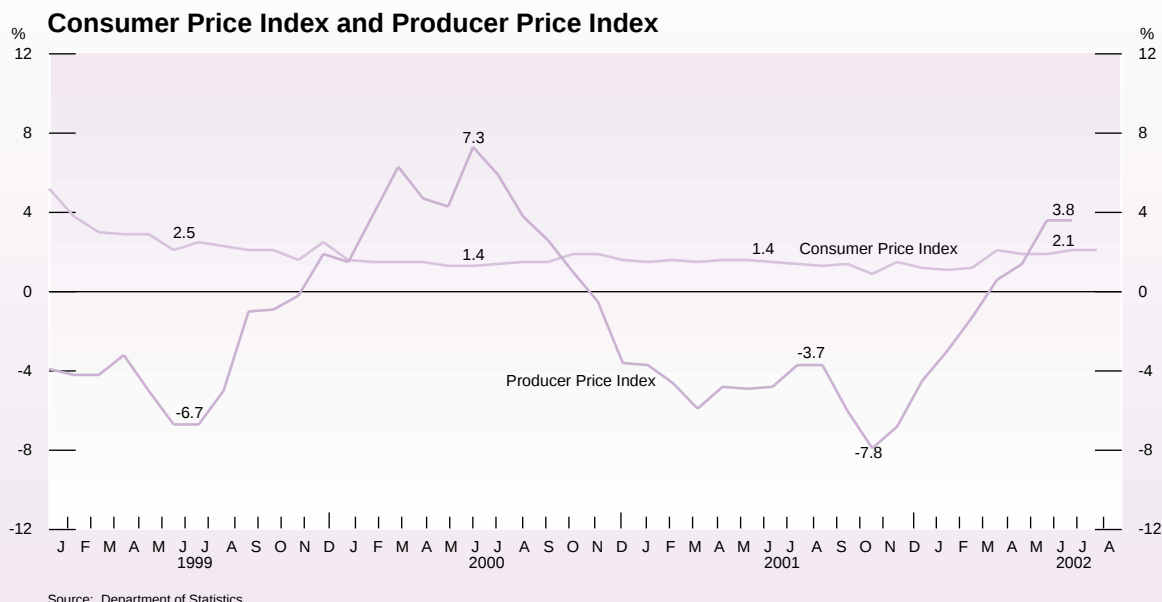
TABLE 2.18

Consumer Price Index For Food (2000=100)

	Weights	Annual Change (%) (Jan-July)		
		2001	2001	2002
Total Food	33.8	0.7	0.7	0.6
Food at home	24.1	0.4	0.3	0.1
Rice, bread and other cereals	5.5	0.2	0.2	0.1
Meat	3.4	0.0	-0.3	-1.6
Fish	4.9	3.5	3.6	1.3
Milk and eggs	2.1	-0.2	-1.2	1.2
Oils and fats	0.8	-6.4	-7.2	0.6
Fruits and vegetables	5.0	-1.0	-0.7	-1.6
Sugar	0.5	-0.1	0.1	-2.1
Coffee and tea	0.8	0.1	-0.1	0.3
Other foods	1.1	-0.2	-0.2	0.2
Food away from home	9.7	1.3	1.5	1.8

Source: Department of Statistics.

CHART 2.17



the increase in the CPI for the lower income group. Therefore, even though beverages and tobacco constitutes a small proportion of about 4.1% of the expenditure of the lower income group, it accounts for the second largest increase of 18.8%-21.8% in the CPI for this group compared to the national level (9.4%).

CPI by Region

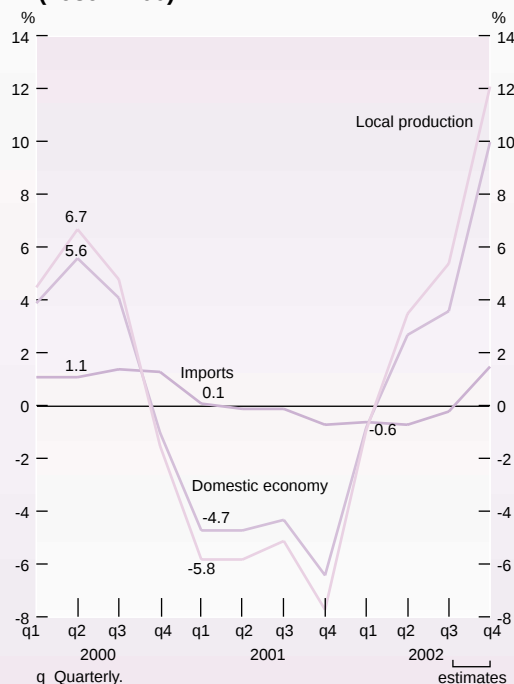
Sabah, Sarawak and the rural areas are less affected by price increases...

Variation in price movements across regions was more pronounced. The CPI for **Peninsular Malaysia** increased by 2%, higher than the national average (1.8%), while for **Sabah** and **Sarawak**, the increase was significantly lower at 0.6% and 0.9%, respectively. In the Peninsular, although food marketing systems are well developed, the region faced constraints especially in the supply of fish, seafood and vegetables. As such, movements in food prices are relatively volatile. During the first seven months of 2002, food prices increased by 0.8%. In contrast, with the abundance of food supply, particularly for seafood and vegetables in Sabah and Sarawak,

prices remained fairly stable. Hence, food prices in Sabah recorded a marginal decline of only 0.7%, while in Sarawak, it remained stable. Rents for residential housing properties account for 81% of consumer expenditure on gross rent, fuel and power. In the Peninsular, with excess supply of residential property and consequently suppressed rents, prices for the category of gross rent, fuel and power increased slightly by 1%. Conversely, in Sabah and Sarawak where demand for rented houses is significantly less as most of the housing property is owner-occupied and the practice of offering discounts over a longer period is prevalent. Hence, the index for this category declined by 0.3%. Variations in price movements for the transport and communication category were also significant and were attributed to the different levels of accessibility and mobility as well as mode of transportation in these three regions. In the Peninsular where people depend more on private transportation, the higher fuel price had a bigger impact on transport and communication. Consequently, the index for transportation and communication for the Peninsular rose higher at 6.9%, whereas in Sabah and Sarawak, with limited road infrastructure and smaller number of private vehicles, the increase was only 4.6% and 4%, respectively.

CHART 2.18

Producer Price Index (1989 = 100)



Source: Department of Statistics.

The CPI in selected **urban areas** was higher at 2% compared to the national average of 1.8%, while for **rural areas**, it was 1.5% mainly due to price differentials for food, transport and communication as well as rent. Food prices in the rural areas were generally lower, increasing only by 0.2% compared with 0.9% in urban areas. Similarly, rentals were also lower in rural areas, increasing by 0.5%. In contrast, people in urban areas spent more on public utilities such as telephone, public transport as well as on leisure, as reflected in higher increases in the indices for these categories.

Producer Price Index

Upturn in PPI following higher commodity prices....

Producer prices continued to increase moderately, except for oils and fats, which recorded a significant turnaround from a decline of 33.8%

TABLE 2.19

Producer Price Index (1989=100)

	Weights	Annual Change (%) (Jan-July)		
		2001	2001	2002
Domestic economy	100.0	-5.0	-4.6	1.3
Food and live animals chiefly for food	14.9	0.4	0.8	0.3
Beverages and tobacco	2.1	1.8	1.5	3.8
Crude materials, inedible except fuels	18.0	-5.9	-6.7	3.4
Mineral fuels, lubricants and related materials	18.8	-10.6	-2.1	-9.3
Animal and vegetable oils and fats	8.5	-17.6	-33.8	50.0
Chemicals and related products n.e.c.	4.4	-1.1	-0.5	-1.3
Manufactured goods classified chiefly by material	10.8	-0.5	-0.2	-0.5
Machinery and transport equipment	18.3	-0.1	-0.4	-0.5
Miscellaneous manufactured articles	3.6	-0.6	-0.4	-0.4
Commodities and transactions not classified elsewhere in the SITC	0.6	10.3	9.0	3.6
Local production	79.3	-5.9	-5.6	1.8
Import	20.7	0.1	0.0	-0.6

Source: Department of Statistics.

for January-July 2001 to an increase of 50%, as shown in *Table 2.19*. Such a sharp turnaround is attributed to a significant increase in the price of CPO, due to a large stock overhang following a bumper harvest over the 1999-2000 period, and exacerbated by a glut in the world oil and fats market, CPO prices fell to a record low of USD240 per tonne in 2001. The price has recovered to reach USD383 per tonne on August 2002. The current dry weather is expected to affect the production and supply of soy oil and, hence, the price of palm oil is projected to remain high at USD375 for the remainder of the year. The index for crude materials also recorded a turnaround from a decline of 6.7% to an increase

of 3.4%. The food and live animals chiefly for food, and animal and vegetable oils and fats categories also experienced similar trends. With these significant increases, these three categories accounted for 42.4% of the increase in the PPI for the period.

The PPI for **local production** increased marginally by 1.8% during the first seven months of 2002, while that of **imports** declined by 0.6%. The small increase in the PPI for local production was mainly due to the higher prices of crude palm oil. Meanwhile, imported inflation remains low as major trading countries experienced subdued inflation. Overall, the PPI for the first seven months of 2002 increased moderately at 1.3% compared to -4.6% during the same period last year.

Outlook for 2003

Economic growth is expected to strengthen further ...

The Malaysian economy is envisaged to strengthen in 2003, led by further improvements in both external and domestic demand. On the supply side, all sectors of the economy are expected to register positive growth rates. The anticipated growth in the global economy and world electronics demand will contribute to a more robust and broad-based growth in the **manufacturing sector**. The agriculture sector is expected to expand stronger with higher palm oil production. Economic expansion will also hasten the pace of growth in the services sector while underlying demand for affordable housing and on-going public projects such as the Bakun Hydroelectric Dam and the double-tracking rail projects will continue to fuel growth in the construction sector. Overall, real GDP growth is expected to accelerate to 6%-6.5% in 2003. With these encouraging economic prospects, GNP per capita is projected to rise further by 5.5% to RM14,098 or USD3,710 (2002: RM13,361, USD3,516), while income in terms of purchasing power parity will also increase by 5.4% to USD8,873 (2002: 3.3%, USD8,418).

Domestic Demand

Private sector is expected to spearhead growth...

With overall economic activities anticipated to gain momentum in 2003, driven by a more entrenched world economic recovery as well as a firm and positive role of the private sector in generating growth, **domestic demand** (excluding changes in stocks) in real terms is expected to continue to increase strongly by 7.3% (2002: 4.8%). **Private sector expenditure** is envisaged to lead domestic economic activities by contributing significantly as much as 5.4 percentage points to GDP growth (2002: 3 percentage points), slightly more than quadruple the 1.3 percentage point contribution of the public sector (2002: 1.3 percentage point).

The strength of private sector is not only reflected in the continuing improvement in consumer confidence but also in terms of a stronger build-up in business sentiments. With the anticipation of improvements in consumer confidence arising from higher disposable income partly due to larger export earnings as well as the positive wealth effect from the improving stock market performance, **private consumption** is likely to increase strongly by 7.6% (2002: 5.9%).

In tandem with more favourable business sentiments and a much improved external environment, the private sector is expected to step up efforts to further inject capital outlays. As such, **private investment** is likely to register a significant and robust growth of 14.4% (2002: 1.8%) in line with the role entrusted to the private sector as the main engine of growth. The services sector, including tourism, education, transportation and ICT-related industries is also envisaged to expand further as greater efforts are being put in place to increase capacity in order to realise its full growth potential.

In line with the consolidation efforts of the Government, **public sector investment** is envisaged to record a much slower increase of 0.5% (2002: 4.1%). This marginal increase is

to finance capacity expansion, including physical infrastructure and info-structure, particularly for rural development as well as enhancing human resource development, especially for improving the quality of education in the primary and secondary levels. **Public consumption** is projected to expand further by 8.5% (2002: 4.7%), mainly to finance operating expenditure in health, education and social services as well as the maintenance of security, law and orders.

Sectoral Outlook

All sectors are expected to accelerate...

External developments and domestic factors point to stronger recovery of the **manufacturing sector**. Growth of the electronics industry, the main driver of the manufacturing sector, is envisaged to gain strength. The SIA forecasts that semiconductor sales are likely to accelerate and grow by 23.2% in 2003, led by strong growth in the Asia-Pacific region, a reflection of stronger intra-Asian trade in electronics and domestic demand growth within Asia.

Most companies in US have cut back on capital expenditure in 2001-2002, including for replacements of PCs due to business uncertainties in 2001 and the lower-than-expected earnings in 2002. As the PCs and other electronics equipment were procured during the internet boom in 1999, replacements would be necessary on account of obsolescence and rapid changes in technologies. Besides, with the estimated life span of PCs averaging around four to five years, the cyclical demand for PCs in 2003 is projected to surge.

In addition, the increased out-sourcing activities by semiconductor producers in US and the EU to contract manufacturers in the Asia Pacific region is projected to continue, and Malaysia is expected to benefit from this trend. Thus, these recent indicators show that the semiconductor industry is poised for a stronger recovery. Given that the strong growth of semiconductor output would also spill over to the supporting industries such as plastics, chemicals and fabricated metals and machinery, a stronger upswing in the overall manufacturing sector is envisaged.

Likewise, growth in domestic-oriented industries is also expected to pick up. This is on account of robust income effect from higher export earnings as well as positive wealth effect given that the stock market is anticipated to trend up in 2003. This trend is expected to spur higher private consumption. Demand of consumer durables including passenger cars should stimulate strong output growth. Thus, the overall value added of the manufacturing sector is expected to register a stronger growth of 8.5% in 2003 (2002: 5.1%).

The outlook of the **agriculture sector** is forecast to increase by 3.4% (2002: 1.1%) largely due to higher production of palm oil. This is on account of expected improved weather condition for 2003 as the mild el-nino effect would have receded earlier in the year after adversely affecting rain fall during the second half of 2002. Apart from that, the yield per hectare is also expected to increase in line with continuing introduction and cultivation of new breed of more high yielding oil palm, rubber and cocoa clones.

Following the strengthening of the domestic economy, the demand for energy is expected to continue to improve, thereby stimulating output of natural gas and crude oil to increase by 16.7% and 1.8%, respectively. As a result, growth of the **mining sector** in terms of value added is anticipated to increase by 2.5%.

The **construction sector** is envisaged to record a higher growth of 4.5% (2002: 3.8%). Public sector infrastructure projects in health and education sub-sectors in particular, as well as for rural development, will continue to drive the sector. Housing development is also expected to contribute significantly to growth in the sector in view of the increasing demand, especially for low and medium-cost houses.

A broad-based growth of 5.9% is expected in the **services sector** for the year 2003 (2002: 5.3%) in tandem with the higher growth for the economy and the strategic thrusts given to develop the sector. In this respect, the electricity, gas and water as well as the transportation, storage and communications sub-sectors will expend in relation to higher output from the manufacturing sector, while wholesale and retail trade, hotels and restaurants are expected to accelerate further.

Balance of Payments

Balance of payments remain strong, on account of favourable current account...

Given that the international economy and trade environment are expected to be generally more favourable in 2003, Malaysia's external position should continue to remain fundamentally strong. The **goods** account of the balance of payments is envisaged to record another round of surplus amounting to RM71,828 million (2002: RM68,190 million), despite the likelihood that the growth rate of imports will supercede that of exports. Export performance is projected to strengthen further, increasing more than double at a rate of 10.4% (2002: 4.5%), mainly boosted by a firm recovery in external demand for manufactured goods, particularly ICT-related products and sustained global demand for palm oil. Import expenditure is anticipated to expand at a higher rate of 11.6% (2002: 6.4%), on account of increased domestic economic activity and the need to cater for the rising external demand. On the other hand, the **services** account, is forecast to register a higher deficit of RM10,485 million (2002: -RM8,695 million), mainly on account of higher expected in net payments for transportation (-RM14,124 million) and other services, including contract and professional services (-RM17,178 million). Nevertheless, an increase in net receipts is envisaged from the travel account (RM20,784 million), arising from better and broader tourist products and aggressive tourist promotions.

On the **income** account, an increase of net outflow of RM30,499 million (2002: -RM27,780) is envisaged to be registered as foreign investors repatriate profits and dividends from higher export

earnings. Likewise, foreign workers, are expected to make higher remittances as a result of higher disposable income arising from the continuing pick-up in economic activity. This trend is expected to result in a higher net current **transfer payments** of RM8,728 million (2002: -RM8,483 million). With the surplus in the goods account projected to continue to outweigh the overall deficit in the services, income and transfer accounts, the **current account** of the balance of payments is likely to record another sizeable but narrowing surplus, of RM22,116 million or 6.3% of GNP (2002: RM23,232 million or 7.1% of GNP).

National Resource Position

Savings-investment surplus continues to remain large as income increases strongly...

In line with higher export earnings and greater domestic economic activities, national income in current values is projected to increase strongly by 7.8% in 2003 (2002: 6.1%). However, **gross national savings** in terms of percentage to GNP is likely to be reduced slightly to 32.6% (2002: 33.8%) as consumption spending (10%) is envisaged to increase at a higher rate than the growth rate of national income (7.8%). Overall **investment expenditure** (including change in stocks), on the other hand, is projected to increase strongly by 6.3% (2002: 9.9%) due to greater private sector capital outlays. Consequently, as the level of savings is greater than investment, the **savings-investment gap** position in 2003 is expected to continue to be in surplus, though reducing slightly to RM22,116 million or 6.3% of GNP (2002: RM23,232 million or 7.1% of GNP).