Economic Performance and Prospect

ECONOMIC REPORT

2

Overview

Economic growth remains steady...

The Malaysian economy remains resilient to post a higher real gross domestic product (GDP) growth in the first half of 2003, despite the adverse external economic environment. While the outbreak of the Severe Acute Respiratory Syndrome (SARS) in the region had some transitory negative effects on tourism-related industries, it did not significantly impact the overall performance of the economy in the first half of the year. Consumer and business sentiments are expected to be further enhanced following the containment of SARS and better world economic outlook anticipated for the rest of the year. Hence, growth momentum is envisaged to continue in the second half of 2003. Overall growth for the year is estimated at 4.5%. Growth is expected to be across the board, driven largely by services and manufacturing output.

The steady economic performance, underpinned by stronger domestic demand and mild growth in the external sector, reflects the cumulative effect of the pro-growth fiscal and monetary policy measures. The growth was achieved in an environment of low inflation amidst stable labour market conditions. Further build-up in international reserves arising from larger current account surpluses and high commodity prices as well as better capitalisation and restructuring of the banking and corporate sectors have strengthened macro economic fundamentals. In tandem with higher expansion in economic activities, national income is envisaged to increase by 7.1% to RM359,259 million with per capita income rising by 4.8% to RM14,343 (2002: 6.4%; RM13,683), leading to a better standard of living. Likewise, per capita purchasing power parity is estimated to increase by 6% to USD9,390 (2002: 6.3%; USD8,862).

Domestic Demand Performance

Sustained consumption drives domestic demand to support stronger growth...

In an environment of increasing external uncertainties, domestic demand has proven to be a major contributory factor to economic growth over the past few years. Overall, the economy has become more resilient as domestic demand continues to drive growth in the face of a weak external sector. As business and consumer confidence gains further momentum, boosted by the introduction of the Package of New Strategies towards stimulating the nation's economic growth (Package) in generating economic activities by mobilising domestic sources of growth, **domestic demand** (excluding changes in stocks) is expected to strengthen by 5% and contribute 4.5% to GDP growth, as shown in *Table 2.1.*

After two years of lacklustre performance, **private sector expenditure** is likely to grow by 4.6% and contribute 2.6 percentage point to GDP growth (2002: 0.4 percentage point), due to sustained consumption and upturn in investment activity. Growing strongly at an estimated 5.8%, **public sector expenditure** is envisaged to contribute 1.9 percentage point to GDP growth.

Private consumption, which has been resilient despite the negative impact of global uncertainties arising from the Iraq war and the outbreak of SARS, is expected to expand at a faster pace of 5.2% in 2003 compared with 4.4% in 2002. The strong performance is largely supported by higher disposable income arising from more buoyant domestic activities, favourable commodity prices and the positive wealth effect on account of the rising stock market. The introduction of

TABLE 2.1

Gross Domestic Product (GDP) by Aggregate Demand
(in 1987 real prices)

	Change (%)			Contribution to GDP growth (%)			Share of GDP (%)		
	2002	2003[1]	2004	2002	2003[1]	2004	2002	2003[1]	2004
GDP	***4.1***	***4.5***	***5.5-6.0***	***4.1***	***4.5***	***5.5-6.0***			
Domestic demand[2]	*4.2*	*5.0*	*4.7*	*3.7*	*4.5*	*4.3*	*89.6*	*90.0*	*89.4*
Private expenditure	***0.7***	***4.6***	***7.5***	***0.4***	***2.6***	***4.3***	***56.8***	***56.9***	***58.0***
Consumption	*4.4*	*5.2*	*7.0*	*2.0*	*2.4*	*3.3*	*46.5*	*46.8*	*47.5*
Investment	*-13.1*	*2.0*	*9.9*	*-1.6*	*0.2*	*1.0*	*10.3*	*10.1*	*10.5*
Public expenditure	***10.8***	***5.8***	***-0.1***	***3.3***	***1.9***	***0.0***	***32.8***	***33.1***	***31.4***
Consumption	*12.2*	*7.2*	*4.9*	*1.6*	*1.0*	*0.7*	*14.3*	*14.6*	*14.6*
Investment	*9.8*	*4.6*	*-4.1*	*1.7*	*0.9*	*-0.7*	*18.5*	*18.5*	*16.8*
Change in stocks	–	–	–	*2.5*	*-0.9*	*0.3*	*1.6*	*0.7*	*0.9*
External sector	***-18.9***	***10.2***	***9.9***	***-2.1***	***0.9***	***0.9***	***8.8***	***9.3***	***9.7***
Export[3]	*3.6*	*1.0*	*5.9*	*3.9*	*1.1*	*6.2*	*107.5*	*103.9*	*104.4*
Import[3]	*6.2*	*0.2*	*5.6*	*6.0*	*0.2*	*5.3*	*98.7*	*94.6*	*94.7*
GDP (RM billion, current value)	**360.7**	**385.8**	**411.1**						
Change (%)	*7.9*	*7.0*	*6.6*						

[1] Estimate.
[2] Excluding change in stock.
[3] Goods and non-factor services.

the Package in May 2003, which includes a 2% reduction in contribution to the Employees Provident Fund (EPF), a half-month bonus to civil servants and a lowering of interest rates to encourage consumption are also expected to contribute to strong consumption performance for the year. Improved consumer sentiment is reflected in several key consumption indicators, including imports of consumption goods, production of household refrigerators and credit card spending, which have increased between 2.1% to 18.5% for the first half of the year, as shown in *Chart 2.1.*

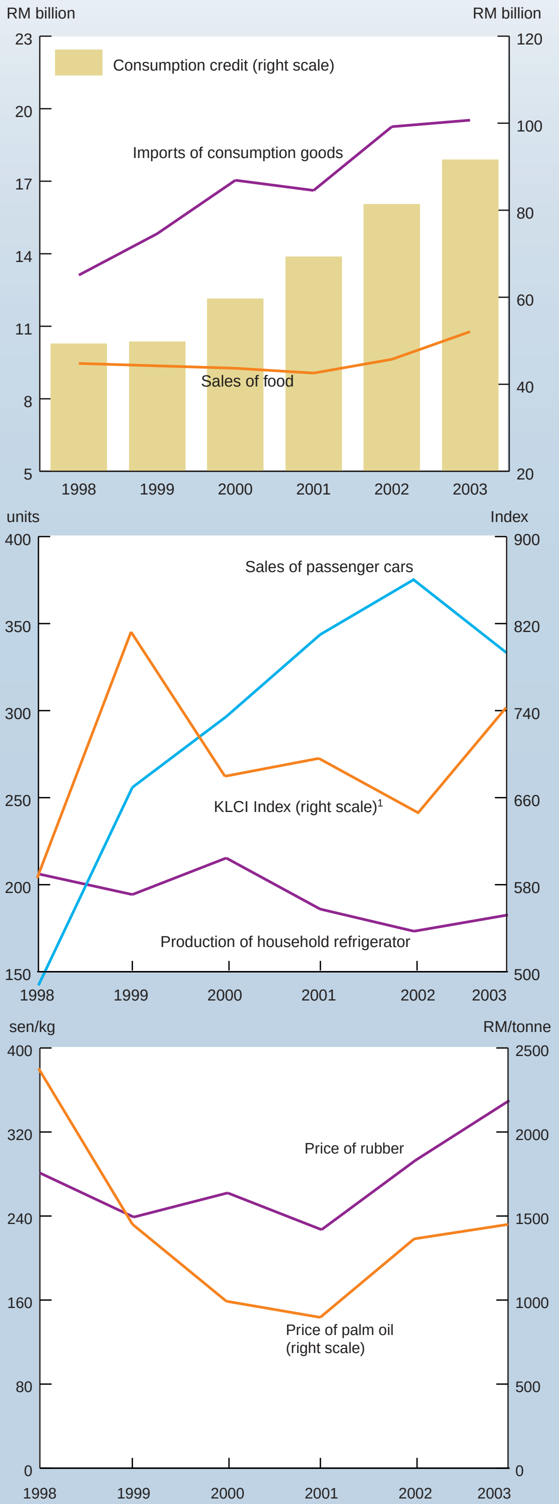
In tandem with improving business confidence and the regaining strength of the corporate sector, **private investment** outlay is expected to turn around and grow moderately by 2%, after two consecutive years of negative growth.

The pick-up in private capital outlay is reflected in several key indicators. These include import of capital goods (excluding transport equipment), sales of commercial vehicles, primary iron and steel, cement and concrete products and production of ready-mixed concrete, which increased between 5.7% and 16.5% during the first half of the year, as shown in *Chart 2.2.*

The value of applications for investment projects in the manufacturing sector, received by the Malaysian Industrial Development Authority (MIDA), was up by 57.6%. A total of RM9.7 billion was recorded for the first half of the year (January-June 2002: RM6.2 billion). Investments by domestic investors remained large at 59.3% or RM5.8 billion of the new applications, reflecting the positive response to the Government's policy to enhance domestic investment to drive growth.

CHART 2.1

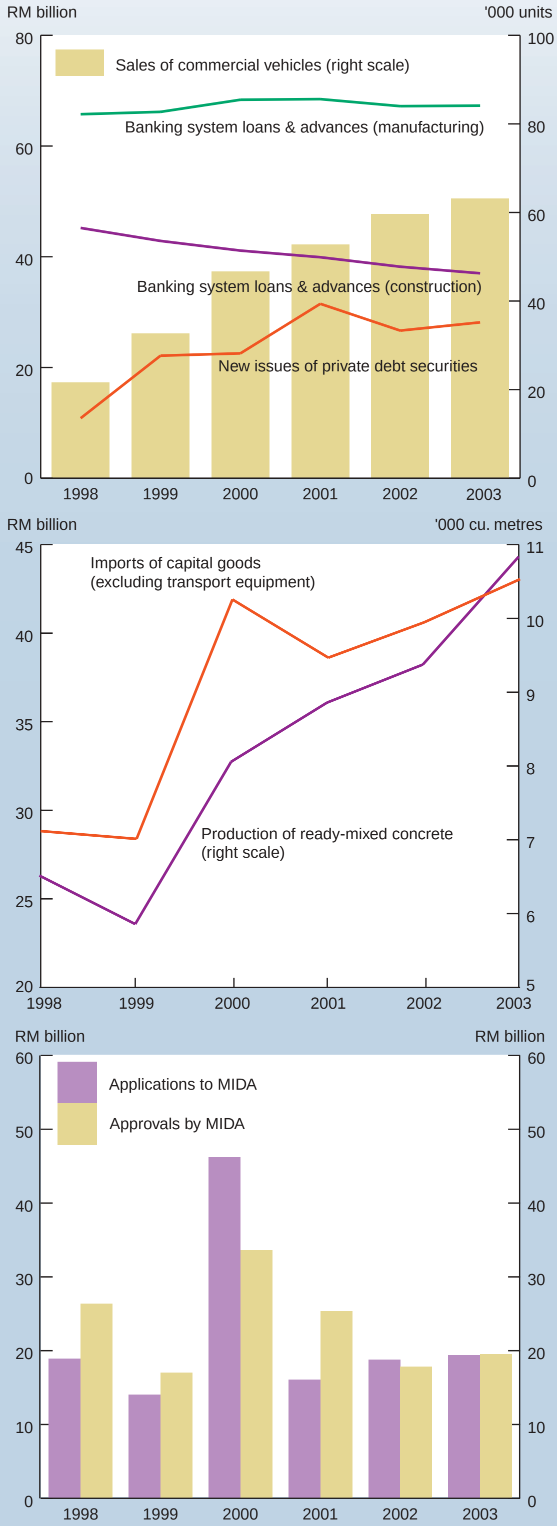
Private Consumption Indicators



[1] As end of the year and as at 25 August 2003.

CHART 2.2

Private Investment Indicators



The bulk of applications received were in the electrical and electronics, transport equipment, food manufacturing, machine manufacturing, rubber products, non-metallic mineral products as well as petroleum and petrochemical sub-sectors. Applications for investments are expected to increase further during the second half of the year, as global uncertainties recede with the end of the Iraq war and the containment of SARS.

In the light of the need to balance the budget in the medium term, public expenditure is budgetted to grow at a slower pace in 2003 at 5.8% compared to 10.8% in 2002. Public investment will decelerate to 4.6% and public consumption, 7.2%.

Sectoral Performance

Growth will be broad-based with manufacturing and services providing the impetus...

On the supply side, growth is anticipated across the board, with higher growth in manufacturing, services, mining as well as construction. After expanding at 5.9% in the first half of 2003, the manufacturing sector is expected to record a growth of 6.5% for the year, as shown in *Table 2.2,* given the better world economic outlook and continuing recovery in the electronics sector. The services sector, recovering from the SARS impact in the second quarter, will register a slightly higher growth rate of 4.2%. Growth in this sector is expected to emanate from finance, insurance, real estate and business services as well as utilities in line with the expanding manufacturing sector and improving domestic demand.

Meanwhile, higher production of palm oil, largely underpinned by increasing external and domestic demand as well as higher prices are expected to contribute significantly to the 2.3% growth in value added of the agriculture sector. Value added in the mining sector is envisaged to increase 4.5%, supported by higher production of natural gas with the coming on-stream of the third liquefied natural gas plant (MLNG3) in Bintulu. The construction sector is expected to register a slightly stronger growth of 2.5%, driven by the development of infrastructure projects and

TABLE 2.2

Gross Domestic Product (GDP) by Sector
(in 1987 real prices)

	Change (%)			Contribution to GDP Growth (percentage point)			Share of GDP Value Added (%)		
	2002	2003[1]	2004	2002	2003[1]	2004	2002	2003[1]	2004
Agriculture, forestry and fishing[2]	3.0	2.3	3.0	0.2	0.2	0.3	8.4	8.2	8.0
Mining	3.7	4.5	3.5	0.3	0.3	0.3	7.2	7.2	7.1
Manufacturing	4.0	6.5	7.2	1.2	1.9	2.2	30.1	30.6	31.1
Construction	2.3	2.5	2.6	0.1	0.1	0.1	3.3	3.3	3.2
Services	4.1	4.2	5.5	2.3	2.4	3.1	57.0	56.8	56.8
(-) Imputed bank service charges	5.3	5.7	6.9	0.4	0.5	0.6	8.5	8.6	8.7
(+) Import duties	16.7	2.6	7.1	0.4	0.1	0.1	2.5	2.5	2.5
GDP	**4.1**	**4.5**	**5.5-6.0**	**4.1**	**4.5**	**5.5-6.0**	**100**	**100**	**100**

[1] Estimate.
[2] Includes livestock and horticulture.

Source: Department of Statistics.

renewed interest in housing activity following the implementation of several incentives for the industry in the Package.

Manufacturing Sector

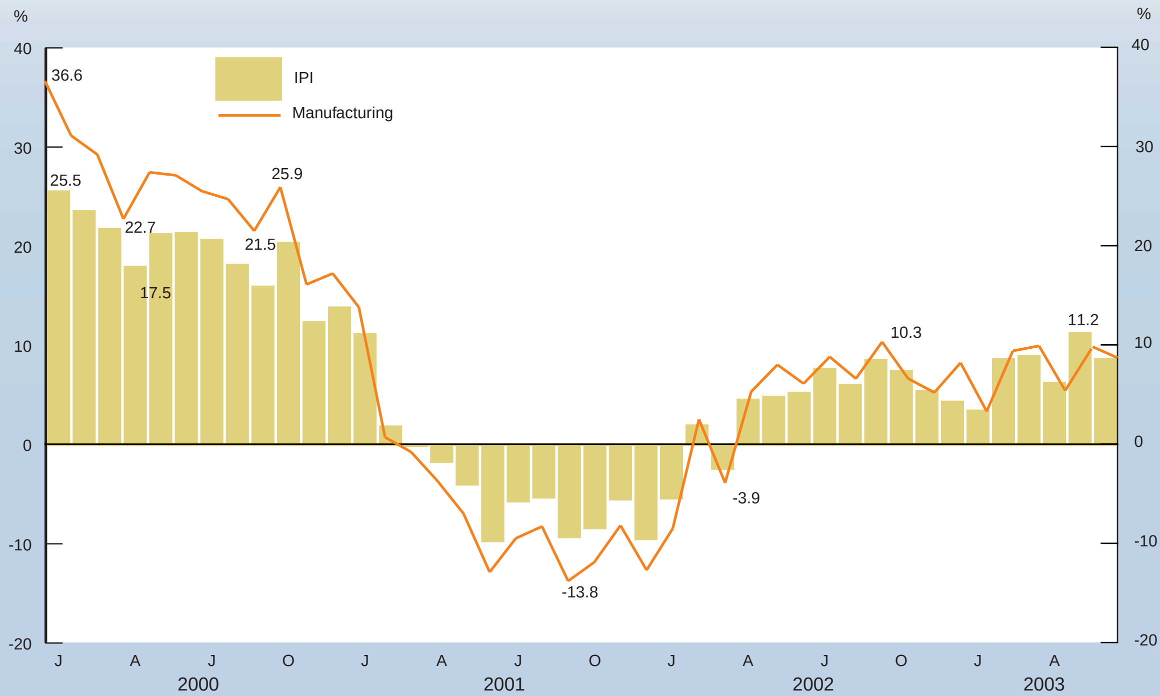
Manufacturing output remains strong as industry migrates to higher value-added products...

Malaysia's manufacturing sector is all geared up for better times ahead, as output strengthened further starting February this year, as shown in *Chart 2.3*, on the back of higher growth of domestic-oriented industries and better performance of export-oriented industries. Domestic-oriented industries recorded double digit growth, spurred by higher consumption in food and beverages, and continuing demand for products of construction-related industries, particularly non-metallic minerals such as cement and concrete as well as higher growth of fabricated metal products in the second quarter of 2003. With the increased activities of the manufacturing sector, demand for natural gases surged upward, and contributed to higher growth of the domestic-oriented industries, in particular the industrial gases sub-sector. The export-oriented industries also performed better in 2003 and recorded a moderate growth during the first six months, due to a rebound in rubber products and textile industries, particularly the apparel.

Overall, output of the manufacturing sector expanded by 7.8% in the first six months (January-June 2002: 1.4%). The better-than-anticipated growth was the result of higher production of 7.9% in the second quarter 2003 (second quarter 2002: 6.5%). Total value of finished products and goods-in-process was about 53% or less than one month stock of the RM27,694.8 million sales made in June. The lean stocks, together with broad-based growth in both domestic as well as external demand, is expected to improve capacity utilisation of the sector to more than 80% this year.

CHART 2.3

Industrial Product Index (IPI)
(% annual change)



Source: Department of Statistics.

The **export-oriented industries** contributed slightly more than half of the total output of the manufacturing sector and were able to sustain their contributions for the first half of the year, as shown in *Table 2.3*. Their performance was sustained by an upturn in demand, particularly for rubber products and apparel. Increased external demand due to SARS, had boosted production of rubber gloves by 9.4% for the first half of 2003 (first half 2002: -4.6%). The E&E sector maintained its position as the major contributor, despite a slower growth of 4% during the first half of this year, on account of strong growth of semiconductors, ventilating and air conditioning as well as electronic equipment.

Electronic equipment manufactured mainly comprised data processing equipment, communications, automotive, military and civil aerospace equipment as well as consumer electronic products. Products which showed increasing export trends were chemical and chemical products, including pharmaceuticals with a total market value of RM1.6 billion and oleochemicals for which Malaysia accounted for about 20% of world's production.

TABLE 2.3

Manufacturing Production Index
January - June
(1993 = 100)

Sectors	Change (%) 2002	Change (%) 2003	Change (%) 2003 Q1	Change (%) 2003 Q2	Share (%) 2002	Share (%) 2003
Export-oriented industries:	***2.0***	***4.3***	***5.5***	***3.1***	***52.3***	***50.6***
Electrical, electronics and machinery:	*5.1*	*4.0*	*5.4*	*2.7*	*40.4*	*39.0*
Semiconductors	*10.4*	*7.3*	*8.6*	*6.1*	*30.5*	*30.4*
Ventilating & air conditioning	*-23.4*	*10.7*	*17.2*	*5.1*	*2.6*	*2.7*
Professional, scientific, measuring and controlling equipment	*-0.3*	*5.0*	*12.2*	*-0.5*	*0.8*	*0.7*
Rubber products	*-2.3*	*10.7*	*9.6*	*11.8*	*4.5*	*4.6*
Wood products	*-10.9*	*1.7*	*-4.6*	*-0.7*	*3.7*	*3.5*
Textiles, apparel and footwear	*-10.8*	*1.7*	*0.8*	*2.5*	*3.0*	*2.8*
Apparel	*16.3*	*16.2*	*8.8*	*23.8*	*1.1*	*1.2*
Domestic-oriented industries:	***0.8***	***11.5***	***9.8***	***13.2***	***47.7***	***49.4***
Plastic and chemical products	*-5.6*	*19.7*	*16.4*	*23.3*	*17.2*	*19.1*
Plastic products	*-6.0*	*27.5*	*31.3*	*24.2*	*6.5*	*7.7*
Chemical and chemical products	*-22.8*	*15.1*	*8.6*	*22.6*	*10.7*	*11.4*
Industrial chemicals	*-0.7*	*16.4*	*9.3*	*25.1*	*9.0*	*9.7*
Food, beverages and tobacco	*1.2*	*11.7*	*6.6*	*16.7*	*10.0*	*10.3*
Construction related industries:	*5.5*	*13.2*	*9.6*	*0.3*	*11.6*	*11.8*
Iron and steel	*0.4*	*9.3*	*16.9*	*2.6*	*3.0*	*3.1*
Fabricated metal products	*10.1*	*9.0*	*3.8*	*13.4*	*4.6*	*4.6*
Non-metallic mineral	*13.3*	*11.5*	*10.6*	*12.3*	*4.0*	*4.1*
Crude oil refineries	*-1.8*	*9.3*	*3.6*	*15.4*	*1.3*	*1.3*
Paper and paper products	*7.7*	*6.1*	*15.1*	*-1.5*	*1.5*	*1.5*
Miscellaneous products of coal and petrol	*-14.1*	*8.2*	*-5.2*	*25.6*	*0.3*	*0.3*
Glass and glass products	*-32.2*	*2.6*	*3.2*	*2.1*	*0.4*	*0.4*
Non-ferrous metal	*1.7*	*6.2*	*16.2*	*-1.5*	*0.8*	*0.8*
Transport equipment	*15.4*	*-10.2*	*-6.6*	*-13.6*	*4.8*	*4.0*
TOTAL	***1.4***	***7.8***	***7.6***	***7.9***	***100.0***	***100.0***

Source: Industrial Production Index, Department of Statistics.

Domestic-oriented industries, as shown in *Chart 2.4*, continued to grow, rebounding at 11.5% after recording a lacklustre growth of 0.8% in 2002. Growth of these industries, particularly plastics which produces parts for household appliances such as refrigerators, washing machines, electric ovens and blenders was boosted by the measures of the Package to stimulate consumption which increased disposable income and contributed to the growth of these industries.

The **E&E industry**, which recorded a turnaround in April 2002, slipped to a lower growth of 4% in the first half of 2003, underpinned by slower growth in the manufacture of semiconductors and electronic components, as shown in *Table 2.3.* However, demand for computers and computer peripherals is expected to pick up with the resumption of the academic year of colleges and universities in May, and the cyclical replacement of obsolete PCs. Additionally, the national roll-out of *MyKad* and the introduction of *bankcards* to replace the old magnetic automated teller machine (ATM) card, resulted in the expansion of the industry into production of embedded microchips with higher memory.

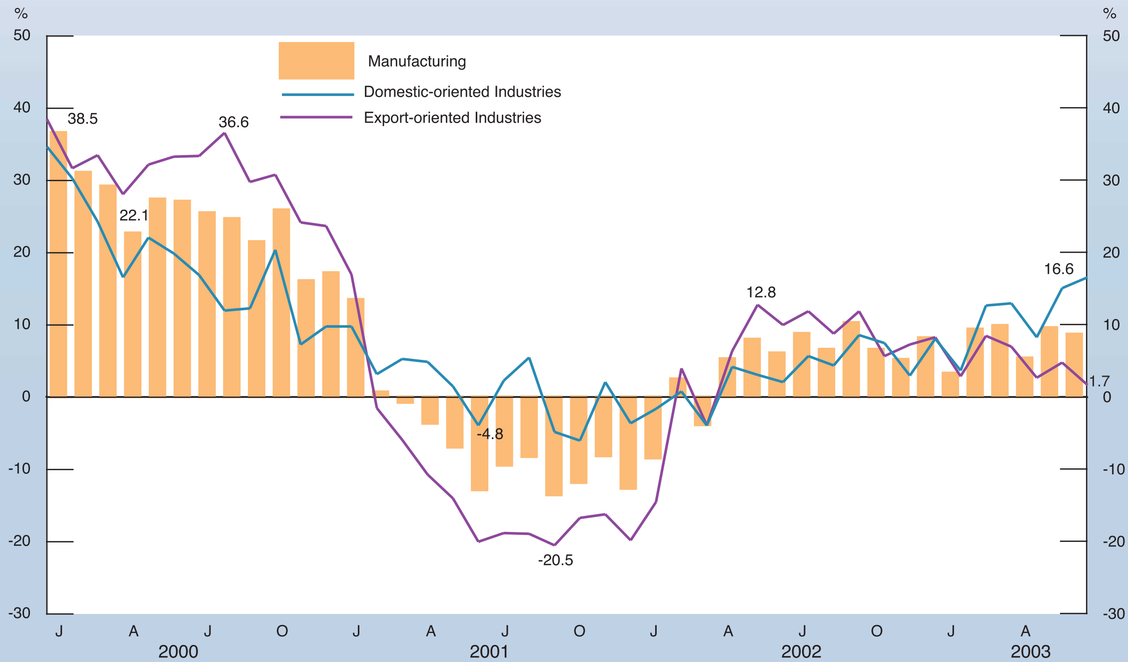
Signs of recovery are also seen in the US electronics market such as the improving book-to-bill (BTB) ratio of North America's electronics equipment industry. An increase of 0.3% in consumer spending in June and a 44.1% boost in US defence expenditure are expected to push demand higher for electronic equipment and semiconductors. The global demand for electronic products, estimated at RM4,028 billion in 2002, is expected to increase by about 10% - 12% in 2003, thereby providing positive impact on the performance of this industry in Malaysia.

There has been an increasing demand for Malaysia's semiconductors from the East Asian countries, especially China and Hong Kong SAR, which recorded double digit growth for 12 consecutive months since April last year, following

CHART 2.4

Growth of Domestic and Export-oriented Industries

(% annual change)



Source: Department of Statistics.

increases in outsourcing activities from the region. E&E which accounts for 18.5% of the RM18.8 billion capital investment received is forecast to grow stronger in 2003, with cellular phones leading the growth, followed by hard and optical disk drives and video game devices.

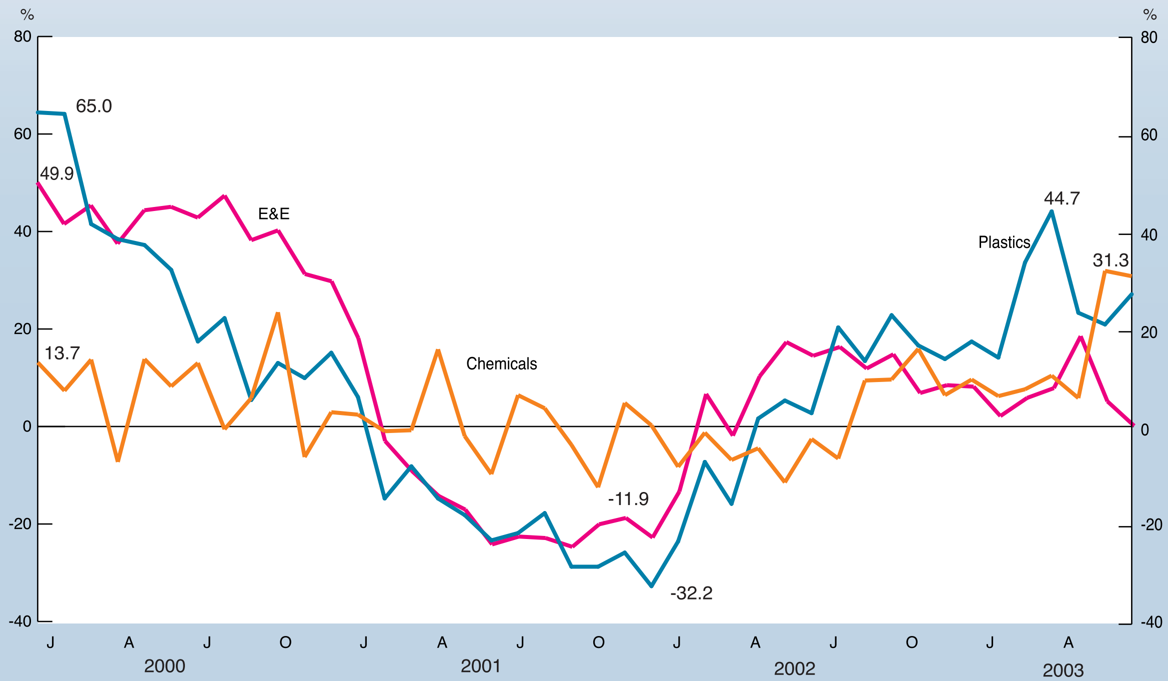
This has resulted in the growth and development of the plastics and metal industries. While the former produces components for the production of new and trendy ICT devices such as hand-held computers and mobile phones equipped with digital cameras, the latter produces metal parts required for computer hardware. The advancements in these industries had facilitated and augmented the **plastics industry** to rebound with double digit growth of 27.5% in the first six months of 2003, after recording a sharp decline in 2002.

More than one third of plastic products manufactured in Malaysia are produced for the packaging industry, with more than 80% investments by Malaysians, especially the small and medium industries. Products manufactured comprise plastic bags, plastic films, sheet and containers. In line with policies to promote the use of biodegradable materials and to enhance the use of agriculture waste, product development is geared towards higher value-added biodegradable disposable packaging household ware from pulp and palm fibre. Besides packaging materials, the plastics industry also manufactures components for automotive industry and office equipment.

Likewise, **chemical and chemical products,** as shown in *Chart 2.5***,** had also benefitted from the spill-over effects of the rebound of the E&E sector and recorded a strong output growth of 15.1% in the first six months of 2003, with export constituting more than 70%. Synthetic resins in particular, had expanded from the rapid development of the sector, recording a 19% increase. Meanwhile, production of domestic-oriented chemical products especially industrial

CHART 2.5

Growth of Selected Industries
(% annual growth)



Source: Department of Statistics.

chemicals, rebounded with 16.4% growth compared to -0.7% in the previous year. An upcoming sub-sector in the chemical industry is pharmaceutical products with an estimated domestic market size of more than RM2 billion.

Currently, Malaysia is the leading producer and exporter of basic oleochemicals (fatty acids, methyl ester, glycerine and fatty alcohol) with exports valued at RM2.5 billion. As consumers become more health conscious and selective in their personal care products such as cosmetics and toiletries, demand for agro-based oleochemicals are expected to increase further. Meanwhile, on-going product research to increase value-add, range from natural herbal and traditional medicines and its generic products to *halal* gelatine and veterinary medicines.

In contrast to other industries, which were adversely affected by SARS, the **rubber industry** recorded higher growth of 10.7% in the first six months of 2003, on the back of increased external demand for rubber products. Rubber gloves (medical, industrial and households gloves) constituted slightly more than 50% of total production of the industry, with rubber and latex processing, and tyres and tubes, trailing behind at 33.5% and 14.3%, respectively. The tyre industry saw an increase of almost 20% in production and sales largely due to replacement market. The rubber industry benefitted from advancements in production of high-quality new generation gloves such as low protein, powdered or powder free gloves and dry rubber products which include conveyor belts, rubber rollers and moulded rubber parts for the automotive and E&E industries. The requirement to use advanced recyclable rubber materials such as *thermoplastic expodised natural rubber* in automotive components in the European Union (EU) by 2006, also prompted the industry to produce better quality and higher performance rubber products.

Malaysia's quest for developing **heavy industries** along with the development of E&E had resulted in the nation's involvement with industries related to oil and gas, iron and metal as well as transportation and its related equipment. Industrial gases and liquefied petroleum gas (LPG) were able to sustain growth at 34.7% and 17.5%, respectively, due to demand from the manufacturing sector. Diesel and gasoline also recorded a higher growth of 10.1% in the first six months of 2003 (January-June 2002: -4.2%). Increased outputs of these products supported the turnaround in crude oil refineries to record a high growth of 9.3%.

Although business confidence has held up better with most industries recording positive growth, the **transport equipment industry**, however, plummeted to -0.2% (January-June 2002: 15.4%). Intensive promotional efforts by car dealers had not provided the impetus for growth in production of this industry as output of passenger cars dipped by 20.5% in the first half of 2003. On the other hand, production of motorcycles and scooters grew marginally by 2.9% (January-June 2002: -4.9%), helped to cushion the decline in passenger cars. Following this, the transport equipment industry contributed to 4% share of the whole manufacturing sector, as shown in *Table 2.3*. The main reason for the downward trend for passenger cars was attributed to deferred purchases by consumers in anticipation of a more liberalised car market in 2005. With the impending liberalisation under the ASEAN Free Trade Area (AFTA), consumers are waiting for better deals that will be offered by dealers and manufacturers alike.

Overall, **construction-related industries** recorded a firmer growth of 13.2% (January-June 2002: 5.5%), while the iron and steel as well as non-metallic mineral industry continued to perform better due to the continuing implementation of several public roads and low-cost houses. These industries also continued to benefit from the ongoing implementation of the Package and other efforts to stimulate residential housing and public infrastructure projects. Similarly, iron and steel also recorded positive growth of 9.3%, while cement and ready-mixed concrete recorded higher growth of 20.6% and 15.6%, respectively. With external demand anticipated to grow by more than 14% this year, and the positive effect of the implementation of large socio-economic infrastructure projects, such as the hospital *cum* apartment of Lembaga Tabung Haji in Kuala Lumpur, Petronas Hospital, Kajang Sungai Ramal Ring Road and the new Johore-Singapore bridge, the cement and concrete industry is expected to improve further, increasing capacity utilisation of the industry to above 65%.

SMALL AND MEDIUM ENTERPRISES IN MALAYSIA

Introduction

Small and medium enterprises (SMEs) represent an important segment of the Malaysian economy. They provide slightly more than one-third of total employment in Malaysia and more than half of total companies registered with the Companies Commission, as shown in *Table 1*. SMEs are excellent seedbeds for energetic and dynamic individuals to test and develop their talents and skills in business.

In Asia, the role of SMEs in industrial development is more pronounced than in the West. In some Asian countries such as Japan, Taiwan, Korea and China, SMEs are the backbone of the industrial and manufacturing sector. In South Korea, SMEs, reported to be more than one million, exist in most sectors and with strong linkages, support the conglomerates or *chebols*. SMEs in China contribute about 50% of the country's industrial output, 60% (valued at about USD90 million) of total exports, and provide employment, particularly for laid-off workers from privatised state-owned enterprises.

TABLE 1

The Importance of SMEs in Selected Economies

SMEs as % of	Contribution (%)					
	Malaysia	Japan	US	China	Korea	Taiwan
Total Establishments	92.0	99.7	n.a.	99.0	99.2	98.1
Total Employment	30.7 [1]	69.5	50.1	75.0	75.3	78.1

[1] Based on SMEs in the manufacturing sector.

Source: MITI and SMIDEC.

SMEs in Malaysia form an integral part of the value chain in the overall production network, producing high value-added parts and components and developing themselves as downstream suppliers or service providers of the larger industries (LIs) and multinational corporations (MNCs). When the first national car was launched in 1983, SMEs spearheaded the development of supporting and ancillary industries, through the utilisation of local components required by the project. Local SME supplied RM397.9 million or 10.8% worth of parts and components for the national car in 2002 and RM154 million for the first six months of this year, or 77% of parts and components targetted to be supplied by the SMEs for 2003. SMEs form an important link as second and third tier suppliers or vendors of products such as plastic extrusions, metal stamping parts, wire harnesses and air bags.

Definition of SMEs

Currently, SMEs in Malaysia is not clearly defined, except in the manufacturing and the banking sectors. Definitions of SMEs across countries also vary even though the same parameters are applied. Two common parameters used to define SME in the manufacturing sector are sales turnover and number of employees, as shown in *Table 2*. Malaysian SMEs tend to be relatively smaller than SMEs in other countries.

TABLE 2

Definition of SMEs

Indices	Malaysia	Japan	US	China	Korea	Taiwan
Number of employees[1]	<150[2]	<300	<500[3]	<500	<300	<200
Capital/Assets/Sales turnover	<RM25 million	<yen100 million	<USD5 million	50RMB billion	20-80 Won billion	<NT$60 million

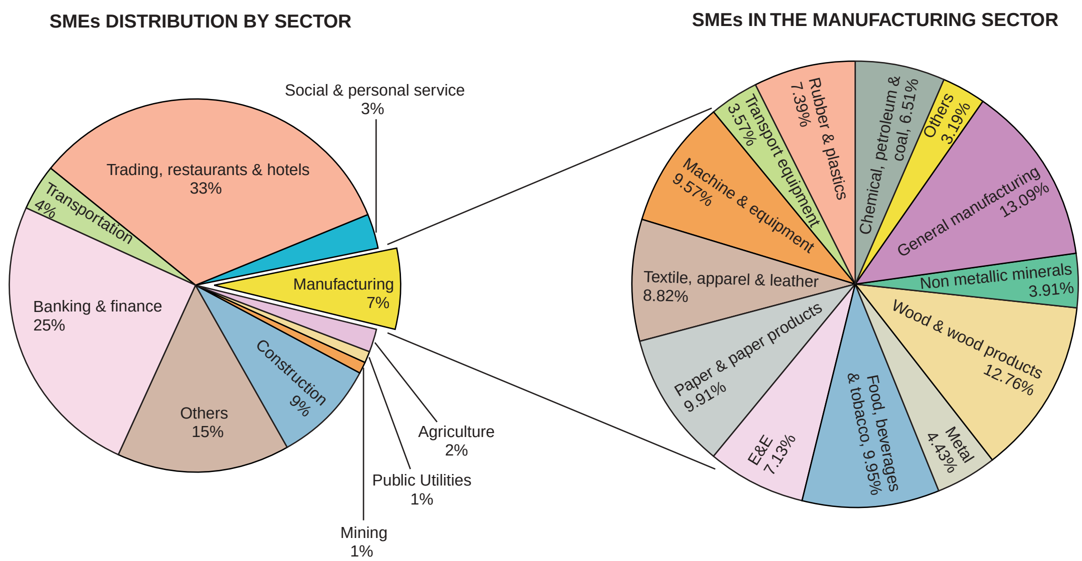
[1] Most common index used by World Bank, UNDP and other international organisations.
[2] Based on SMEs in the manufacturing sector.
[3] Manufacturing.
[4] Non-manufacturing

Source: MITI, SMIDEC, BNM, APEC.

Sectoral Distribution of SMEs

SMEs constitute about 92% of the total 689,160 companies registered in Malaysia. In 2002, the output of SMEs to GDP recorded a 2.5% increase while their productivity rose by 2.7% with added-value of RM35,043 per employee. The distribution of SMEs according to economic sectors, as shown in *Chart 1*, shows that SMEs tend to be concentrated in the trading, manufacturing and services sectors.

CHART 1



Source: Companies Commission, Malaysia and SMIDEC.

The largest concentration of SMEs is in the trade and retail industries. Although SMEs in the manufacturing sector form only 7% of total SMEs in Malaysia, they constitute more than 90% of the total 51,606 manufacturing entities. Within the manufacturing sector, the SME are predominantly involved in resource-based industries, such as food and beverages industry and wood-based industries including paper and paper products.

Support for Development of SMEs

Currently, at least 12 ministries and 40 Government agencies are involved in the development of SMEs (including micro-enterprises) in Malaysia. The ministries and Government agencies provide a wide range of services for different target groups. In addition, various trade and business organisations also provide support services as well as represent the SMEs in various arenas. However, most agencies tend to focus on the development of SMEs in the manufacturing sector, where data is more readily available.

SMEs in the manufacturing sector, as shown in *Chart 1*, are under the purview of the Ministry of International Trade and Industry (MITI) and the Small and Medium Industries Development Corporation (SMIDEC) while cottage industries, micro-enterprises and SMEs in the rural areas come under the Ministry of Rural Development (KPLB). Meanwhile, the Entrepreneur Development Ministry (KPUn) offers entrepreneurial development programmes such as the Franchise and Vendor Development Programmes. In order to ensure a better coordinated and focussed approach to SMEs development and implementation, the Government is studying the formation of a central body to coordinate the present structure and develop a framework for the comprehensive development of SMEs.

PROGRAMMES TO ASSIST SMEs DEVELOPMENT

To enhance the contribution of SMEs as a catalyst for economic growth, the Government has initiated a comprehensive programme of strategic measures as follows:

1. *Industrial Linkage Programme*

The Industrial Linkage Programme (ILP) aims at enhancing SMEs participation as reliable and competitive suppliers of parts and components or services to the LIs/MNCs. Under this programme, as at June 2003, 181 SMEs have been appointed as suppliers to MNCs with total sales value of RM115 million. Another 11 SMEs have been appointed as suppliers to the E&E sector. To promote domestic capabilities, a partnership between SMIDEC and a foreign-based hypermarket chain in Malaysia has been formed. The partnership is to identify and develop local SMEs into global suppliers. SMEs in the food sector will supply their products to hypermarkets in Malaysia and their outlets worldwide under the hypermarket's brand name and the SMEs own brand.

2. *Global Supplier Programme*

The Global Supplier Programme (GSP) is designed to complement the goals outlined under the ILP. The GSP is a skills development/training programme to enhance knowledge and capabilities of SMEs into world-class suppliers of services and products. Since the programme first started in March 1999, the GSP has trained 1,426 employees from 361 SMEs. In addition to training, the programme attempts to instill the importance of quality, cost, swift delivery (QCD), and flexibility as essential attributes of effective SME suppliers.

3. *Factory Auditing Scheme*

The Government encourages continuous improvements in SMEs to ensure their products and services to LIs/MNCs meet the standards required. Thus, SMEs must conduct regular assessments of their operations by independent experts. In this regard, the Factory Auditing Scheme provides partial grants of up to RM10,000 per company for hiring assessment experts. This scheme also serves as a diagnostic mechanism in evaluating SMEs, as well as in assessing whether the assistance provided by the Government, including GSP, meet the requirements of SMEs. Under this scheme, 34 applications with grants amounting to RM218,700 have been approved.

4. *Headstart 500 Programme*

The Headstart 500 Programme is specially designed to speed up the transformation of 500 SMEs into global manufacturers. At the moment, eighteen out of 75 registered companies have been selected as pioneers of this programme. These companies are provided with a comprehensive package including financial assistance and technical expertise, to help them become global players. These companies have been selected from among those that manufacture promoted products under the Promotion of Investment Act, 1986.

5. *Vendor Development Programme*

The Vendor Development Programme (VDP) was launched in 1988 to coincide with the launching of the national car, PROTON. Under the VDP with KPUn as the implementing agency, LIs/MNCs, which act as anchor companies, provide continuous consultancy and technical assistance to the vendor (SMEs). A tripartite arrangement between the vendor, the anchor and a chosen bank/ financial institution, which will provide the financing, can also be made. Under the Seventh Malaysia Plan, a total of 188 SMEs was appointed as vendors and another 75 vendors were appointed from 2001 until this year. A total of 85 LIs/MNCs and 16 banks/financial institutions are involved in the VDP.

6. *Franchise Development Programme*

The Franchise Development Programme (FDP) is a marketing programme aimed at developing SMEs in the commercial, services and industrial sectors. The FDP will assist entrepreneurs/SMEs to operate in the larger and international business network. The FDP provides entrepreneurs and SMEs with manuals on how best to operate their businesses and expose them to intellectual property and marketing strategies. As at December 2002, 20 multinationals have been appointed as major franchisors, while another 69 local large corporations have joined the programme as franchisors. The number of SMEs that have benefitted from the programme stands at 681, while the amount of grants disbursed under the programme is RM27.3 million. Major sectors with large number of SMEs involvement are food, household equipment, cosmetics, car services and accessories as well as photography.

7. *Infrastructure Development Programme*

This programme is aimed at assisting SMEs to operate their businesses in approved areas or premises. SMEs can purchase various types of factories at affordable prices in various integrated industrial sites developed by the Malaysian Industrial Estates Berhad (MIEL), KPUn, Perbadanan Kemajuan Negeri Selangor (PKNS), and in joint venture (JV) projects between the KPLB and the state governments. The sites are provided with common-user facilities such as testing laboratories, waste disposal system and residential quarters for employees. To date, 985 units or 74.9% of various types of factories built by MIEL and PKNS have been occupied. Meanwhile JV projects between KPLB and state governments have provided another 304 units factories, workshops and business premises.

8. *Skills Upgrading Programme*

Instilling the need for training to enhance skills of workers has always been a challenge, as most SMEs perceive training as a cost rather than an investment. Furthermore, as supply of foreign labour is still abundant, SMEs prefer to delay their investment in skills upgrading, knowledge acquisition and automation. However, to ensure sustained competitiveness and resilience, this programme offers new technologies, new business processes, as well as new skills for employees and management of SMEs. Up to July 2003, a total of 11,220 employees of SMEs have undergone skill-upgrading training at 19 skills-training centres all over Malaysia. Total grant disbursed for this program was RM12.6 million.

9. *Outreach and Promotional Programmes*

The Government has undertaken various efforts to encourage SMEs to participate in development programmes and financial assistance schemes developed for their benefit. As such, various outreach programmes including domestic investments seminars, the SMIDEC Annual Showcase (SMIDEX) and business clinics have been held in major cities in Malaysia. More than 7,000 participants have attended 15 seminars held in 2002, while SMIDEX 2003, held in July this year attracted 4,279 local and international business visitors. A total of 203 business matching sessions linking SMEs to LIs/MNCs were also held. Apart from the programmes mentioned, weekly business clinics are becoming more popular among entrepreneurs and SMEs as these clinics provide a useful venue for SMEs to consult relevant officials on matters related to their business operations. For the first six months this year, 425 entrepreneurs have attended such business clinics.

Programmes undertaken by KPLB and KPUn include 67 entrepreneurship training and consultancy programmes to encourage the participation of 2,150 *Bumiputeras* in businesses. To enhance the livelihood of Malaysians in rural areas, KPLB conducts marketing and promotional programmes such as “One District, One Industry”, development of marketing centres, homestay, agro tourism, and the breeding of Boer goats.

10. *SME Information & Advisory Centre*

The SME Information and Advisory Centre provides an opportunity for SMEs to seek information and advice on the various support programmes and financial assistance provided by the Government. The Centre can be accessed via its website and toll free telephone line. Although the toll free service is under utilised, its website has received overwhelming response with 3,980 hits or enquiries during the first six months after its launch date on 4th July 2002.

11. *SME Experts and Advisory Panel*

The SME Experts and Advisory Panel (SEAP) programme provides SMEs with experienced industrial experts to assist them in improving their technological capacity and productivity. This programme has received good response from 44 retirees to participate as panel experts. Another 313 local experts from various Government agencies and institutions of higher learning have also indicated their interest to join the panel. The services of foreign experts, especially from Germany and Japan are presently being explored.

FINANCIAL ASSISTANCE SCHEMES FOR SMES

The Government, through various ministries and agencies, provides financial assistance in the form of grants and soft loans. Projects eligible for financing are in the field of marketing, technology development, ICT adoption and skills upgrading.

Grants

In the area of marketing, the Government has approved RM4.7 million worth of grants to 729 SMEs under the Business Planning and Development Scheme (ITAF 1) and the Market Development Grant (ITAF 4) in 2002. These grants enable SMEs to undertake market studies, participate in international trade fairs, exhibitions and trade missions, and appoint professionals to help them prepare their marketing strategies. For the first six months of this year, 265 applications valued at RM1.7 million were approved. Under the Package of New Strategies, an initial RM100 million allocation has been approved for the development and promotion of Malaysian brands.

To enhance SMEs **technological capabilities** in meeting manufacturing standards set by LIs/MNCs, the Technology Development Grant Scheme was implemented. The Scheme covers three sub-programmes; namely, Product and Process Improvement (ITAF 2); Productivity and Quality Improvement and Certifications (ITAF 3); and Adoption of ICT in Manufacturing Processes. In 2002, 676 applications valued at RM28.4 million were approved under this Scheme, while 464 applications were approved in the first half of 2003. The increased number of applications in 2003 was due to the introduction of additional ICT-related grant schemes. In terms of product certification and quality improvement, which include ISO 9000, ISO 14000, Hazard Analysis & Critical Control Point and Product Certifications, 1,328 out of 1,730 applications were approved.

To accelerate the **adoption and utilisation of ICT** by the SMEs, ICT-related grant schemes were introduced in April 2002. The grants are meant to assist SMEs to integrate their manufacturing and business operations, upgrade designing capabilities, implement RosettaNet Standard and e-Manufacturing. From January to June 2003, 169 applications were approved with grants amounting to RM13.6 million.

The Government has allocated a total of RM3.3 billion as **venture capital** for the ICT and non-ICT sector to realise the vision of developing a knowledge society as well as to identify high growth sectors such as advanced manufacturing, pharmaceuticals and biotechnology. Disbursements of funds are in the form of equity, direct, agency or seed ventures through the Malaysia Venture Capital Management Berhad (MAVCAP) and Malaysia Debt Ventures Berhad (MDV). A total of 35 SMEs projects have been approved under MAVCAP with a total value of RM110.4 million, out of which 12 approvals are for seed ventures in information technology, electronics, telecommunication and networking. Until July this year, another 353 applications, valued at RM4.4 billion are being processed.

The **Technology Acquisition** Fund (TAF) and the **Commercialisation of Research & Development** Fund (CRDF) were launched to enable acquisition of strategic technologies with a view to enhancing technological capability vital for the development of the nation. CRDF provides partial grants to encourage SMEs to commercialise indigenous technologies developed by local universities and research institutions. Grants provided are for the purpose of undertaking market survey and research, product/process design and development, intellectual property protection and demonstrations of technology. A total of 20 applications were approved with grants valued at RM29 million in 2002, while three applications were approved in the first half of 2003.

To enhance and **upgrade skills** of employees, SMEs are provided with grants to help them finance cost of training. The rural *Bumiputera* business community, including *Orang Asli entrepreneur,* will be given priority by the KPLB to obtain these grants. Another grant provider is SMIDEC, which provides grants up to a maximum of 80% of the cost of training to SMEs. To date, this programme has provided training for 5,055 employees of SMEs, while another 1,036 have been trained in the six months of this year. The training courses include photonics, mould and tool die technology and occupational safety. In order to accelerate the development of a skilled workforce, SMIDEC is reviewing a dual traineeship scheme whereby skilled workers will be given opportunities to pursue further studies in their respective areas of interest.

The Special Assistance Scheme for **Women Entrepreneurs** was launched in August 1999 with an initial allocation of RM20 million. A total of 95 women entrepreneurs involved in education, ICT-related services, R&D and marketing enterprises benefitted from the scheme in the form of grants and loans valued at RM9.5 million.

Soft loans

In facilitating SME access to finance, various funds are provided through commercial banks and development financial institutions (DFIs). The funds provided for the purpose of expansion of productive capacity and working capital are shown in *Table 3*.

TABLE 3

Funding for SMEs

FUNDS	BANKS/FINANCIAL INSTITUTIONS	INTEREST RATE (% per annum)	PARTICULARS
Rehabilitation Fund for Small and Medium Industries (RFSMI)	MIDF, BITMB, BPIMB, all commercial banks, BPM, SDB, all finance companies and all Islamic banks.	4.5	Assist viable SMEs facing temporary cash flow problems. Maximum loan RM5 million.
Fund for Small and Medium Industries 2 (FSMI 2)	BPM, MIDF, BITMB, SDB, BPIMB, all commercial banks, finance companies and Islamic banks.	5.0	Promotes activities in the export and domestic-oriented sectors. Maximum loan of RM3 million.
ASEAN-Japan Development Fund	MIDF, BITMB, BPIMB, BPM	6.5	Promote the development of Malaysian SMEs. Maximum loan of RM5 million or 75% from project cost (which ever is lower)
Fund for Food	BPM	3.75	Promotes food production. Maximum loan up to RM5 million or 90% of total project cost (which ever is lower).
New Entrepreneurs Fund 2 (NEF 2)	BPIMB, MIDF, all commercial banks, inance companies and slamic banks.	5.0	Stimulate the growth of *Bumiputera* SMEs. Maximum loan up to RM5 million.
Entrepreneur Rehabilitation and Development Fund	All commercial banks, finance companies and Islamic banks.	5.0	Provides assistance to *Bumiputera* companies facing non-performing loans/financing less than RM1 million. Maximum loan RM3 million or actual working capital required (which ever is lower).
Bumiputera Entrepreneur Project Fund	ERF Sdn. Bhd.	5.0	Assist *Bumiputera* entrepreneurs who have been awarded with contracts projects by the Government related agencies, statutory bodies and reputable private/public companies. Maximum Loan RM3 million or 60% of contract value, less advance by the Government (which ever is lower).
Small and Medium Scale Industry Promotion (SMIPP)	BPIMB	7.0	Purchase of equipment, machinery and assets.

FUNDS	BANKS/FINANCIAL INSTITUTIONS	INTEREST RATE (% per annum)	PARTICULARS
JV Promotion Scheme	KPUn	BLR + 2.0	Promote joint venture between *Bumiputera* and non-*Bumiputera* entrepreneurs.
Programmes and Financial Support Packages for SME (PAKSI and PAKSI-W)	BITMB	3.5 - 5.0	Provide working capital and project financing for SMEs.
Skim Pembiayaan Usahawan Kecil dan Sederhana	PUNB	4.0	Stimulate the growth of small and medium *Bumiputera* entrepreneurs and to enhance the quality of SMEs.
Franchise Financing Scheme	MBB and BCB	BLR + 1.5	Provides guarantee coverage to facilitate franchise system. Loan up to 80% for unsecured portion and 90% for secured portion. Maximum loan RM7.5million per SME
JBIC - SMI Fund	MIDF, BITMB, BPIMB	6.25 - 7.0	For new and existing ventures undertaking expansion, modernisation, diversification and/or relocation programmes in the manufacturing, agro-based and services sectors (acquisition of fixed assets, as well as for engagement technical assistance).
Small Entrepreneur Guarantee Scheme (SEGS)	All commercial banks and finance companies	BLR + 1.5	Guarantee coverage of 80% of the facility. Maximum loan RM50,000 per SME.
New Principal Guarantee Scheme	All commercial banks and finance companies	BLR + 2.0 (for loans <RM1 million)	Enables SMEs to maximize the collateral value and obtain more loans. Maximum loans up to RM10 million regardless of their business sectors. Guarantee coverage up to 80% for unsecured portion and 90% for secured portion.
Flexi Guarantee Scheme	All financial institutions participating in FSMI 2, RFSMI and NEF2 respectively	As t.c.a. for FSMI 2, RFSMI and NEF 2	Ensure greater access to credit for viable Malaysian SMEs, especially those eligible for loans under FSMI2, RFSMI, and NEF2.
PROSPER	PUNB	t.c.a.	Increase *Bumiputera* participation and involvement in the retail sector.
Direct Access Guarantee Scheme	Panel of financial institutions assigned by CGC	BLR + 1.0	Allows viable businesses to gain direct access to credit facilities from financial institutions. Guarantee cover is up to 100% with loan amount ranges from RM50,000 to RM1 million.

FUNDS	BANKS/FINANCIAL INSTITUTIONS	INTEREST RATE (% per annum)	PARTICULARS
Skim Pembiayaan Ekonomi Desa (SPED)	BPIMB and Bank Kerjasama Rakyat Malaysia	5.0	A programme under *the KPLB*, to facilitate *Bumiputera* entrepreneurs with lower instalment and interest rate without collateral
Tourism Special Fund	BPIMB, MBB, BCB	3.75	Support the Government's effort in stimulating the development of the tourism industry in Malaysia.
Micro credit	BPM and BSN	4.0	Manage loans for small businesses and enterprises in the agriculture sector (BPM). Maximum loan of RM20,000.
Soft Loan for SME Relocation	MIDF	4.0	Assist existing and new start-up company project, fixed assets and working capital financing. A Special Window for Women Entrepreneurs financing is also covered under this scheme.

To address the issue of insufficient collateral of SMEs, measures have been taken to enhance the efficiency and scope of the Credit Guarantee Corporation (CGC). At the same time, the Enterprise Rehabilitation Fund Sendirian Berhad (ERF) has been enhanced as a one-stop centre to deal with issues pertaining to the development of *Bumiputera* entrepreneurs such as financing, training and advisory services.

Other measures to improve financing to SMEs include expanding the size and scope of selected funds, liberalising the eligibility criteria and reducing lending rates as well as the RM1 billion micro credit facility announced in the Package of New Strategies in May. Of significant importance is the establishment of a special window for SMEs at financial institutions and a SME special unit at Bank Negara Malaysia. At the same time with the establishment of the special window for SMEs, financial institutions complemented Government efforts in enhancing financing for SMEs by providing advisory and consultative services to improve the financial understanding and management of SME.

EXPERIENCE OF SUCCESSFUL SMEs

Studies by BNM on SMEs that have been in business for more than 10 years have identified seven key success factors of SMEs as listed below:

i. sound management capability and integrity;
ii. sound business cultures and entrepreneurial spirit;
iii. prudent financial management;
iv. high quality products and services;
v. effective programme for human resource development;
vi. strong support from financial institutions (in terms of lending and advisory services); and
vii. strong marketing strategies (including good network with suppliers).

The studies, which were based on SMEs financial performance and record of accomplishment, verified that the SMEs shared common attributes such as:

* Starting out on a very small scale.
* Raising capital through self-financing against borrowings and prudent financial management.
* Having strong entrepreneurial motivation.
* Focussing and leveraging their core competencies and concentrating on building records of success.
* Moderate expansion plans and in line with their capacities and overall business strategies.
* Establishing good networking among themselves, their suppliers and customers.

The attributes are very similar to Japanese SMEs, which took 50 years to nurture and groom into global players, such as in the case of Honda and Toyota. Based on these attributes, Malaysian SMEs, hold much potential as the key catalytic factor in Malaysia's economic development.

Demand for houses and other socio-infrastructure development projects such as schools, hospitals and universities had a multiplier effect on **wood-based industries**. The production of particle boards, plywood, carpentry and joinery as well as wood-based panels and flooring, therefore, turned around to record gradual increases since September 2002, to achieve an overall output growth of 1.7% in the first six months of 2003 (January-June 2002: -10.9%). The industry has for some time now been constrained by limitation of domestic saw logs, due to sustainable forest management. Output of the plywood industry as the major contributor, which increased moderately by 4.6% (January-June 2002: -3.2%) and veneer by 2.3% (January-June 2002:-14.6%), helped to reduce the declines experienced by the industry in April and May this year. Diversification into high-end wood products, such as engineered flooring board and own-designed office and household furniture and fixtures, are expected to improve capacity utilisation of the industry to about 60%.

The changing demographic structure towards a young population profile with 27% in the age group between 15 to 29 years old, has in turn changed the consumption pattern of Malaysians. With higher per capita income, coupled with modern urban lifestyles, Malaysians' consumption of ready-to-serve and fast food items has accelerated. Canned drinks, in particular carbonated drinks, surged to almost 50% of total output of beverages. The **food, beverages and tobacco industries** worth more than RM5,960 million contributed to 10% of total manufacturing output, expanded appreciably to record higher growth of 11.7% (January-June 2002: 1.2%). Various measures taken to boost consumption had also resulted in stronger domestic demand and growth in most food items, such as coconut oil, margarine, *vanaspati*, rice, as well as flour, biscuits and canned pineapples.

Meanwhile, improved terms of trade, particularly reduced tariffs on palm oil exports to India, as well as higher prices for the product, had boosted output of the food industry. However, with imports of food items surpassing exports in the first six months, identifying food products with export potential is necessary. Fish and crustacea including frozen shrimps and prawns, which recorded strong growth in production by 20.9% and increased exports by 19.1%, as well as cocoa and cocoa products are among the food items identified with export potential. Production of cocoa products, which include cocoa powder, cocoa butter, cocoa paste, chocolates and sweetened chocolate confectionary, expanded by 31.8% contributing to Malaysia retaining its position as the world's fifth-largest cocoa-processing centre and the largest processing country in Asia. Exports of cocoa products amounted to RM616.7 million and constituted about 15.4% of total food and beverages exported.

Besides food products, consumer products in the **textiles and apparel industry** have also benefitted from increased consumption and better external economic environment. Registering an output growth of 1.7% (January-June 2002: -10.8%) and export value of slightly more than RM3.4 billion, the industry sustained its importance as one of Malaysia's major export earners. Most Malaysian manufacturers act as sub-contractors and supply their products to well-known global brands, besides developing their own. Measures taken to promote brand building, as provided under the Package, will further benefit manufacturers. Meanwhile, efforts to move up the value chain have resulted in increased investments, especially in the higher-end market of the apparel industry. New products gaining market share are customised garments and accessories such as bio-ceramic infra red ray (FIR) garments, wedding gowns and sportswear.

Agriculture Sector

A moderately strong agriculture performance, largely supported by higher palm oil yields and export prices ...

In 2003, value added of the **agriculture, forestry and fishing** sector is expected to register positive growth albeit at a moderate pace of 2.3% The moderation is due largely to the slower output growth of rubber, forestry and logging, while supported by stronger production of palm oil, as shown in *Table 2.4*. The prices of most commodities were higher in 2003, reflecting mainly tight global supplies. As a result, export earnings for the sector is expected to expand by 10%.

TABLE 2.4

Value Added of the Agriculture, Livestock, Forestry and Fishing Sector
2002 - 2003
(in 1987 real prices)

	Growth (%)		Share to Agriculture (%)	
	2002	2003[1]	2002	2003[1]
Agriculture, forestry and fishing	***3.0***	***2.3***	***100***	***100***
Oil palm	*0.1*	*2.9*	*34.7*	*34.8*
Forestry & logging	*5.0*	*2.2*	*13.9*	*13.9*
Fishing	*7.5*	*2.8*	*13.9*	*14.0*
Rubber	*8.8*	*3.5*	*6.7*	*6.7*
Other agriculture[2]	*2.4*	*1.3*	*30.8*	*30.6*

[1] Estimate.

[2] Including livestock, cocoa, padi and miscellaneous agriculture such as fruits, copra, vegetables, tobacco, tea, flowers, pepper and pineapple.

Source: Department of Statistics.

Production of **crude palm oil (CPO)** is expected to register a stronger growth of 4.5% to 12.5 million tonnes in 2003, as shown in *Table 2.5*, reflecting the upturn in the yield cycle and productivity improvement. Increased matured areas especially in Sabah and Sarawak, and higher oil extraction rate arising from more efficient harvesting and handling of fresh fruit bunches also contributed to the growth. Peninsular Malaysia continues to account for the bulk of CPO output (58%) followed by Sabah (35%) and Sarawak (7%). Overall, the total hectarage planted is expected to increase by 2.2% to 3.8 million hectares, taking into account the new areas identified for cultivation of oil palm, especially in Sabah and Sarawak. Of this total, 59.6% is under private ownership with the remainder, Government owned. About 10% of the total hectarage planted comprise smallholdings.

TABLE 2.5

Oil Palm Area and Palm Oil Production 2002-2003

	2002	2003[1]	Change (%) 2002	Change (%) 2003[1]
Planted areas ('000 hectares)	3,670	3,750	*4.9*	*2.2*
Matured areas ('000 hectares)	3,188	3,258	*6.1*	*2.2*
Production ('000 tonnes)				
Crude palm oil	11,910	12,450	*0.9*	*4.5*
Palm kernel oil	1,473	1,469	*-3.8*	*-0.3*
Yield (tonnes/hectare)	18.0	19.7	*-6.1*	*9.4*

[1] Estimate.

Source: Ministry of Primary Industries.

In 2003, the price of crude palm oil is expected to average RM1,450 per tonne (2002: RM1,400) after reaching its peak of RM1,689 per tonne during January 2003. While high production may dampen CPO prices due to increase in stocks, latest data indicates that export growth of CPO has outpaced production and hence prices are expected to remain firm. The increase in demand for export by traditional and new markets and more competitive pricing *vis-a-vis* other vegetable oils and fats have contributed to the strong performance of CPO exports.

In the first half of 2003, output of **rubber** increased sharply by 18.6% to 317,000 tonnes due largely to yield improvement. Total production of rubber is, however, expected to increase moderately by 3.5 % to 610,000 tonnes in 2003 largely driven by improved rubber prices that encouraged higher activities in the small holding sub-sectors. Notwithstanding the positive developments, the major challenge faced by the rubber industry is the slow increase in supply of rubber despite the more favourable prices. Total land under rubber, estimated to be around 1.315 million hectares in 2003, as shown in *Table 2.6*, represents a decline of 2.4%. The decline is due to abandoned holdings as well as some conversion of rubber cultivation to oil palm and other more lucrative activities, following prolonged depressed global demand and lower prices prior to second half of 2002. Steps taken to revitalise the industry include increasing tree yields with new latex timber clones, intensifying integrated projects in rubber plantation, particularly for food production and increasing prices through strategic alliance with other major producers. To ensure adequate supply of rubber and rubber wood for downstream activities, the rubber replanting programme was reviewed to ensure at least 20,000 hectares are replanted annually with latex timber clones, especially in designated rubber zones. In addition, to promote the rubber-wood furniture industry, 25,000 hectares of rubber per year will be planted during the next 15 years. Towards this end, the Government will establish a Rubber Forest Plantation Fund with an initial allocation of RM200 million as soft loans to eligible companies and organisations.

The price of rubber has been on the uptrend since the second half of 2002. This is due to

TABLE 2.6

Rubber Area, Yield and Production 2002-2003

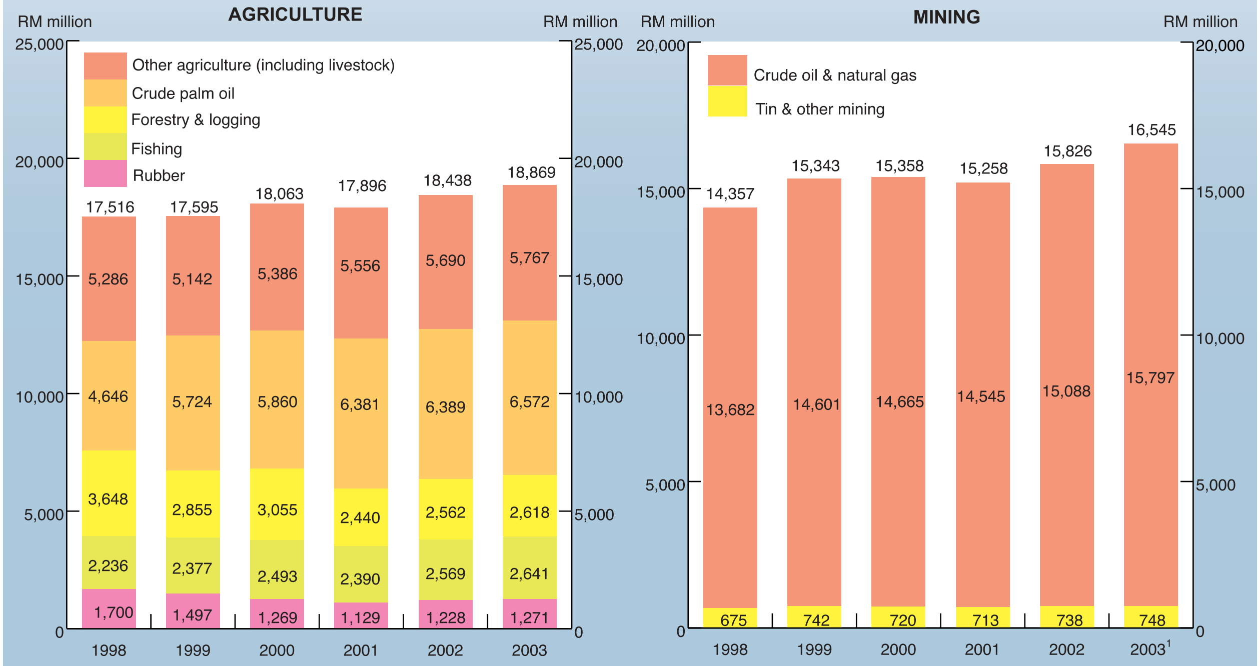
	2002	2003[1]	Change (%) 2002	Change (%) 2003[1]
Total area ('000 hectares)	**1,348**	**1,315**	***-3.0***	***-2.4***
Smallholdings	1,195	1,176	*-2.0*	*-1.6*
Estate	153	139	*-9.5*	*-9.2*
Yield (kg per hectare)				
Smallholdings	920	940	*2.2*	*2.2*
Estate	1,220	1230	*1.7*	*0.8*
Total production ('000 tonnes)	**589**	**610**	***7.7***	***3.5***
Smallholdings	504	539	*12.8*	*6.9*
Estate	85	71	*-15.0*	*-16.5*
% of world production	***8.2***	***8.1***	***-0.6***	***-1.2***

[1] Estimate.

Source: Ministry of Primary Industries and Department of Statistics.

CHART 2.6

Value Added of Major Commodities



Source: Department of Statistics.

lower world stocks amidst increasing demand coupled with market intervention through the International Tripartite Rubber Corporation (ITRCo) pact, a strategic alliance between Indonesia, Malaysia and Thailand. The average price of RSS1 in January-June 2003 increased 39.7% to 366 sen per kilogram (kg) compared to 262 sen per kg during the same period in 2002. Prices are expected to remain firm for the second half of the year.

In the **forestry and logging** sub-sector, in adherence to sustainable forest management policy, the total hectarage for the annual allowable cut in permanent forests has been reduced to 1.36 million hectares under the Eighth Malaysia Plan compared to 1.38 million hectares during the Seventh Malaysian Plan. Hence, the overall production of **saw logs** is not expected to increase significantly in the near term. Sarawak and Peninsular Malaysia, which account for the bulk of the output, are expected to increase production by 8% to 13 million cubic metres (m^3) and 5 million cubic meters (m^3), respectively, underpinned by increase in demand for wood-based products in the world market, following brighter prospects of global economic recovery. In contrast, production of saw logs in Sabah is expected to decline by 39% to 3 million m^3. Subsequently, growth in value added of the forestry and logging sub-sector is expected to moderate to 2.2% in 2003.

Value added of the **fishing** sub-sector, which comprises marine fish landing and aquaculture harvest, is expected to increase by 2.8% and account for 14% of the total agriculture sector value added in 2003. Marine fish landing is envisaged to increase by 2.5% to 1.32 million tonnes, on account of productivity gains due to measures taken to modernise the fishing industry with better facilities and equipment. To further improve the performance of the industry, under the Package as announced in May 2003, the Government will build 1,000 fishing boats with modern equipment to replace existing ones. These boats will be leased to fishermen and managed by Persatuan Nelayan Kebangsaan (NEKMAT). The programme is expected to improve productivity of fishermen and increase fish catches significantly. In addition, the Government will enhance its effort to increase enforcement and surveillance to ensure that local fishing vessels are well protected within Malaysian waters. As for aquaculture, Government's efforts in developing the industry has resulted in increased output from 184,000 tonnes of aquaculture produce in 2002 to 197,000 tonnes in 2003. The increase in production has not only helped to meet domestic demand but also expanded the export capacity of the fishing industry. Given the potential of the sub-sector, an additional 4,500 hectares of aquaculture industrial zones (AIZ) will be developed.

Output of the **other agriculture**, which comprises food commodities like livestock, cocoa, *padi*, fruits and vegetables, is envisaged to expand by 1.3% and contribute almost one third of the share to total agriculture value added. The continued expansion in food commodities reflects successful implementation of the Third National Agriculture Policy (NAP3) to expand domestic food production and broaden export capacity of the sector. **Livestock** value added is expected to grow by 5.4%, mainly due to higher production of beef by 47.3% and mutton by 16%. Similarly, production of eggs, fresh milk, and poultry is anticipated to increase by 16.2%, 13.6% and 13.8%, respectively driven by higher farm-gate prices and better animal handling as well as increasing practices of commercial farming.

Production of **cocoa** is envisaged to increase by 4.8 % in 2003 to 50,000 tonnes, stimulated by higher prices since 2002. The increase in output is also attributed to productivity gained following improved techniques such as bud-grafting and higher input of fertilisers. Of total production, 71% is from smallholders and the remaining from estate producers. ***Padi*** cultivated area is expected to decrease by 0.2% to 689,900 hectares in 2003. Nevertheless, ***padi*** production is expected to grow by 0.4%, as shown in *Table 2.7*, due to several measures to increase production of *padi*. These include encouraging the consolidation of small padi holdings, increasing *padi* yield with Ten Tonnes Per Hectare project through the introduction of the Low Input Sustainable Agriculture (LISA) technology, which utilises highly sophisticated precision farming techniques to expand production.

TABLE 2.7

Production of Other Agriculture
2002-2003
('000 tonnes)

	2002	**2003[1]**	**Change (%) 2002**	**Change (%) 2003[1]**
Padi	2,181	2,189	*3.9*	*0.4*
Cocoa	47.7	50.0	*-17.3*	*4.8*
Pepper	24.1	27.2	*-4.0*	*12.9*
Tobacco[2]	102	120	*32.2*	*17.6*
Fruits[3]	1,285	1,349	*5.0*	*5.0*
Livestock[4]				
Meat	988	1,105	*2.3*	*11.8*
Eggs ('000)[5]	6,619	7,690	*-0.3*	*16.2*
Milk ('000)[6]	36.0	40.9	*19.0*	*13.6*
Flowers (million)[7]	116	167	*14.8*	*44.0*
Tea	26	26	*15.3*	*0.0*
Vegetable	778	813	*-24.5*	*4.5*
Copra	15	14	*557.9*	*-6.7*

[1] Estimate.
[2] Green and dry tobacco leaves.
[3] Consists of starfruit, papaya, jackfruit, ciku, durian, guava, langsat, mango, mangoesteen, pineapple, banana, rambutan, watermelon, and other tropical fruits.
[4] Including beef, poultry, swine and mutton.
[5] Number.
[6] Litre.
[7] Cuttings.

Source: Ministry of Agriculture and Ministry of Primary Industries.

The output of **vegetables and fruits** is anticipated to increase by 4.5% and 5% respectively in 2003, as shown in *Table 2.7*. This is largely due to increased cultivation on new and existing farms following the introduction of Permanent Food Production Parks (PFPP) covering 1,540 hectares and six satellite farming areas. To further boost Malaysia's fruit and vegetables produce to a more competitive level in the local and world market, the Government has introduced Malaysia's Best seal. For farms to be accredited with the seal, they must adhere to the standards of the Malaysian Farm Accreditation Scheme. Standards adopted are based on internationally accepted standards as in the Euro Retailer Produce Working Group (EUREP), the Good Agriculture Practice, the Codex International Code of Practice and also Malaysian Standards. For a start, the first batch of produce to be marketed under the Malaysia's Best programme are mangoes, papayas, starfruits, watermelons and pineapples. Likewise, the **horticulture** industry is expected to grow strongly by 44% in 2003 compared to 14.8% in 2002, following higher external demand arising from new export markets in Europe and the Middle East. The most cultivated varieties are carnations, orchids, chrysanthemum and foliage.

To promote the agriculture sector as the third engine of economic growth, measures will be undertaken to increase investment in large-scale agriculture and commercial activities with potential to increase the overall value added. Specific studies indicate untapped potential in upstream processing activities as well as downstream utilisation of oil palm biomass, herbs, horticulture, deep-sea fishing and ornamental fish. In addition, efforts to establish Malaysia as a regional centre for the production of food and *halal* products will also be intensified. Towards this end, several studies to assess the prospects for these industries were conducted. Action plans and investment guidelines were formulated and disseminated in several seminars and exhibitions to inform investors of new opportunities and prospects in the agriculture industry. Furthermore, the Government has, through the Budget 2002 and 2003 as well as the Package put in place several incentives and measures to accelerate these new sources of growth within the agriculture sector. Apart from production aspects, emphasis will also be given to improve the overall integrated value chain of activities in the sector such as logistic, distribution, marketing, packaging and export. To improve the infrastructure and delivery system in rural areas, an allocation of RM300 million was provided under the Package.

Mining Sector

Malaysia set to be the world's second largest producer of LNG with the on-stream of MLNG3...

The value added of the **mining** sector is anticipated to expand by 4.5%, as shown in *Table 2.8*. Higher oil and gas production especially during the first half of 2003 was due to increase in domestic and overseas demand and prices.

TABLE 2.8

Value Added in the Mining Sector 2002-2003
(in 1987 real prices)

	RM million		Change (%)	
	2002	**2003[1]**	**2002**	**2003[1]**
Mining sector	15,826	16,545	*3.7*	*4.5*
Crude oil & natural gas	15,088	15,797	*3.7*	*4.7*
Other mining	738	748	*3.5*	*1.4*

[1] Estimate

Source: Department of Statistics

During the first six months of 2003, **crude oil** production including condensates averaged 739,800 barrels per day (bpd), reflecting an 8.1% increase compared to the same period in 2002. Similarly, production for the year is expected to increase by 2.4%, as shown in *Table 2.9* with an average of 716,000 bpd based on the planned work programme for the year.

The production of **natural gas** during the first six months increased by 6.2% to 864,500 million standard cubic feet (mmscf) compared with 814,100 mmscf during the same period in 2002.

TABLE 2.9

Production of Crude Oil and Natural Gas 2002-2003

	2002	2003[1]	Change (%) 2002	Change (%) 2003[1]
Crude oil ('000 bpd)[2]	699	716	*4.9*	*2.4*
Natural gas (mmscfd)[3]	5,131	5,644	*13.0*	*10.0*

[1] Estimate
[2] Including condensates
[3] Excluding flaring and reinjection

Source: PETRONAS.

Total production for the year is projected to increase by 10% to 5,644 million standard cubic feet per day (mmscfd) in tandem with anticipated increase in external demand as well as higher domestic usage of gas following the revision of gas prices early this year. With the completion of Petroliam Nasional Berhad's (Petronas) third liquefied natural gas plant (MLNG3) in Bintulu in March 2003, Malaysia is set to be the world's second largest producer of LNG. Currently, Malaysia's natural gas reserve is estimated to be 89 trillion standard cubic feet and expected to last 43 years. To further ensure the sustainability of the country's energy resources, the fuel diversification policy, which initially covers the use of oil, coal, gas and hydro, has been expanded to include renewable energy, such as biomass, biogas, municipal waste and solar, as the fifth fuel.

Tin output continued its downward trend, due mainly to the reduction in the number of active tin mines, lower grade deposits, and availability of deposits only at greater depth. To date, only 28 mines are considered to be active and productive with most of them operating near the end of their leases period.

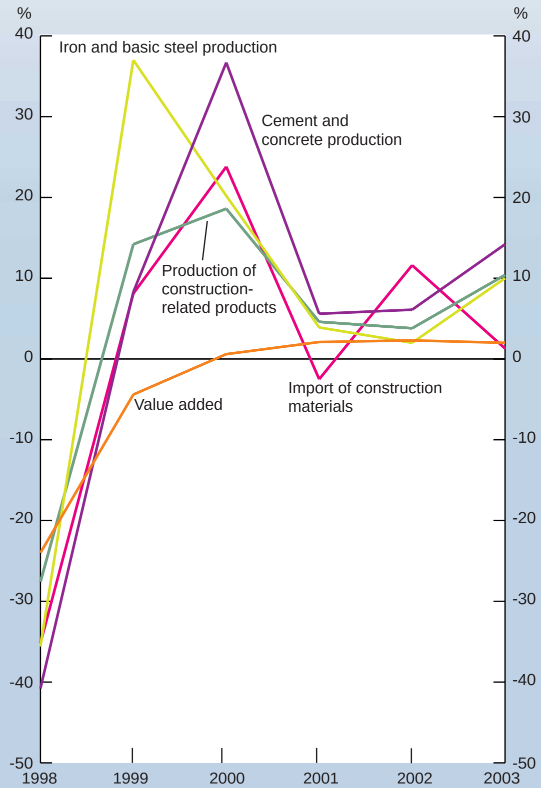
Construction Sector

Housing activity to accelerate in the second half, supported by the Package...

Underpinned by continued demand in selected segments of the property market and higher expected budgetary allocation for public infrastructure projects, value added in the construction sector is envisaged to grow by 2.5% in 2003. The sustained performance is partly on account of renewed interest in residential housing, in particular affordable houses, and supported by incentives given under the Package and lower interest rates. Total public expenditure on infrustructure is expected to pick up in the second half of the year and help sustain construction activities in the public sector. Among the major on-going projects include the construction of the East-Coast Expressway, Kapar-Sabak Bernam and Klang-Banting Road, Tanjung Kidurong-Berkam Coastal Road in Sabah, Rawang-Ipoh double tracking project, the new Johor-Singapore bridge as well as the Stormwater Management and Road Tunnelling (SMART) project in Kuala Lumpur.

CHART 2.7

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



Source: Bank Negara Malaysia

Construction of residential properties remains active despite slower demand for housing as the Iraq war and SARS affected consumer confidence during the first five months of 2003. Housing starts in the residential sector grew by 4.6% during the first half of 2003. Of the 69,941 units of housing starts during the period, 47.5% were terrace houses while condominium, apartments and flats constituted 20.2%. Houses priced at RM180,000 and below were in better demand and those located at preferred locations attracted strong interest of buyers.

Overall, the supply and demand of purpose-built office and shopping complexes largely remain stable since 2000. Total existing stock of purpose-built office space in the second quarter of 2003 was 13.2 million square meters (sq.m.), reflecting a marginal increase of 0.2% from the preceding quarter while the average occupancy rate rose to 79% in the second quarter (first quarter 2003: 78.3%). Similarly, the average occupancy rate of total shopping complexes rose from 78.2% in the first quarter to 78.6% in the second quarter, while the total existing space decreased by 0.2% to 6.33 million sq.m. during the same period. The supply and demand situation for shop units and industrial units is generally balanced. In the second quarter of 2003, 1,533 shop units and 506 industrial units were completed as compared with 1,792 units and 145 units, respectively in the corresponding quarter of 2002. The demand for shop units and industrial units is expected to pick up as a result of higher growth in the business and manufacturing sector.

In response to the Package and stronger economic growth as well as lower interest rates, the number of property transactions is expected to pick up in the second half of the year, after registering a decline of 5.8% to 111,934 transactions in the first-half (January-June 2002: 118,858 transactions). The decline of 11% is due to lower number of residential property transactions. Commercial and industrial properties transactions meanwhile recorded an increase of 5% and 9.6%, respectively during the six-months period.

Construction has been a key sector in the Government efforts to stimulate domestic economic activities and in enhancing growth. As the economy continues to rely on the domestic sector, the contribution of construction sector to GDP growth will have to be further enhanced. The Government, under the Package, introduced several measures and incentives as well as cash payment to first home owners under the Home Ownership for the People (HOPE) project to stimulate the property and construction sector as will as to provide affordable housing to the lower income group. Individual income tax relief will be given on the specified interest payments of housing loans. Within a one-year period from 1 June 2003, purchases of houses below RM180,000 are eligible for stamp duty exemption and the secondary property market is exempted from real property gains tax. To attract and facilitate acquisitions by foreigners in the property market, the Government also liberalised foreign ownership by allowing foreigners to acquire landed properties exceeding RM150,000 per unit.

Syarikat Perumahan Negara Berhad (SPNB), established in 1997 as part of its measures to accelerate the implementation of low-cost housing projects, will build at least 150,000 units of medium-cost and affordable houses within a 5-year period. SPNB will also purchase unsold completed apartments, estimated currently to total 4,400 units, at a minimum discount of 20% of the market price. These units will then be allocated to eligible Government employees including widows of Government employees as well as single mothers, who do not own houses, through a hire purchase and buy-back scheme. After paying a monthly rental of RM50 per month for three years, they will also be given the option to purchase their units. These measures are expected to result in higher demand in the residential sector, particularly for affordable houses.

In an effort to increase productivity and quality in the construction industry, contractors are encouraged to utilise modern building techniques as well as the industrialised building systems (IBS). The IBS, which assembles on-site pre-fabricated building components manufactured at factories, will enable cost saving and quality improvement in the industry through reduced labour intensity and construction standardisation. Realising the benefits of adopting IBS, SPNB has started using the IBS in the steel and tunnel formworks system particularly in its affordable housing scheme. To promote and encourage wider usage of IBS, the Government is currently drawing up a new IBS roadmap.

Given the importance of the property sector to the economy, the Government will continue to provide regular information and data on the property market to reflect the changing conditions affecting demand and supply of real property. As such, the Government is currently reviewing its housing statistics in order to provide a better guide in the assessment of the property market.

Services Sector

Remains resilient despite war and SARS...

Effective measures to stimulate domestic consumption helped mitigate the adverse impact of the Iraq war and SARS and facilitated the services sector to sustain its growth momentum. The sector is expected to continue to expand by 4.2% in 2003, as shown in *Table 2.10*. Demand for financial services, telecommunications and transport arising from improved economic prospects, particularly during the second half of the year will support overall growth. Steady pick-up in tourism after the short-lived SARS outbreak and improved consumer sentiment during the second half of the year further reinforced the sector's growth.

The services sector growth has on average outpaced GDP growth for more than a decade, reflecting the growing demand for services in line with the rapid expansion in other sectors of the economy. Developments in trade liberalisation, emergence of new markets such as China and the East European countries and the proliferation of the information and communication industry (ICT) have spurred the consumption of services, particularly in finance, transport and telecommunications. In addition, rising incomes and changing lifestyles have resulted in higher demand for take-away food, entertainment and travel. Furthermore, the Government's policy of maximising the sector's potential, initially to mitigate the services deficit in the balance of payments and later to develop new growth areas, has also contributed to the stronger growth of the sector. Given the strong growth, the share of the services sector to GDP growth has been rising gradually from 46.8% in 1990 to nearly 57% in 2003. The increasing share is reflective of Malaysia's steady progress towards achieving industrial nation status, whose services sector generally accounts for 60-70% of GDP.

Rising income as well as policy measures aimed at increasing domestic consumption have contributed to the growth of the **wholesale and retail trade, hotel and restaurants sub-sector**. The sub-sector is estimated to register a moderate growth of 2.1% in 2003 compared with 2.6% in 2002, due to the negative impact of SARS during the second quarter. Fortunately SARS was short lived and while some retailers suffered losses, others experienced a boon. Sales of plastic and rubber gloves and surgical masks for protection

TABLE 2.10

Services Sector Performance
(in 1987 real prices)

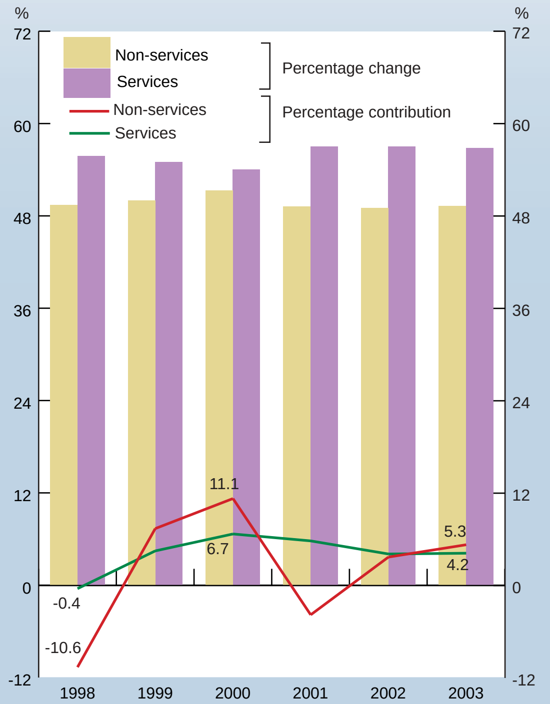
	Change (%)		**Share of GDP Value Added (%)**	
	2002	**2003[1]**	**2002**	**2003[1]**
Electricity, gas and water	*3.9*	*7.3*	*4.0*	*4.1*
Transport, storage and communications	*2.6*	*4.5*	*8.5*	*8.5*
Wholesale and retail trade, hotel and restaurants	*2.6*	*2.1*	*14.9*	*14.6*
Finance, insurance, real estate and business services	*5.3*	*5.0*	*14.3*	*14.4*
Government services	*6.7*	*4.6*	*7.3*	*7.3*
Other services	*4.6*	*4.2*	*8.0*	*8.0*
Total	***4.1***	***4.2***	***57.0***	***56.8***

[1] Estimate

Source: Department of Statistics

CHART 2.8

Services and Non-services Sector: Percentage Change and Contribution to GDP



Source: Department of Statistics.

purposes as well as plastic containers, canned food and health supplements increased substantially during the SARS period. The month-long mega sales in August and during the festival season from October to December is expected to further boost retail sales.

Total sales of the wholesale and retail trade expanded by 5.8% to RM44,254 million in the first quarter of 2003, due mainly to higher sales in wholesale trade, which accounted for 67.9% of total sales. About 87% of the entities in wholesale trade have an annual sales value above RM1.25 million while retail trade, 56.4%. In consonance with growing sales value for the last several years, wages paid in wholesale as well retail trade increased by 8.9% and 11.1%, respectively as compared with the first quarter of 2002, to total RM942 million and RM584 million. In terms of employment, the wholesale trade has about 176,000 workers while the retail trade, 275,000 workers.

Sales value of **wholesale trade** grew at 7.9% to RM30,054 million in the first quarter of 2003 following higher receipts from specialised stores, particularly, sales of motor trading and motor accessories which increased by RM1,726 million, followed by household and personal goods (RM299 million) and palm oil (RM199 million). Sales of other specialised stores in industrial, agricultural and business equipment and materials meanwhile grew marginally by 0.7% or RM47 million while food, drink and tobacco declined by 2.4% or RM104 million. Specialised stores are important to wholesale trade as they accounted for 89.7% of its sales. The largest specialised store was motor trading and motor accessories with a share of 34% followed by other specialised stores in industrial, agricultural and business equipment and materials (21.3%); household and personal goods (15.2%) and food, drink and tobacco (14.3%).

Retail trade sales, meanwhile grew at a slower rate of 1.6% to RM14,201 million in the first quarter of 2003, following marginal growths of 0.9% and 1.8% in the sales value of non-specialised stores and specialised stores, respectively. As in the case of wholesale trade, specialised stores trade dominated retail sales, accounting for 79.7% of its sales value. Sales of specialised motor trading and motor accessories stores as well as specialised stores in industrial, agricultural, business equipment and materials increased by RM216 million and RM 139 million, respectively compared with the first quarter of 2002. During the period, sales of specialised household and personal goods stores, however, declined by 4.5% or RM161 million while specialised food, drink and tobacco stores posted a marginal increase of 0.2% or RM 1.3 million. With shares of 47% and 24.1% of the retail trade sales, motor trading and motor accessories and household and personal goods constitute the two largest specialised stores. The next largest specialised stores in retail trade are industrial, agricultural and business equipment and materials with a share of 4.5%, followed by food, drinks and tobacco (4.1%).

The **tourism industry** started the year on a positive note with over a million tourist arrivals for January 2003. However, the war in Iraq and the outbreak of SARS towards the end of March severely affected the industry. Tourist arrivals plummeted 58.6% on an annual basis to about 457,900 in April but recovered somewhat to 539,100 and 719,000 in May and June, respectively. Travel restrictions placed on citizens of Singapore and China, the worst SARS affected countries led to severe declines in tourist arrivals from these two countries, which traditionally are Malaysia's major tourists markets. Recognising the problems faced by the tourism industry, immediate relief measures were formulated under the Package. These included initiatives to reduce the cost of doing business, such as suspending income tax instalments for travel agencies and providing 5% discount on monthly electricity bills to hotel operators from June to December 2003. In addition, BNM will also provide a Special Relief Guarantee Facility (SRGF) of RM1 billion for working capital to help borrowers in the tourism industry. Banking institutions will also allow borrowers to restructure or reschedule loans. The Tourism Infrastructure Fund was increased by RM500 million to further develop the industry. Measures to stimulate domestic consumption such as the 2% reduction in EPF contributions, a half-month bonus for civil servants and sales tax exemption for hotels and restaurants are also expected to contribute positively to the industry.

The Government's policy of encouraging domestic-driven growth supported by an accommodative monetary policy has contributed to growth in **the finance, insurance, real estate and business sub-sector**, with value added estimated to expand by 5% in 2003. Strong performance of the sub-sector reflects the buoyant performance of the banking and insurance industries as well as the capital market. Supported by low and stable interest rates, ample liquidity and greater accessibility, new loans and advances extended by the banking system rose by 3.9% during the first half of 2003 (end 2002: 4.2%). The performance of the insurance industry continues to be encouraging with total premium increasing by 11.5% in the first half of 2003 on top of 13.3% growth in the corresponding period of 2002. The surge in trading activity and higher share prices in the Kuala Lumpur Stock Exchange (KLSE) further enhanced the performance of the sector. The Kuala Lumpur Composite Index (KLCI) rose 15% to 743.30 points at end-August 2003 compared with 646.32 points at end December 2002 while market capitalisation rose 22.2% to RM579.54 billion.

The transport, storage and communications sub-sector is anticipated to grow strongly by 4.5% in 2003, underpinned by the need to provide better transport services and increasingly sophisticated and technologically advanced communication services. Road, rail, air and sea transportation are expected to achieve positive growth. The main contributory factors are growth in trade-related and transshipment activities. Upgrading and expansion of transport infrastructure, particularly ports and roads, are expected to significantly increase the industry's capacity.

The number of vehicles on tolled highways increased by 4.8% during the first six months of 2003 on top of the 11.5% increase during the same period of 2002. Rail commuter revenue rose 15.2% during the first six months of 2003 after increasing 8.8% in the same period of 2002. In the case of rail cargo, revenue increased marginally by 0.3% after declining 2.4% in the corresponding period. As for port activities, total container throughput at Klang, Pulau Pinang, Johor including Tanjong Pelepas (PTP), Kuantan, Bintulu, Kuching, Miri, Rajang and Sabah increased by 17.5% to 4.9 million twenty equilvalent units (TEUs) during the period. Port Klang recorded the highest share of 47.4% with 2.4 million TEUs and PTP, 32.5%. The number of TEUs handled by Tanjung Pelepas Port (PTP) increased strongly by 37% to 1.6 million TEU's. The port is making remarkable progress as the nation's second transshipment hub for the region with a target of 3.5 to 3.6 million TEUs for 2003. PTP is currently involved in negotiations to attract a third shipping line to use its services and further enhance its growth.

In the case of air transport, which was affected by both the Iraq war and SARS, the number of domestic and international passengers on

Malaysia Airlines System (MAS) fell significantly by 7.8% and 14.3%, respectively, during the first half of 2003, compounding the declines of 8.2% and 1.5% in the corresponding period of 2002. However the no-frills airline, AirAsia Sdn Bhd which caters for domestic and some regional routes, recorded another marked achievement with 907,000 passengers during the first half of 2003 as against 418,000 passengers for the same period in 2002. However, air cargo handling by MAS picked up sharply by 27.1% due to increased transshipments diverted from SARS-infected Hong Kong SAR and Singapore.

With a share to GDP value added of 7.2%, **the Government services sub-sector** is expected to expand 4.6% in 2003. The expansion is due to the higher expenditure for salaries and wages, following adjustments to upgrade salaries for civil servants, including salary revision due to the implementation of Sistem Saraan Malaysia (SSM) and a half-month bonus under the Package.

The **electricity, gas and water** sub-sector is expected to register higher growth of 7.3% in 2003. The electricity sales volume and the maximum demand of electricity increased by 7.3% and 2.3%, respectively during the first six months (January-June 2002: 5% and 6%, respectively). These increases are mainly due to higher demand from the manufacturing sector.

Export Performance

Export remains favourable, supported by improved external outlook....

Generally, export performance remains favourable, with improving economic performance of major trading partners, particularly in the second half of the year. During the first half of 2002, Malaysia's external earnings (goods) picked up strongly by 6.9% (January-June 2002: 0.1%), mainly on account of the better-than-anticipated export performace of commodities and higher intra-regional trade. The strong growth was achieved despite an uncertain external environment.

Manufacturing exports, which contribute 82% to total exports, expanded by 1.4% (January-June 2002: 0.6%), reflecting the significant fall in external demand for electrical appliances and electronic equipment and parts. However, the earnings of primary commodities increased to 15% of total exports, with strong growth of 44% (January-June 2002: -4.4%), arising from improved external demand and high prices.

With expectations of softer commodity prices following the increased in global supply of vegetable oils, including palm oil and crude oil, the value of major commodity exports is envisaged to reduce gradually towards the end of the year. Nevertheless, expectations are for a strong build-up in manufactured exports, rejuvenated by global corporate replacement cycle. As the expected increase in export earnings of manufactured goods is likely to offset the slowdown in commodity exports, Malaysia's overall exports earning (goods) are expected to continue to record a favourable strong growth of 4.1% in 2003.

Exports of Manufactured Goods

Growth of manufacture exports stronger with upturn in global electronics demand...

Manufactured goods, comprising more than 80% of exports, remains the major contributor to Malaysia's total exports since the early 1990s. Overall manufactured exports grew faster by more than two times, as shown in *Table 2.11,* due to improved external demand, especially for semiconductors, followed by chemical and chemical products, iron and steel and petroleum products.

Strong growth of almost 20% was recorded for non-electronic products during the first half of 2003. This accounts for 35% share of manufactured exports, attributed to better performance in chemicals and plastic products, iron, steel and metal products as well as petroleum. Within the E&E sector, exports of semiconductors turned around, from a contraction of 0.1% last year to record a double digit growth of 24.7%. The strong growth was due to increased sales of computers, communication applications and the emergence of multi-function products such as smart phones. The contribution of non-

TABLE 2.11

Manufactured Exports
January-June

	RM million		Change (%)		Share (%)	
	2002	**2003**	**2002**	**2003**	**2002**	**2003**
Electronics, electrical and machinery appliances	102,998	97,383	*1.8*	*-5.5*	*70.3*	*65.6*
Semiconductors	32,101	40,023	*-0.1*	*24.7*	*21.9*	*26.9*
Electronic equipments and parts	44,060	32,119	*15.5*	*-27.1*	*30.1*	*21.6*
Electrical products	26,837	25,241	*-13.2*	*-5.9*	*18.3*	*17.0*
Textiles, apparel and footwear	3,962	4,180	*-14.7*	*5.5*	*2.7*	*2.8*
Wood products	4,344	4,631	*-3.9*	*6.6*	*3.0*	*3.1*
Rubber products	2,246	2,479	*-2.2*	*10.4*	*1.5*	*1.7*
Food, beverages and tobacco	3,105	3,465	*10.4*	*11.6*	*2.1*	*2.3*
Petroleum products	3,781	5,549	*-27.3*	*46.8*	*2.6*	*3.7*
Chemicals, chemical and plastic products	9,135	11,347	*3.9*	*24.2*	*6.2*	*7.6*
Non-metallic mineral products	1,384	1,415	*16.1*	*2.2*	*0.9*	*1.0*
Iron and steel, and metal products	4,318	5,578	*-0.2*	*29.2*	*2.9*	*3.8*
Transport equipment	1,661	1,599	*31.4*	*-3.7*	*1.1*	*1.1*
Miscellaneous manufactured products	9,484	10,833	*2.6*	*14.2*	*6.5*	*7.3*
Total	**146,418**	**148,458**	***0.6***	***1.4***	***100.0***	***100.0***

Source: Department of Statistics.

E&E exports to total exports of manufactured goods has shown an increase of 28.5% (January-June 2002: 25.7%). Nonetheless, E&E continues to be Malaysia's largest export earner at 65.6% during the first six months of 2003.

Export earnings of **E&E** products declined by 5.5% in the first six months of 2003. The decline was due to a sluggish US demand for electronic equipment and parts, in particular, automatic data office processing machine and equipment, which contracted by 27.1%. On the other hand, semiconductors experienced a significant recovery from the downturn of 2001 and achieved steady sequential growth from the third quarter of 2002. With exports to countries in the Asia Pacific region regaining momentum, global demand for Malaysia's semiconductors, in particular electronic equipment such as computers and peripherals will continue to expand.

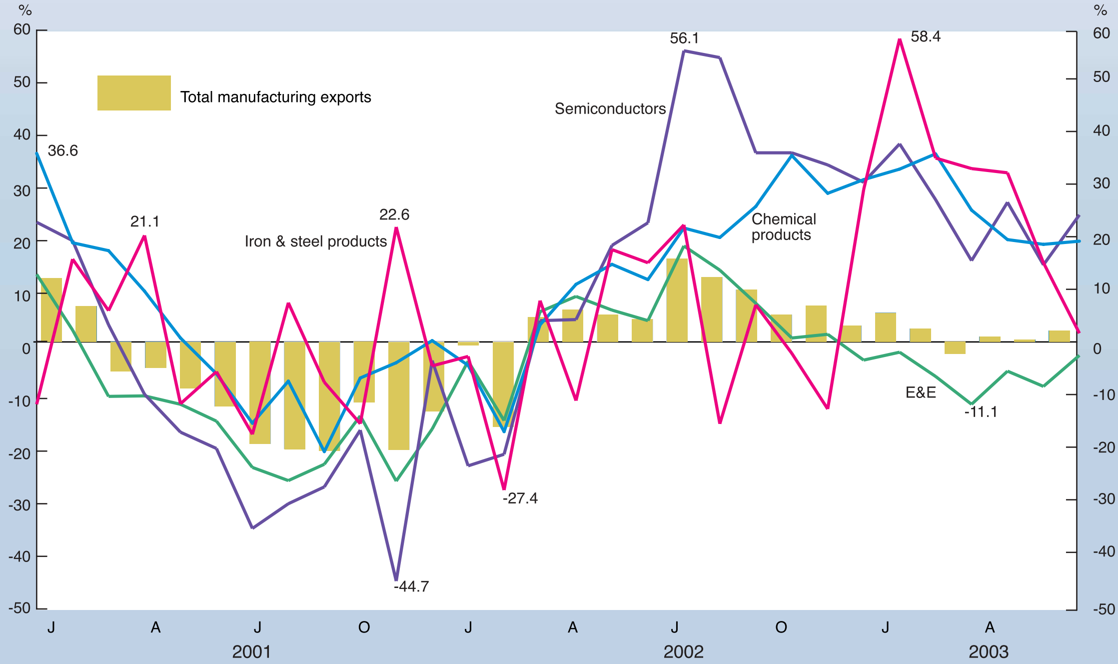
Semiconductor exports accelerated by 24.7% in the first six months this year, as shown in *Chart 2.9*, compared to -0.1% in the same period of 2002. The recovery was broad based with computer and consumer electronics, as well as communication applications, driving the growth and contributed to the emergence of smaller and faster electronic components such as bio-medical sensors, digital signal processors and integrated circuit chips. With expected improving global outlook, demand for semiconductors is envisaged to increase. The contribution of semiconductors is, therefore, anticipated to increase to more than 23% of total exports in 2003.

Chemicals, chemical and plastic products registered a significant growth of 24.2% during the first six months of this year (January-June 2002: 3.9%), and increased its share to total manufacture exports to almost 8%. Higher export growth of organic chemicals, plastic in primary forms and articles of plastics, which accounted for 64% of total exports of the sector contributed to the strong growth. Malaysia's major

CHART 2.9

Growth of Major Manufactured Exports

(% annual change)



Source: Department of Statistics.

export destinations were China with about RM1.3 billion (30%), followed by Japan and Singapore. Meanwhile, plastic products exports such as plastic bags, sheet/films and containers have expanded, especially to Hong Kong, South America, Australia, Japan and Singapore.

Pharmaceuticals, which are becoming increasingly important as an export earner, particularly to other ASEAN countries as well as Africa and the Middle East, grew more than 5% in exports this year. Local pharmaceutical manufacturers are intensifying their R&D efforts, particularly in areas of product innovation and improvement in herbal and traditional medicine, such as *tongkat ali, pegaga, dukung anak* and their generic products. These growing developments have attracted foreign investment in R&D of pharmaceutical products and the establishment of regional R&D centers in Malaysia. Furthermore, the increase in world demand for medical devices, particularly in the Asia Pacific region has also led to the higher growth of this industry.

A turnaround was recorded in exports of **petroleum products**, as shown in *Table 2.11*. The industry recorded a strong growth of 46.8% this year, after 27.3% contraction last year, raising its ranking as the third most important export earner. Refined petroleum, which recorded a high growth of 59% and accounted for 77% of total exports of petroleum products, contributed to the turnaround. The high exports of refined petroleum products reflected higher demand particularly from Asian countries.

In the first six months of 2003, export earnings of **iron, steel and metal products** increased sharply by 29.2% (January-June 2002: -0.2%) and remained the fourth largest contributor with export value of RM5,578 million. Iron and steel products, especially tubes and pipes, which grew at 61.1%, contributed substantially to about 41% of total exports of iron, steel and metal products. Meanwhile, exports of fabricated metals increased by 16% on account of higher exports of base metal products.

Export of Primary Commodities

Exports of primary commodities increased notably with its share to total exports increasing...

Export earnings from primary commodities comprising agriculture produce and mineral products is expected to register 13% increase or RM50,645 million in 2003. Export earnings from **agricultural** commodities for the first half in 2003 was strong, increasing by 42% to RM13,891 million from RM9,761 million in 2002 due to both higher external demand and prices amidst tight global supplies of edible oils and fats. However, growth of overall agriculture commodity export earnings is expected to moderate to 10% for the year to RM25,186 million largely due to anticipated lower export prices, especially for palm oil in the second half of the year.

Likewise, export earnings from the **mining** sector also increased markedly by 46% in the first half of 2003 due to higher export prices for crude oil and natural gas which surged by 42% and 58%, respectively during the same period. For the remaining of the year, the export price of crude oil is expected to soften with increasing supply especially from post-war Iraq. Consequently, the share of primary commodities to total exports has increased to 15% in the first six months of 2003 (January-June 2002: 11%).

Exports receipts of **crude palm oil** (CPO) surged by 49%, as shown in *Table 2.12,* accounting for 67% of total agriculture exports. In terms of export volume, it increased by 13% during the same period. The strong performance of palm oil was due to its price competitiveness *vis-a-vis* other competing vegetable oils and fats, higher demand from existing and new markets as well as significant increases in price. The local delivery price of CPO for the first six months of 2003 averaged RM1,532 per tonne (January-June 2002: RM1,248). Despite the increase in price, it was traded at a steep discount to prices of soyabean, sunflower oils and rapeseed oil of 22%, 37% and 39%, respectively as unfavourable weather conditions in US have given rise to poor harvests of these commodities and hence the high prices.

China is presently the largest importer of CPO accounting for 17% of total CPO export. India, the world's largest importer of edible oils, experienced edible oil shortage following the severe drought last year. Subsequently, exports of CPO to India continued to increase and the country remains one of the major importers of CPO. Further, promotional efforts were made to increase exports of CPO including raising awareness about positive health and nutritional benefits of palm oil in new and existing markets. West Asia has emerged as a large potential market for Malaysian palm oil. Markets like Iran has been increasingly importing palm oil from Malaysia. Steps taken to penetrate new and expand existing traditional export markets, among others, include counter-trade arrangements, bilateral negotiations, long term credit assistance to major importing countries with foreign exchange difficulties and technical advice assistance to increase usage of palm oil in food and non-food production. These measures have been effective, with exports to China and EU, increasing by 14% to 43%, respectively. Similarly, export receipts from **palm kernel oil** rose by 24% to RM624 million during the same period. Total export earnings of palm kernel oil in 2003 is envisaged to expand to 5% to RM1,120 million.

During the first half of 2003, export volume of **saw logs** and **sawn timber** increased by 17% and 0.4%, respectively due to higher demand form India and China. Similarly, export value of both saw logs and sawn timbers performed remarkably well, up by 36% and 9%, respectively during the same period. The export price of saw logs has increased by 16% during the first half of 2003, largely on account of supply constraints imposed by major producing countries. Nevertheless, prices appear to be stabilising with the upward trend moderating. For the

CHART 2.10

Primary Commodity Exports

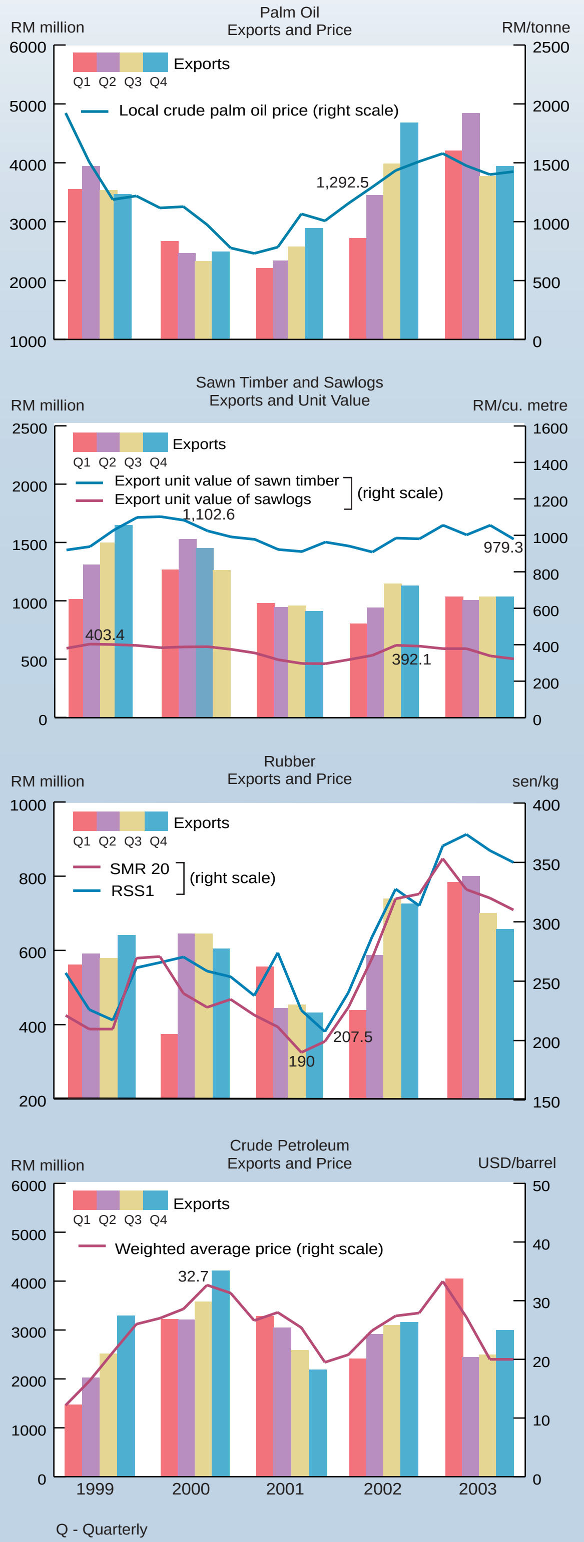


TABLE 2.12

Primary Commodity Exports
January-June

	2002	2003[1]	Change (%) 2002	Change (%) 2003[1]
Palm Oil[2]				
Volume ('000 tonnes)	5,123	5,765	*-4.0*	*12.5*
Unit Value (RM/tonne)	1,222	1,614	*43.5*	*32.1*
Value (RM million)	6,259	9,306	*37.7*	*48.7*
Palm Kernel Oil				
Volume ('000 tonnes)	363	336	*5.9*	*-7.5*
Unit Value (RM/tonne)	1,390	1,857	*9.9*	*33.5*
Value (RM million)	505	624	*16.4*	*23.5*
Saw Logs				
Volume ('000 tonnes)	2,257	2,634	*1.0*	*16.7*
Unit Value (RM/tonne)	317	369	*-5.6*	*16.4*
Value (RM million)	716	971	*-4.7*	*35.6*
Sawn Timber				
Volume ('000 tonnes)	1,217	1,222	*-1.8*	*0.4*
Unit Value (RM/tonne)	948	1,025	*-1.0*	*8.0*
Value (RM million)	1,154	1,252	*-2.0*	*8.5*
Rubber				
Volume ('000 tonnes)	429	460	*3.1*	*7.2*
Unit Value (RM/tonne)	239	353	*-0.5*	*47.7*
Value (RM million)	1,027	1,623	*2.6*	*58.0*
Pepper				
Volume ('000 tonnes)	8.7	7.6	*-39.2*	*-12.9*
Unit Value (RM/tonne)	6,011	7,243	*-23.9*	*20.5*
Value (RM million)	52	55	*-53.7*	*5.0*
Cocoa				
Volume ('000 tonnes)	10.2	9.0	*22.9*	*-11.8*
Unit Value (RM/tonne)	4,635	6,642	*35.9*	*43.3*
Value (RM million)	47	60	*67.0*	*27.7*
Crude Petroleum				
Volume ('000 tonnes)	8,128	8,437	*2.1*	*3.8*
Unit Value (RM/tonne)	644	882	*-19.1*	*36.9*
Value (RM million)	5,236	7,439	*-17.4*	*42.1*
barrels per day ('000)	341	354	*2.1*	*3.8*
Liquefied Natural Gas				
Volume ('000 tonnes)	6,916	8,306	*-11.0*	*20.1*
Unit Value (RM/tonne)	595	782	*-18.6*	*31.4*
Value (RM million)	4,117	6,494	*-27.6*	*57.7*
Tin				
Volume ('000 tonnes)	17.8	5.0	*56.1*	*-71.7*
Unit Value (RM/tonne)	15.4	17.6	*-20.0*	*14.3*
Value (RM million)	274	88	*25.0*	*-67.9*
Total Value (RM million)	**19,387**	**27,912**	***-4.4***	***44.0***

[1] Estimate.

[2] Includes crude palm oil, processed palm oil and stearin.

Source: Department of Statistics.

remaining of the year, the export volume for both products are anticipated to be on the decline due to controlled logging in line with Malaysia's sustainable forestry management policy. Despite an anticipated decline in export volume by 3% for the whole year, export receipts of saw logs and sawn timber is envisaged to edge up by 4% to RM1,867 million and 0.5% to RM2,238 million, respectively constituting 8% of total commodity exports.

Total **rubber** exports, the bulk of which is in the form of Standard Malaysian Rubber (SMR), surged by 58% during the first six months of 2003 on account of higher prices and volume. The reduction in the total area under rubber cultivation as well as the obligation to reduce rubber exports under the Tripartite Agreement between Malaysia, Indonesia and Thailand has been effective in increasing the rubber prices. The price of rubber, which has been on the increase since the early part of the year, is anticipated to be sustained to record a 19% jump to about 350 sen per kilogram for the year on the back of increased demand in tandem with global economic recovery. The anticipated higher supply of rubber after a wintering season, which did not occur, coupled with export default by some exporters, brought about a lower level of supply. In contrast, total demand increased on the back of recovery in the global tyre and automobile industry as well as the relaxation of import quota by China. Subsequently, receipts from rubber exports are expected to increase by 18%.

Crude petroleum, the second largest export, is envisaged to increase by 3% to 17 million tonnes (2002: 16 million tonnes). Consequently, export revenue from crude petroleum is forecast to record an increase of 13% to RM13,100 million (2002: RM11,600 million) with its price projecting to stabilise at around USD27 per barrel for the whole of 2003. In terms of export unit value, it is anticipated to increase by 10% to about RM788 per tonne. Export earnings of **liquefied natural gas** (LNG) during the first six months expanded by 58%, driven by higher demand as well as improved prices. In terms of export unit value, it has risen by 31% during the same period while its volume has also increased by 20%. Malaysia is presently the third largest LNG exporter in the world, accounting for 13 per cent or 15 million tonnes of global exports annually, after Indonesia and Algeria.

Import Performance

Imports declined on account of lower capital and intermediate imports while consumption goods rose due to strong consumption...

The gross value of imports including cost, insurance and freight (c.i.f.) contracted by 1.6% during the first six months of 2003, after recording a growth of 2.3% during the corresponding period last year. The decline was due to a contraction in imports of capital and intermediate goods on account of uncertainties in external demand. However, import of consumption goods continued to increase although by a lower rate of 1.1% (January-June 2002: 8.8%), in tandem with growth in domestic consumption. In the remaining months, as uncertainties begin to taper and investment confidence takes hold, imports are expected to trend upwards and result in a 0.8% growth for 2003 (2002: 8.3%), largely from a rebound in imports of intermediate and capital goods.

The postponement of private investment plans following less favourable external conditions led to a 11.8% decline in imports of **capital goods** (January-June 2002: -1.1%). After the completion of a number of large infrastructure projects last year, such as fleet expansion programme by airlines and shipping companies, delivery of trains for the Express Rail Link connecting KLIA and Kuala Lumpur Sentral, imports of transport equipment for industrial purposes, therefore declined substantially by 74.2% during the first six months of the year (January-June 2002: +106.6%). Among these were railway vehicles including hovertrains and associated equipment

TABLE 2.13

Gross Imports by End Use

	RM Million		% Change		% Share	
	2002	2003[1]	2002	2003[1]	2002	2003[1]
Capital goods	**22,622**	**19,957**	***-1.1***	***-11.8***	***15.4***	***13.8***
Capital goods (except transport equipment)	18,992	19,020	*-10.1*	*0.1*	*84.0*	*95.3*
Transport equipment (industrial)	3,630	937	*106.6*	*-74.2*	*16.0*	*4.7*
Intermediate goods	**104,813**	**104,409**	***0.9***	***-0.4***	***71.5***	***72.4***
Food and beverages, primary and processed mainly for industry	2,237	2,668	*4.3*	*19.3*	*2.1*	*2.6*
Industrial supplies, primary and processed	31,160	31,789	*-2.4*	*2.0*	*29.7*	*30.4*
Fuel and lubricants primary, processed, others	4,949	6,794	*-19.2*	*37.3*	*4.7*	*6.5*
Parts and accessories for transport equipment	3,566	2,739	*39.3*	*-23.2*	*3.4*	*2.6*
Parts and accessories of capital goods (except thermionic valves and tubes)	30,800	20,396	*6.2*	*-33.8*	*29.4*	*19.5*
Thermionic valves and tubes	32,101	40,023	*-0.1*	*24.7*	*30.6*	*38.3*
Consumption goods	**9,044**	**9,141**	***8.8***	***1.1***	***6.2***	***6.3***
Food and beverages, primary and processed mainly for household consumption	3,555	3,411	*2.3*	*-4.1*	*39.3*	*37.3*
Transport equipment (non-industrial)	73	149	*17.2*	*104.9*	*0.8*	*1.6*
Other consumer goods	5,416	5,581	*13.4*	*3.0*	*59.9*	*61.1*
Durables	1,120	1,292	*21.0*	*15.3*	*12.4*	*14.1*
Semi-durables	2,083	1,808	*17.1*	*-13.2*	*23.0*	*19.8*
Non-durables	2,213	2,481	*6.9*	*12.1*	*24.5*	*27.1*
Others (including dual use goods)	**6,154**	**6,841**	***22.5***	***11.2***	***4.2***	***4.8***
Imports for re-export	**3,906**	**3,909**	***24.8***	***0.1***	***2.7***	***2.7***
Gross Import	**146,539**	**144,257**	***2.3***	***-1.6***	***100.0***	***100.0***

[1] Estimate

Source : Department of Statistics.

(-67.5%), ships, boats and floating structures (-67.2%) and trailers and semi-trailers (-25.9%). However, import of other types of capital goods grew by 0.1% (January-June 2002: -10.1%).

During the first six months of 2003, import of **intermediate goods** contracted by 0.4% (January-June 2002: +0.9%), primarily due to lower import of parts and accessories of capital goods (except thermionic valves and tubes) which contracted by 33.8% and represents 19.5% of imported intermediate goods. The decline is also attributed to the contraction in imports of parts and accessories for transport equipment, which declined by 23.2% (January-June 2002: +39.3%).

On the other hand, all other categories of intermediate goods recorded growth during the reporting period. Import of thermionic valves and tubes, mainly used as inputs in the export-oriented electronic industry increased significantly by 24.7% (January-June 2002: -0.1%) to account for 38.3% (January-June 2002: 30.6%) of total intermediate goods. The same trend was recorded for fuel and lubricants and industrial supplies which expanded by 37.3% and 2%, respectively. In line with sustained consumer spending, import of food and beverages increased by 19.3%. Despite the overall decline in imports of intermediate goods, its share to total imports improved further to 72.4% (January-June 2002: 71.5%).

In consonance with higher private consumption spending, import of **consumption goods** expanded by 1.1% during the first six months of 2003 (January-June 2002: 8.8%). Notable increases were registered for imports of transport equipment, which increased by 104.9% (January-June 2002: 17.2%). Imports of both consumer durables and non-durables increased, while import of semi-durables fell during the first six months of the year. Imports of non-durables including perfumery, cosmetics and toilet preparations increased by 12.1% (January-June 2002: 6.9%), while import of consumer durables, comprising household electrical and non-electrical products, watches and clocks as well as jewellery increased by 15.3% (January-June 2002: 21%). On the other hand, import of semi-durables contracted by 13.2% (January-July 2002: +17.1%). Food and beverages followed the same trend, declining by 4.1% during the same period, as shown in *Table 2.13.*

Direction of Trade

Trade pattern shows more diversified export markets...

Malaysian external trade continued to strengthen further, despite adverse uncertainties prevailing in the external environment during the first half of 2003. At the same time, the trade pattern has shifted to focus on intra-regional trade within the East Asian region and to further diversity into non-traditional markets. Although the US continues to be Malaysia's biggest trading partner since 1997, its dominant position has declined significantly in the first half of the year.

Malaysia's total trade continued to expand by 3% to RM325,118 million (January-June 2002: 1.1%, RM315,755 million), as shown in *Chart 2.11* and *Table 2.14*, driven mainly by exports picking up strongly by 6.9% (January-

CHART 2.11

Direction of External Trade
January–June

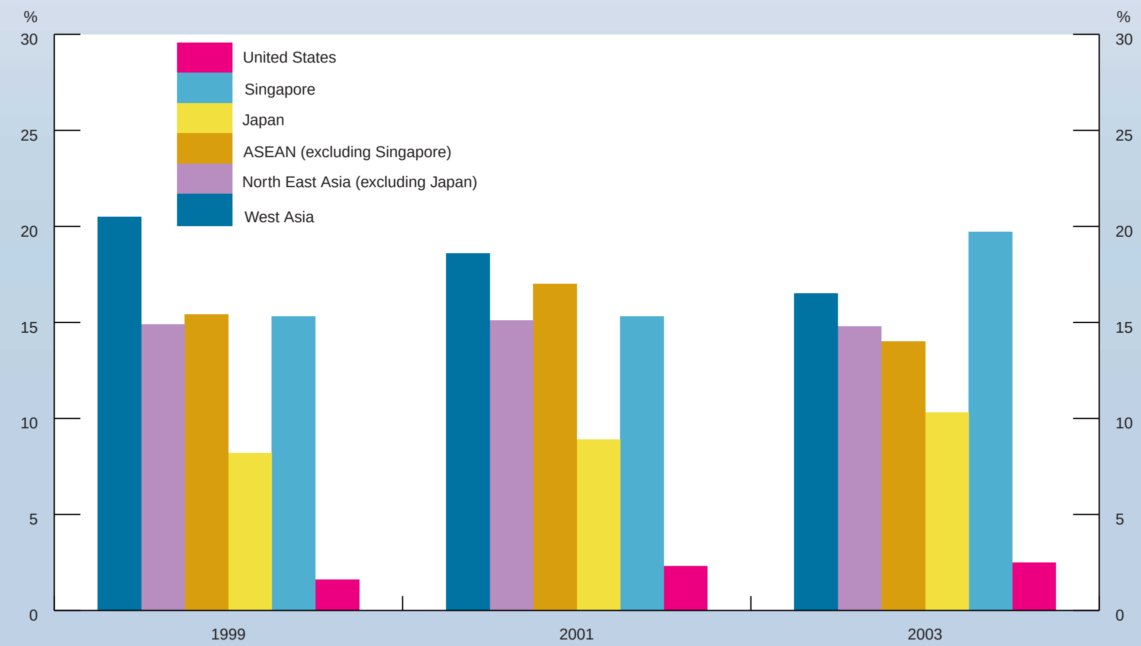


TABLE 2.14

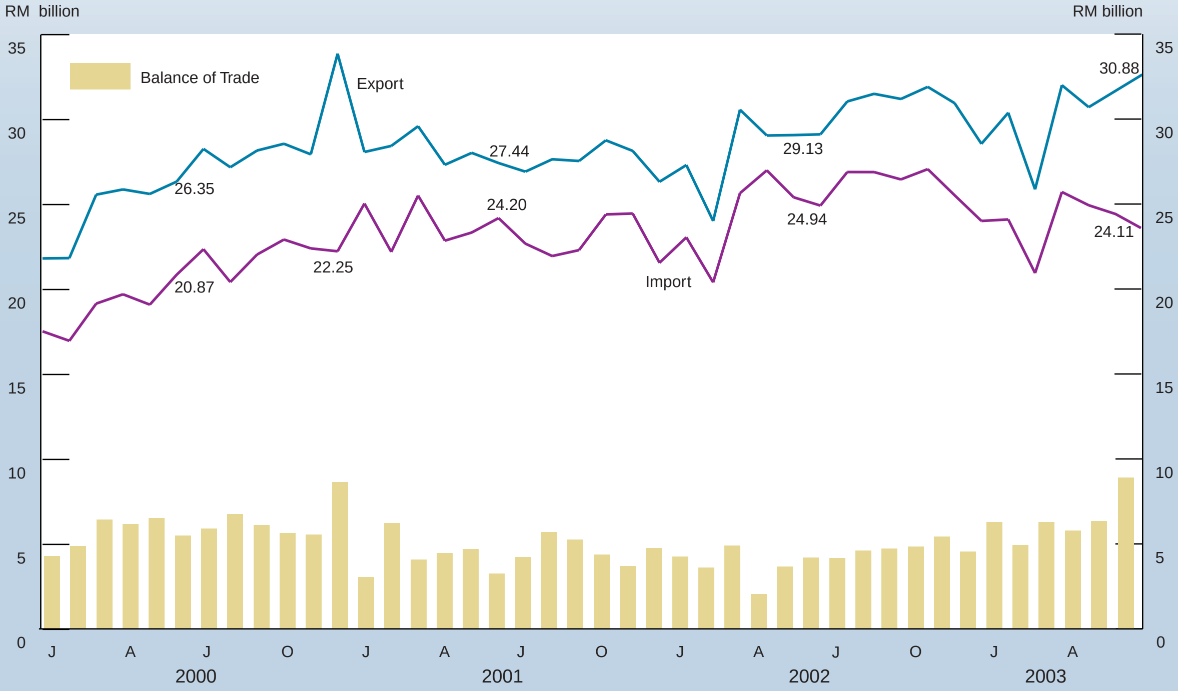
Direction of External Trade
January-June

	Exports				Imports				Trade Balance	
	% Change		% Share		% Change		% Share		RM million	
	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
United States	***4.8***	***-14.0***	***21.0***	***16.9***	***7.1***	***-10.2***	***17.6***	***16.1***	**9,681**	**7,348**
Singapore	***2.8***	***3.6***	***17.3***	***16.8***	***-4.8***	***-1.0***	***12.1***	***12.2***	**11,545**	**12,785**
Japan	***-20.7***	***7.4***	***11.3***	***11.4***	***-10.4***	***-3.5***	***17.7***	***17.3***	**-6,742**	**-4,418**
North East Asia (excl. Japan)	***17.4***	***18.4***	***17.5***	***19.4***	***34.4***	***-3.4***	***20.6***	***20.2***	**-530**	**5,940**
China, PRC	*36.2*	*26.7*	*5.2*	*6.2*	*76.6*	*6.3*	*7.2*	*7.7*	-1,626	79
Taiwan	*21.9*	*-0.1*	*4.0*	*3.7*	*8.9*	*-17.4*	*5.7*	*4.8*	-1,716	-261
South Korea	*-3.6*	*2.3*	*3.3*	*3.1*	*45.9*	*-6.0*	*5.2*	*5.0*	-2,128	-1,545
Hong Kong SAR	*13.8*	*34.3*	*5.1*	*6.4*	*2.7*	*6.2*	*2.5*	*2.7*	4,930	7,644
European Union	***-10.0***	***11.1***	***12.4***	***12.9***	***-11.7***	***2.9***	***11.3***	***11.8***	**4,502**	**6,355**
United Kingdom	*-12.9*	*2.8*	*2.4*	*2.3*	*-15.6*	*-7.6*	*2.1*	*2.0*	1,058	1,407
Germany	*-10.0*	*24.4*	*2.1*	*2.5*	*-3.0*	*25.5*	*3.5*	*4.5*	-1,634	-2,088
Netherlands	*-16.0*	*-3.5*	*3.8*	*3.5*	*-12.7*	*-10.8*	*0.8*	*0.7*	5,288	5,191
France	*31.2*	*39.9*	*1.4*	*1.8*	*-14.0*	*22.8*	*1.3*	*1.7*	338	807
Ireland	*-38.2*	*9.6*	*0.3*	*0.3*	*-27.1*	*-47.5*	*1.0*	*0.5*	-877	-159
Italy	*-14.4*	*57.8*	*0.5*	*0.7*	*-11.8*	*-6.8*	*0.8*	*0.8*	-363	202
ASEAN (excl. Singapore)	***10.2***	***7.9***	***9.2***	***9.3***	***15.0***	***5.5***	***10.8***	***11.6***	**-329**	**35**
Thailand	*9.4*	*11.4*	*4.3*	*4.5*	*5.9*	*1.3*	*4.1*	*4.2*	1,313	2,065
Indonesia	*17.4*	*10.6*	*2.0*	*2.1*	*7.8*	*11.8*	*3.1*	*3.5*	-1,084	-1,250
Philippines	*-0.2*	*0.5*	*1.5*	*1.4*	*42.0*	*4.7*	*3.1*	*3.3*	-2,105	-2,307
Brunei	*-17.5*	*26.7*	*0.3*	*0.3*	*-33.3*	*54.7*	*0.0*	*0.0*	450	569
Myanmar	*4.4*	*-36.8*	*0.3*	*0.2*	*-9.6*	*15.6*	*0.1*	*0.1*	309	121
South Asia	***2.4***	***46.9***	***2.8***	***3.8***	***-12.4***	***-6.2***	***0.9***	***0.9***	**3,297**	**5,574**
India	*-4.1*	*57.4*	*1.7*	*2.6*	*-14.8*	*-6.7*	*0.8*	*0.8*	1,707	3,476
West Asia	***4.4***	***21.3***	***2.1***	***2.4***	***-36.6***	***58.8***	***1.6***	***2.5***	**1,325**	**738**
Saudi Arabia	*12.6*	*6.7*	*0.4*	*0.4*	*-45.2*	*55.2*	*0.5*	*0.8*	-52	-428
United Arab Emirates	*-7.6*	*24.9*	*0.9*	*1.0*	*-38.9*	*209.2*	*0.1*	*0.4*	1,330	1,326
Yemen	*36.4*	*39.9*	*0.1*	*0.1*	*-10.3*	*19.1*	*0.4*	*0.4*	-390	-433
Oman	*-64.8*	*38.1*	*0.0*	*0.1*	*-56.7*	*213.5*	*0.2*	*0.6*	-184	-700
Australia	*-6.9*	*21.1*	*2.1*	*2.4*	*-10.4*	*-10.9*	*1.8*	*1.6*	1,045	2,097
New Zealand	*-3.6*	*17.5*	*0.3*	*0.4*	*-10.6*	*-5.9*	*0.4*	*0.4*	-67	67
Central & Eastern Europe	*-14.4*	*16.8*	*0.4*	*0.4*	*19.1*	*34.1*	*0.2*	*0.2*	361	379
Africa	*20.8*	*34.8*	*1.0*	*1.3*	*-20.0*	*9.3*	*0.4*	*0.4*	1,161	1,712
Rest of the world	*-18.2*	*14.3*	*2.5*	*2.5*	*-2.0*	*0.4*	*4.6*	*4.8*	-2,572	-2,007
% Change/Share	**0.1**	**6.9**	**100.0**	**100.0**	**2.3**	**-1.6**	**100.0**	**100.0**		
RM million		**180,862**				**144,257**			**22,677**	**36,605**

Source: Department of Statistics.

CHART 2.12

Balance of Trade



Source: Department of Statistics.

June 2002: 0.1%) while imports registered a negative growth of 1.6% (January-June 2002: +2.3%). Based on this trend, Malaysia continued to enjoy an even larger trade surplus of RM36,605 million during the period under review (January-June 2002: RM22,677 million). This external trade balance position has remained in surplus for 68 consecutive months since November 1997 and is expected to strengthen towards the end of the year as the impact from the Iraq war recedes and the SARS epidemic fades out and the world economy and international trade recover. On the whole, Malaysia continued to register trade surpluses with major trading partners such as the United States (US), the European Union (EU), Singapore and Hong Kong, and deficit, with Japan and the Republic of Korea (South Korea).

With the rapidly changing international trade scenario, particularly following the entry of the People's Republic of China (China) into the World Trade Organisation (WTO), Malaysia's trade pattern has shifted to reflect an increasing share of the East Asian nations and in general moving away from the US market. Intra-trade share among these nations (excluding Singapore and Japan) expanded markedly to 30% of total trade during the first half of the year (1997-2002: 25.2%), whilst trade with Singapore and Japan reduced slightly over the same period with a share of 28.8% (1997-2002: 31.3%). At the same time, trade with the South Asia (including India) and West Asia regions increased further, reflecting successful inroads made in new markets as a strategy to diversify into non-traditional markets.

The decline in Malaysia's trade with the **US** was partly due to the generally lethargic demand for electrical appliances and electronic-related products from Malaysia. This was further compounded by the uncertainties in external environment, particularly during the Iraq war. As such, exports to the US market contracted significantly by 14% (January-June 2002: +4.8%). Likewise, imports from the US declined by 10.2% (January-June 2002: +7.1%). Despite the faster rate of decline in exports compared to imports, Malaysia was able to continue to register a fairly high trade surplus with the US accounting for 20.1% of total trade balance (January-June 2002: 42.7%). Major export items to US were mostly high value-added goods such as storage units, parts and accessories for automatic data processing machines, digital and other monolithic integrated circuits, and input output unit, which together accounted for 31% of total exports. Main imports were parts for electronic integrated circuits and microassemblies, other monolithic integrated circuits, parts and accessories for automatic data processing machines, hybrid integrated circuits and printed circuits.

Despite economic difficulties faced by **Singapore** during the first half of the year, Malaysia's trade with Singapore remained unchanged, constituting 14.8% of total trade. With exports growing modestly by 3.6% and imports registering a negative growth of 1%, Malaysia continued to enjoy a favourable trade balance. The continuous favourable position over the years is a result of the increasing utilisation of local ports and engagement in direct trade by Malaysian businesses. Items such as parts and accessories for automatic data processing machines, hybrid integrated circuits, digital and other monolithic integrated circuits and other transistors were the main exports, contributing to 36.1% of total exports, while imports comprised other monolithic integrated circuits, unleaded petrol, parts for electronic integrated circuits and microassemblies, residual fuel oil, and parts and accessories for automatic data processing machines, constituting 32.4% of total imports.

The trade balance with **Japan**, which has always been in Japan's favour, improved with a smaller deficit of RM4,418 million (January-June 2002: RM6,742 million), underpinned by better export performance. Exports turned around to increase significantly by 7.4% in contrast to imports, which contracted by 3.5%. Main exports were LNG, digital monolithic integrated circuits, parts and accessories for automatic data processing machines, naphtha and crude petroleum oils. Imports items were mainly parts for electronic integrated circuits and microassemblies, other monolithic integrated circuits, hybrid integrated circuits, line pipe used for oil or gas industry, and parts and accessories for automatic data processing machines.

Malaysia's trade with **North East Asia** (excluding Japan) continued to expand at a fairly strong rate of 7.4% and accounted for 19.7% of total trade (January-June 2002: 25.4%, 18.9%). The entrance of China into the WTO has provided vast opportunities for greater intra-regional trade within the Asian region. As a result, Malaysian trade with China and Hong Kong continued to increase at double-digit rates, 15.7% and 25.9%, respectively (January-June 2002: 55.5%, 10.3%). China remained the largest trading partner in the region, accounting for 6.9% of total trade, followed by Hong Kong SAR (4.7%), Taiwan (4.2%) and South Korea (3.9%). Exports to this region comprised mainly digital monolithic integrated circuits, LNG, palm oil and crude petroleum oil. Together, they accounted for 38.5% of the total exports. A major portion of the palm oil was for the China market, increasing by 71.4% during the first half of the year (January-June 2002: 63.4%). Major items imported from the region were other monolithic integrated circuits, parts for electronic integrated circuits and microassemblies, parts and accessories for automatic data processing machines, other transmission apparatus incorporating reception apparatus, indicator panels and other automatic data processing machines.

Total trade with the **EU**, another important trading partner, increased by 7.5% (January-June 2002: -10.8%), with exports and imports expanding by 11.1% and 2.9%, respectively. Malaysia continues to register a sizeable surplus of RM6,355 million (January-June 2002: RM4,502 million) with the EU. Within the EU, Germany is still the leading trading partner, accounting for 3.4% of Malaysia's total trade, followed by the Netherlands (2.3%) and the United Kingdom (2.2%). Total trade with these three economies amounted to RM25,382 million (January-June 2002: RM23,660 million).

Reflecting the increasing intra-regional trade within the **ASEAN** (excluding Singapore) region as well as economic recovery of member countries, Malaysia's trade with its members expanded significantly by 6.7% to account for 10.3% of total trade in the first half of the year (January-June 2002: 12.6%, 10%). With exports expanding

TABLE 2.15

Current Account of the Balance of Payments 2002-2003
(RM million)

	2002 Receipts	2002 Payments	2002 Net	2003[1] Receipts	2003[1] Payments	2003[1] Net
Goods	**354,855**	**285,941**	**68,914**	**368,915**	**287,872**	**81,043**
Services account	**56,536**	**62,502**	**-5,966**	**53,656**	**62,114**	**-8,458**
Transportation	10,847	22,389	-11,542	10,943	22,240	-11,297
Travel	27,049	9,947	17,102	22,893	9,585	13,308
Other services	18,166	29,408	-11,242	19,373	29,742	-10,369
Government transactions	474	758	-284	447	547	-100
Income	**8,129**	**33,190**	**-25,061**	**8,987**	**35,502**	**-26,515**
Compensation of employees	1,653	2,832	-1,179	1,977	3,025	-1,048
Investment Income	6,476	30,358	-23,882	7,010	32,477	-25,467
Current transfers	**2,513**	**13,079**	**-10,566**	**2,364**	**11,667**	**-9,303**
Current account	**422,033**	**394,712**	**27,321**	**433,922**	**397,155**	**36,767**

[1] Estimates.

at 7.9% (January-June 2002: 10.2%) and imports at 5.5% (January-June 2002: 15%), Malaysia registered a surplus of RM35 million (January-June 2002: -RM329 million) with these nations. Although there was a total trade deficit of RM3,557 million against Indonesia and Philippines, Malaysia continued to achieve a trade surplus with Thailand, Brunei, Vietnam, Myanmar, Cambodia and Laos amounting to RM3,592 million. Major exports consisted of crude petroleum oil, parts and accessories for automatic data processing machines, parts for electronic integrated circuits and microassemblies, cathode-ray television picture tubes as well as digital monolithic integrated circuits. Imports, on the other hand, included mainly hybrid integrated circuits, other monolithic integrated circuits, parts for electronic integrated circuits and micro-assemblies, parts and accessories for automatic data processing machines and cocoa beans.

Total trade with **West Asia** expanded strongly by 35.9% (January-June 2002: -16.6%) to account for a higher share of 2.5% of Malaysia's total trade (January-June 2002: 1.9%). Both imports and exports picked up strongly by 58.8% (January-June 2002: -36.6%) and 21.3% (January-June 2002: 4.4%), respectively. Malaysia continued to register a trade surplus of RM738 million (January-June 2002: 1,325 million), mainly due to trade surplus with the United Arab Emirates (UAE), Iran, Syria and Jordan. Within West Asia, the leading trading partners were the UAE and Saudi Arabia, accounting for 0.8% and 0.6% of total trade,respectively, followed by Yemen and Oman, contributing 0.3% each. Export items to the region were mainly palm oil, articles of jewellery and parts of other precious metal and colour television receivers, while imports comprised mostly crude petroleum oil, naphtha, other petroleum spirit, aluminium alloys and gold.

Balance Of Payments

Current account surplus increases and international reserves strengthen further...

The current account of the balance of payments is expected to improve further and register a surplus for the fifth consecutive year in 2003. The surplus is envisaged with a higher net balance in the goods account and declining deficits in the transfers account. Meanwhile, net outflow in the financial account is expected to continue due to higher outflows in other investments and lower net inflows in direct investment. As in the past, the surplus in the current account is anticipated to be more than sufficient to cover the net outflows in the financial account, ensuring an overall surplus in the balance of payments for the third consecutive year since 2001.

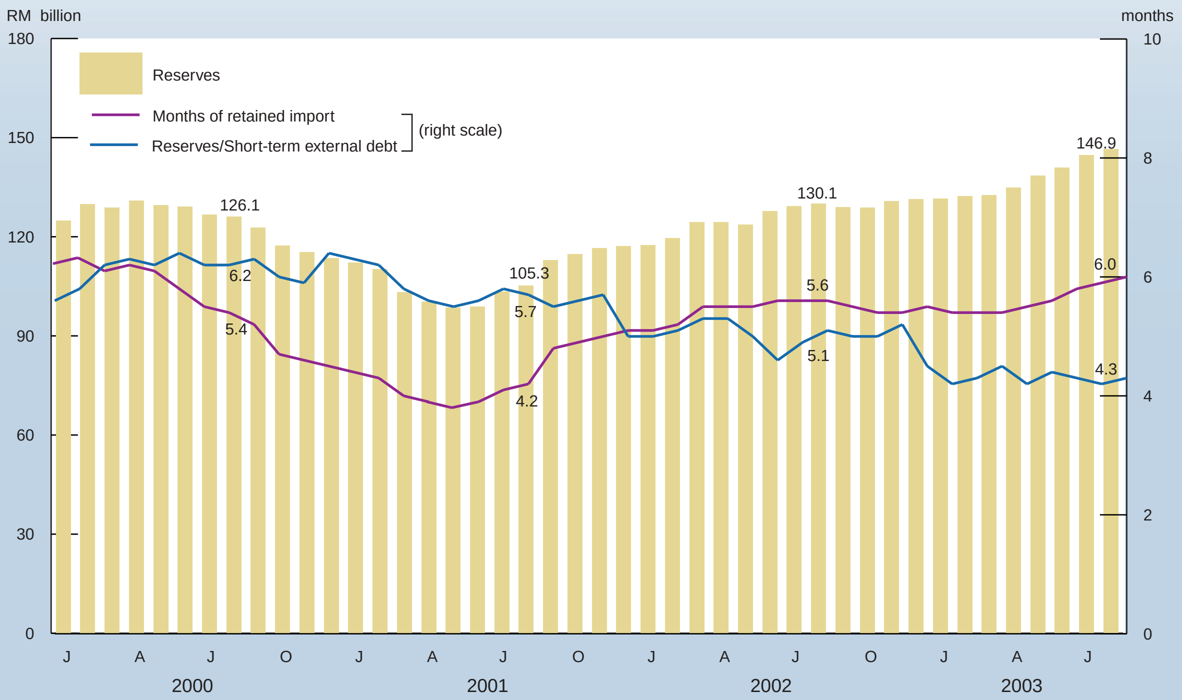
Malaysia has always registered a surplus on **goods account** in the balance of payments. Reflecting the strength of the goods account, it is expected to register an even higher surplus of RM81,043 million in 2003 (2002:RM68,914 million), despite the adverse external environment, particularly in the first half of 2003. This is based on a higher expected export growth of 4% compared to a lower rate of 0.7% for imports.

The **services account,** in contrast, is envisaged to record a higher deficit of RM8,458 million (2002: RM5,966 million), resulting from lower net inflows from travel due to the impact of SARS. Receipts from the **transportation account** is expected to increase further by 0.9% in 2003 (2002:3.9%), following the Government's continuing efforts to promote the usage of local airports, particularly the Kuala Lumpur International Airport (KLIA) and local ports as transshipment hubs. Efforts have also been undertaken to ensure the seamless movement of sea-air cargo, involving Port Klang in Selangor and the Port of Tanjung Pelepas (PTP) in Johor. However, the transportation account still records a net outflow, constituting 2.9% of GDP.

Net inflow in the **travel account,** comprising business and personal travel as well as payments for education and pilgrimage, is envisaged to decline by 22.2% (2002: +5.9%). Growth in travel receipts is estimated to contract by 15.4% in 2003 (2002: +3.7%) largely due to the impact of the slower world growth, Iraq war and SARS. The timely proactive measures taken by the Government, as well as the quick resolution of the Iraq war and the containment of SARS, helped cushion the impact. In addition, intensive promotion of inbound tourism and the hosting of major international conferences, such as Non-

CHART 2.13

International Reserves



Source: Department of Statistics.

aligned Movement (NAM) and Organisation of Islamic Countries (OIC) Summit, and major sports events, particularly Formula One Race, Powerboat World Championship and Le Tour De Langkawi, further helped in minimising the impact on the travel account. On a positive note, outflows in the travel account, largely on education and pilgrimage are expected to contract by 3.6% to RM9,585 million (2002: +0.1%), thereby resulting in a surplus.

The **government transactions account** is expected to continue to register a net outflow of RM100 million in 2003 (2002: -RM284 million). Both payments and receipts show contraction. Payments, mainly comprising expenditure incurred by Malaysian embassies are estimated to contract to RM547 million in 2003 (2002: RM758 million). Receipts, largely from expenditure by foreign embassies, are expected to total RM447 million (2002: RM474 million).

The **income account** of the balance of payments is expected to record a higher deficit. Receipts from investment income, which include mainly returns from the external assets of BNM as well as income from Malaysian investments abroad are expected to increase by 8.3% to RM7,010 million (2002: 15.2% and RM6,476 million). As receipts from Malaysian investments overseas are not likely to offset the repatriation of profits and dividends by foreign companies operating in Malaysia, the investment income component will continue to record a deficit, amounting to RM25,467 million (2002:-RM23,882 million).

Net outflows, associated with **current transfers** comprising largely of remittances by foreign workers is expected to decline to RM9,303 million, against RM10,566 million in 2002. The significant difference in net outflow is mainly due to the one-time lump sum repatriation made by 318,272 illegal workers returning to their home countries under the Amnesty Programme carried out between 22 March to 31 July 2002. Consequently, the total amount of transfer payments is likely to contract by 10.8% in 2003 (2002: +28%), while, current transfer receipts from abroad are estimated to decrease by 5.9% in 2003 (2002: +23.2%), largely on account of lower remittances by Malaysians working abroad. After taking into account the deficits in the income and current transfers components, the **current account** of the balance of payments is expected to record a higher and sizeable surplus of RM36,767 million or 10.2% of GNP (2002: RM27,321 million or 8.1% of GNP).

In the **financial account,** comprising direct investment, portfolio investment and other investment is expected to record a net outflow of RM12,500 million (2002: -RM11,941 million). The other investment account, including loans trade credits and bank deposits is expected to record a deficit of RM16,000 million (2002: -RM10,370 million), partly due to higher net loan repayments. On the other hand, the direct investment account is envisaged to register a net inflow of RM3,500 million (2002: RM4,935 million) mainly in the manufacturing and oil and gas sectors.

The surplus in the current account is more than sufficient to meet the deficit in the financial account. Taking into account the net outflows of RM9,020 million (2002: -RM1,189 million) due to errors and omissions, the **overall position** of the balance of payments is envisaged to record a net inflow of RM15,247 million in 2003 (2002: RM14,191 million). Thus, the nation's balance of payments position is expected to remain fundamentally strong.

Malaysia's international reserves has improved since June 2001 and continued to further strengthen by RM32,559 million or USD8,568 million until end-December 2002. As at end-August 2003, Malaysia's international reserves amounted to RM146,941 million (USD38,669 million) as compared to RM131,416 million (USD34,583 million) at end-December 2002. The increase in reserves reflect the continuing inflows from trade, foreign direct investment as well as portfolio funds, which more than offset payments for services and external loan repayments.

National Resource Position

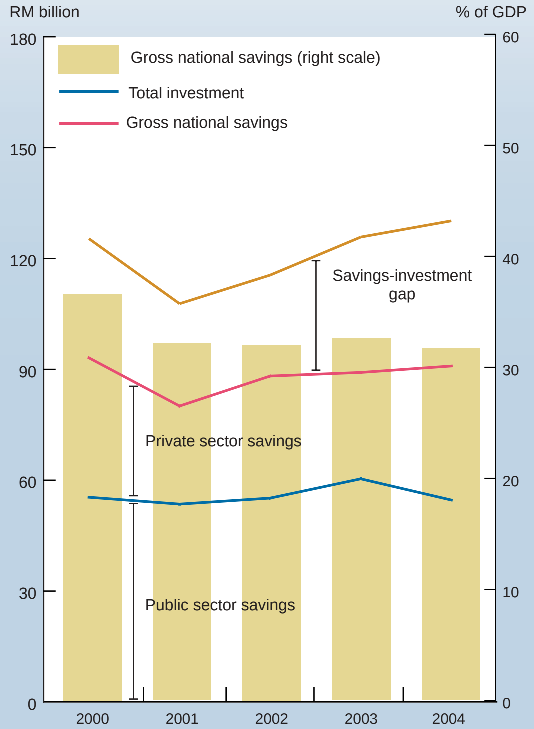
Stronger resource position with high savings rate...

In spite of overall modest exports performance arising from the uncertainties in the external environment, especially during the first half of the year, national income in nominal value continued to expand strongly by 7.1% in 2003 (2002: 8.7%). Following the Government's deliberate efforts to enhance higher consumption aimed at generating greater domestic economic activities, **gross national savings** likely to increase further at the rate of 9.5% to RM126,468 million or 32.8% of GDP (2002: 7.2%, RM115,510 million, 32% of GDP), with public sector savings accounting for a slightly higher proportion of about 54% of total savings. With this savings rate, Malaysia ranks high among other nations with ample liquidity to support and finance its economic activities. The **savings-investment gap** is expected to increase further to RM36,767 million or 9.5% of GDP (2002: RM27,321 million, 7.6% of GDP) due to slower growth of 1.7% to RM89,701 million or 23.3% of GDP (2002: 10.1%, RM88,189 million, 24.4% of GDP) in overall investment expenditure (including changes in stock), partly on account of modest improvements in private sector investment initiatives.

Private sector savings is envisaged to increase significantly by 10.8% (2002: -4.1%) and to account for 14.9% of GDP (2002: 14.4% of GDP). The private sector is expected to record a even higher surplus of 6.7% of GDP (2002: 5.6%) although capital expenditure activity (excluding changes in stock) has picked up by 2.9% (2002:-12.9%) in nominal value. This ample liquidity in the private sector has enabled the public sector to continue financing its deficits through domestic sources without crowding out the private sector. In view of the expansionary fiscal measures that has resulted in higher investment outlays of 5.6% (2002: 10%) and lower public savings of 8.4% (2002: 18.6%), a fair surplus of 2.8% of GDP (2002: 1.9%) in the resource position is expected for the sector.

CHART 2.14

Savings-Investment Gap[1]



[1] Including changes in stocks.

Prices

Inflation remains subdued despite increasing domestic demand...

Inflation is expected to remain subdued for the year 2003 in spite of higher domestic demand supported by pro-growth measures of the Government. Generally, there is an absence of pressure on the general price level. Although capacity utilisation is higher in tandem with improving economic prospects, excess capacity still prevails in some sectors of the economy. Declining import prices further restrained increases in domestic price levels. The environment of low inflation, since 1999 averaging below 2%, has provided the Government the flexibility to implement pro-growth policies to stimulate economic activities and to sustain the growth momentum.

The lower **consumer price index** (CPI) in first half of the year reflected consumer sentiment which was affected by external uncertainties on global economic recovery, the Iraq war and SARS. In addition, the scheduled mega sale in March encourage consumers to defer consumption and time their purchases for the sale. Deflationary trends in major economies also resulted in declining import prices, which further eased price pressure. Consequently, inflation remained tame with CPI increasing 1.1% for the first seven months of 2003, as shown in *Table 2.16.*
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Price increases were recorded mainly for transport and communication which rose at a slower rate of 2.3% (2002: 6.4%). Transport and communication contributed the largest share of 41% to the total increase in CPI. The impact of the one-off price adjustment for telecommunication tariff (telephone rental, local calls and payphone services) in March 2002 was not sustained and did not filter through. In addition, the marginal increase in the retail price of petrol by a total of two sen per litre over a period of 9 months to RM 1.35 per litre at August 2003 was insignificant and did not have a large impact on overall prices.

In contrast to transport and communication, the index for food doubled by 1.2% during the first seven months (January-July 2002: 0.6%). Consequently, food contributed the second largest share to the overall increase in CPI with 38.1% from 11.6% last year. Prices increased largely for Food At Home, due mainly to increase in prices for fruits and vegetables in contrast to a decline in the same period last year. Restaurants and food outlets were badly affected by SARS in April and May, resulting in a slower increase of 1% (2002: 1.8%) in the index for Food Away From Home. Prices for cigarettes and tobacco products were contained and stable, marginally at 0.1% compared to an increase of 5% in same period in 2002. This was due to the absence of higher sales tax and import duty on these two products in the 2003 Budget.

TABLE 2.16

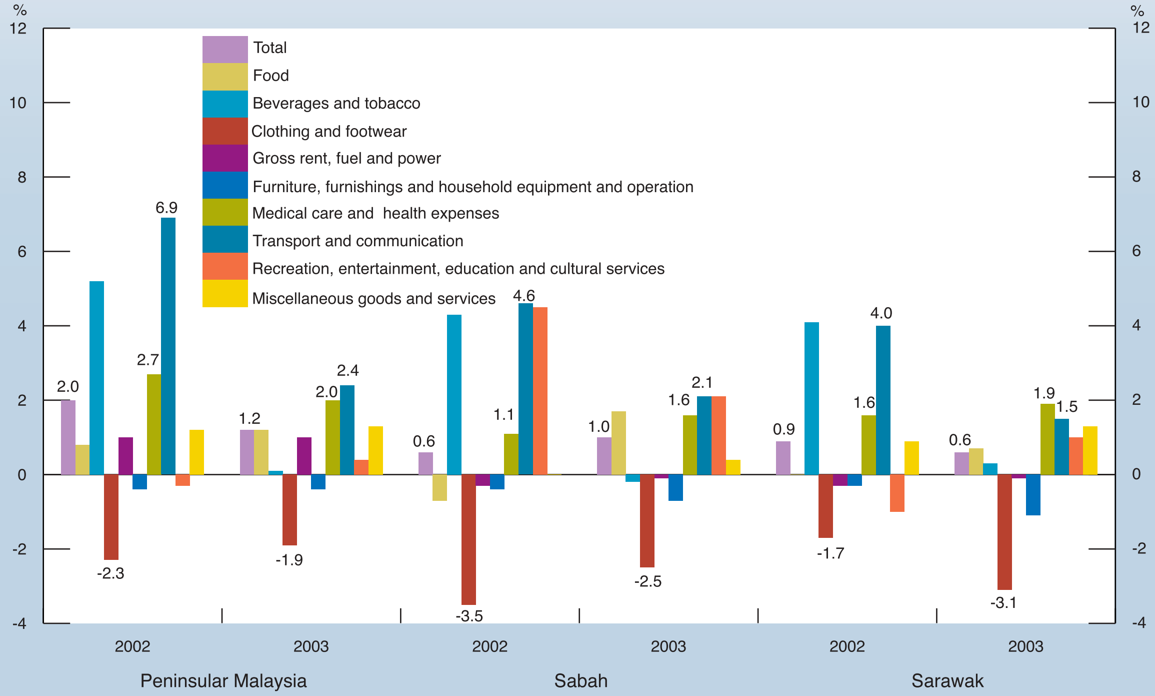
Consumer Price Index
January–July
(2000=100)

		Annual Change (%)		Contribution to Growth (%)	
	Weights	**2002**	**2003**	**2002**	**2003**
Total	**100.0**	***1.8***	***1.1***	***100.0***	***100.0***
Food	33.8	*0.6*	*1.2*	*11.6*	*38.1*
Beverages and tobacco	3.1	*5.0*	*0.1*	*9.0*	*0.3*
Clothing and footwear	3.4	*-2.4*	*-2.1*	*-4.8*	*-6.8*
Gross rent, fuel and power	22.4	*0.8*	*0.8*	*10.2*	*16.7*
Furniture, furnishings and household equipment and operation	5.3	*-0.4*	*-0.5*	*-1.2*	*-2.5*
Medical care and health expenses	1.8	*2.4*	*2.0*	*2.5*	*3.4*
Transport and communication	18.8	*6.4*	*2.3*	*69.5*	*40.8*
Recreation, entertainment, education and cultural services	5.9	*-0.1*	*0.6*	*-0.3*	*3.4*
Miscellaneous goods and services	5.5	*1.1*	*1.3*	*3.5*	*6.6*

Source: Department of Statistics.

CHART 2.15

Consumer Price Index by Region
January - July
(2000:100)



Index for clothing and footwear as well as furniture and household equipment, continued to decline by 2.1% and 0.5%, respectively. With the introduction of nationwide mega sales at regular intervals, consumers tend to defer purchases to coincide with the sales. Prices for these goods eased as demand remains soft and characterised by large discounts and offers.

Prices are, however, expected to be on a slightly increasing trend in the next five months as the economy strengthens further in the second half of 2003 with modest global economic recovery. Mild deflationary pressures emerging in some major global economies are expected to contain domestic inflation at a low level for 2003.

CPI by region continued its past trends with Peninsular Malaysia recording the highest increase, as shown in *Chart 2.15,* with price increase of 1.2%, which is above the national average of 1.1%. Sabah and Sarawak, on the other hand, recorded price increases of 1% and 0.6%, respectively, below the national average. In all three cases, price increases were highest for transport and communication, with medical care and health expenses, and food showing rising trends. Price increases for food was highest in Sabah at 1.7% due to supply constraints of fresh food.

Price increases were lesser in the rural areas. Unlike price movements in the rural and urban areas, there was no significant difference in the price movements among the lower income groups with earnings below RM1,500 per month and below RM1,000 per month.

The overall **Producer Price Index** (PPI) for the first seven months of 2003 increased 7% (2002: 1.5%), as shown in *Table 2.17.* The increase was attributed to the higher price for crude oil

TABLE 2.17

Producer Price Index
January-July
(1989=100)

	Weights	2002	2003[1]
Domestic economy	**100.0**	***1.5***	***7.0***
Food and live animals chiefly for food	14.9	*0.1*	*-1.7*
Beverages and tobacco	2.1	*3.9*	*1.1*
Crude materials, inedible except fuels	18.0	*3.3*	*8.7*
Mineral fuels, lubricants and related materials	18.8	*-9.5*	*15.6*
Animal and vegetable oils and fats	8.5	*55.6*	*21.7*
Chemicals and related products n.e.c.	4.4	*-1.3*	*1.6*
Manufactured goods classified chiefly by material	10.8	*-0.5*	*1.7*
Machinery and transport equipment	18.3	*-0.5*	*0.1*
Miscellaneous manufactured articles	3.6	*-0.4*	*0.7*
Commodities and transactions not classified elsewhere in the s.i.t.c.	0.6	*4.2*	*0.8*
Local production	**79.3**	***2.0***	***8.5***
Import	**20.7**	***-0.6***	***0.5***

[1] Estimate.

Source: Department of Statistics.

arising from fears of disruptions in supply due to the Iraq war and subsequently reduced supply arising from the Venezuela oil crisis. The smaller price increase for animal and vegetable oils and fats, particularly palm oil, of 21.7% compared to 55.6% for 2002, somewhat moderated the PPI.

Labour Market

Unemployment stable amidst subdued wages and higher productivity...

Labour market conditions are expected to be more favourable in 2003 due to a moderately improved economic performance, particularly in the second half of the year. With the better economic situation, improved employment prospects and reduced retrenchments, **unemployment** continues to remain low for the year with higher productivity amidst subdued wage level.

Despite increasing external uncertainties and the outbreak of SARS, the number of retrenched workers declined by 11% during the first seven months of 2003 (2002: -20%). In addition, the number of those employed is expected to increase by 28% with the second half of the year showing a strong pace. Unemployment is, thus, estimated to remain low at 3.5%.

The **labour force**, which has been expanding at slightly above 3% since 2001, continued the trend and is envisaged to grow at 3.1% in 2003 (2002: 3.1%), as shown in *Table 2.18*. With the extension of universal education to 11 years as well as increasing number of people pursuing higher education, the proportion of the labour force in the age group 15-24 years is expected to decline from 49.4% in 2000 to 48.4% in 2003. However, the overall labour force participation rate is expected to increase from 65.7% in 2002 to 66.9% in 2003 with participation of males recording a higher rate of 87.1% compared to 45.7% for females. In terms of quality, the proportion of labour force with tertiary education is envisaged to increase from 13.9% in 2000 to 17.1% in 2003 and those with secondary education, from 53.8% to 56.2%.

TABLE 2.18

Labour Market Indicators

	('000)		**Change (%)**	
	2002	**2003[1]**	**2002**	**2003[1]**
Labour Force	10,198.8	10,514.9	*3.1*	*3.1*
Employment	9,840.0	10,150.0	*3.2*	*3.2*
Unemployment	358.7	364.9	*3.5*[2]	*3.5*[2]

[1] Estimate.
[2] To labour force.

Source: Economic Planning Unit.

TABLE 2.19

Employment by Sector

	('000)		Share (%)		Change (%)	
	2002	2003[1]	2002	2003[1]	2002	2003[1]
Agriculture, hunting, forestry and fishing	1,405.5	1,403.0	*14.9*	*13.8*	*-0.1*	*-0.2*
Mining	42.2	42.8	*0.3*	*0.4*	*1.0*	*1.4*
Manufacturing	2,679.8	2,814.9	*21.7*	*27.7*	*4.9*	*5.0*
Construction	782.1	794.6	*9.5*	*7.8*	*1.3*	*1.6*
Services	4,930.3	5,094.8	*53.6*	*50.3*	*3.7*	*3.3*
Electricity, gas and water supply	84.5	89.4	*0.5*	*0.9*	*6.2*	*5.8*
Wholesale and retail trade, hotels and restaurants	1,698.6	1,738.2	*15.7*	*17.1*	*2.7*	*2.8*
Finance, insurance real estates and business services	607.2	635.3	*6.7*	*6.3*	*5.7*	*4.6*
Transport, storage and communication	508.6	522.8	*5.2*	*5.2*	*2.7*	*2.8*
Government services	994.5	1,026.1	*10.4*	*10.1*	*1.5*	*3.2*
Other services	1,036.8	1,082.9	*15.1*	*10.7*	*6.5*	*4.4*
Total	**9,840.0**	**10,150.1**	***100.0***	***100.0***	***3.2***	***3.2***
Primary sector	1,447.8	1,445.8	*15.2*	*14.2*	*0.0*	*-0.1*
Secondary sector	3,461.9	3,609.5	*31.2*	*35.5*	*4.0*	*4.3*
Tertiary sector	5,116.6	5,094.8	*53.6*	*50.3*	*7.6*	*-0.4*

[1] Estimate.

Source: Economic Planning Unit.

A total of 10,150 million was employed with the bulk in the manufacturing sector, as shown in *Table 2.19*. The improved performance of the manufacturing sector is envisaged to result in its increased contribution to total employment from 21.7% in 2002 to 27.7% in 2003. **Employment** in this sector is also forecasted to register the second highest growth rate of 5% after utilities. All other sectors except agriculture are also expected to record increases for the year. Employment in the agriculture sector continues to decline, due in part to higher utilisation of high technology cultivation methods and large-scale farming as well as mechanisation, which has contributed to less labour-intensive cultivation.

In terms of occupational groups, the demand for plant and machine operators and assemblers surged by 14.6% in tandem with robust growth in manufacturing and transport as well as the increasing use of machines and equipment in work processes. Professionals are estimated to comprise 5.4% of total employment in 2003 and expected to witness an increasing trend, growing at 9.2%, as shown in *Table 2.20*. The demand for professionals, which include graduate teachers, computer system designers and analysts, is in line with the development of Malaysia as a regional center for excellence in education with export potentials by private institutions as well as the progression towards a knowledge-based economy. The employment of skilled agricultural and fishery workers is projected to contract with its share to total employment declining from 13.7% in 2002 to 12.7% in 2003. This is due partly to increasing mechanisation, better agronomic practices and structural changes.

The number of **job seekers** registered with the Manpower Department declined by 1 % to 37,397 the first seven months of 2003 (January-July 2002: 37,797). Of this total, almost half of them (18,387) are of age group 20-24 years and 20% of the age group 15-19 years. About 68% (25,245) are holders of Sijil Pelajaran Malaysia (SPM) and 15% (5,588) are holders of Sijil Tinggi Pelajaran Malaysia (STPM), diploma and degree. A total of 14,152 or 38% of the persons registered were seeking employment in professional and technical occupations as well as production and related occupations. Another 55% (20,484) were seeking employment in lower skilled occupations, such as clerical and related jobs.

The number of **vacancies** declined by 28% or 58,183 during the first seven months of 2003 (2002: 80,412), as shown in *Chart 2.16*. As in the case of employment by sector, the

TABLE: 2.20

Employment by Major Occupational Group 2002-2003

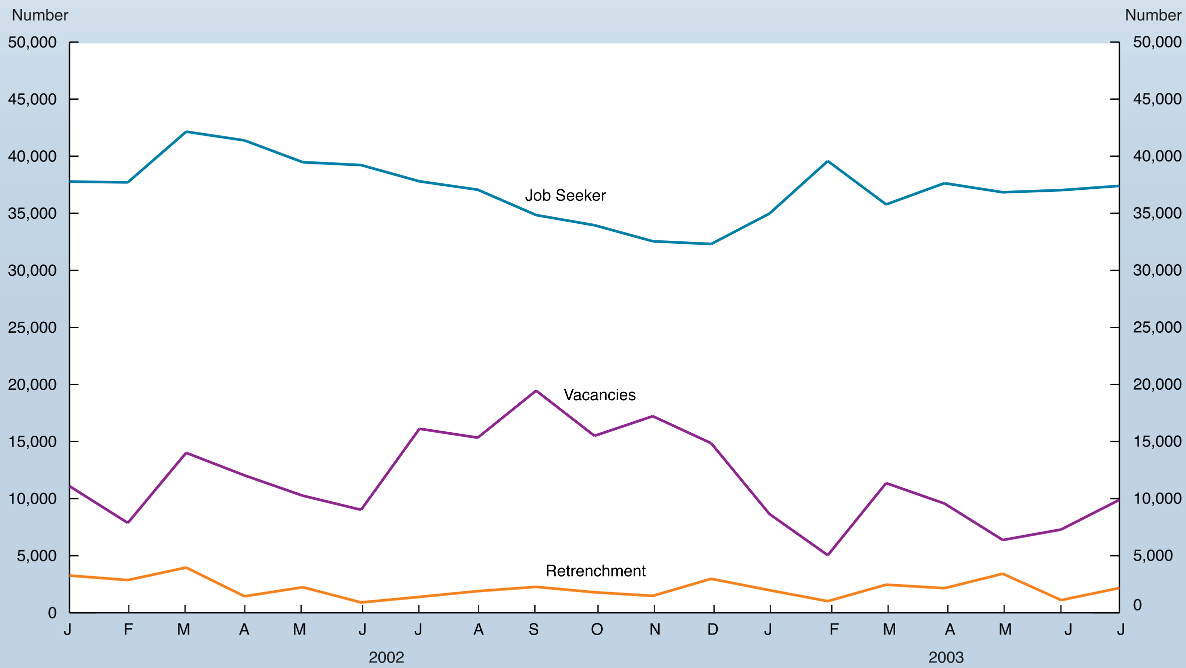
Occupation [1]	('000)		Share (%)		Change (%)	
	2002	2003[2]	2002	2003[2]	2002	2003[2]
Legislator, Senior[3] Official&Managers	806.9	771.4	*8.2*	*7.6*	*16.0*	*-4.4*
Professionals[4]	501.8	548.1	*5.1*	*5.4*	*7.4*	*9.2*
Technician & Associated Professionals[5]	1,230.0	1,268.8	*12.5*	*12.5*	*6.6*	*3.2*
Clerical Workers[6]	925.0	974.4	*9.4*	*9.6*	*1.1*	*5.3*
Service & Shop & Market Sales Workers[7]	1,348.1	1,421.0	*13.7*	*14.0*	*1.7*	*5.4*
Skilled Agricultural & Fishery Workers[8]	1,298.9	1,289.1	*13.2*	*12.7*	*-3.4*	*-0.8*
Craft&Related Trade Workers[9]	1,200.5	1,086.1	*12.2*	*10.7*	*2.4*	*-9.5*
Plant&Machine Operators and Assemblers[10]	1,417.0	1,624.0	*14.4*	*16.0*	*-2.8*	*14.6*
Elementary Occupations[11]	1,111.9	1,167.3	*11.3*	*11.5*	*11.1*	*5.0*
Total	**9,840.0**	**10,150.0**	***100***	***100***	***40***	***28***

[1] The classification based on Malaysia Standard Classification of Occupation 1998.
[2] Estimate.
[3] Include general managers, department manager & senior govt officials.
[4] Include graduate teaching professionals, accountant, auditors, computer system designers & analysts.
[5] Include non-graduates teachers, supervisors & air traffic & transport controllers.
[6] Include administrative clerks, accounting & finance clerks & telephone operators.
[7] Include cook, travel guides & waiters.
[8] Include farm workers, plantation workers & forestry workers.
[9] Include fitters, carpenters and tailors.
[10] Include equipment assemblers, drivers and machine operators.
[11] Include street vendors, domestic helpers & cleaners & construction& maintenance labourers.

Source: Economic Planning Unit.

CHART 2.16

Trend Vacancies, Retrenchment and Job Seeker
January 2002 - July 2003



Source: Department of Statistics.

manufacturing sector offered the most job opportunities representing, 38% or 21,908 jobs, followed by the agriculture, forestry, hunting and fishing sector with 32% or 18,754 jobs.

As a result of the improved economic environment, the number of retrenched workers declined by 11% to 14,288 (January - July 2002: 16,052), of which 96% were locals. Most of the **retrenchment** came from the manufacturing sector, comprising 10,174 or 71% of the total retrenched. The second highest retrenchment came from the wholesale and retail trade, restaurant and hotel sector with 8.7%. The reasons for retrenchment, among others, were the downturn in the electronic cycle in the first half of the year, company reorganisation, reduction in demand for products, closures as well as the impact of the Iraq war and SARS.

Output **productivity** in the manufacturing sector recorded a 6.2% growth during the first half of 2003, attributed to higher labour productivity and technological advancement. Productivity increases were highest in rubber products, 19.3%, followed by petroleum refineries, 11%, chemical and plastic products, 10.8% and the electrical and electronic, 6.9%. Output in the manufacturing sector rebounded by 8.6% after a contraction of 0.3% in 2002 with higher sales and output arising from strong demand. As a result, the sales-employment ratio rose by 8.7% to RM165,510 from RM152,323 amidst subdued wage increases. Real **wages** per worker rose only 4.4% while sales value gained 10.4%. Consequently, unit labour cost declined from 91.9 sen per unit in 2002 to 88.4 sen per unit in 2003. In an environment of moderate growth, wage pressures in the labour market is expected to remain subdued in 2003.

Labour relations in Malaysia is characterised by a tradition of cordial relationship between employers and the trade unions. Industrial disputes are normally negotiated and settled in a harmonious environment. To date, only two disputes resulted in strikes (2002: 4), which was carried out in a subdued manner amidst fears of uncertainty in the global economic environment and international security. Consequently, the number of man-days lost reduced significantly from 708 in same period of 2002 to 114 man-days in 2003. The number of workers involved also declined to 57 workers (2002: 96).

Foreigners constitute 9.9% of the total labour force in 2003. While **foreign labour** has become an integral part of the Malaysian labour force, particularly in the construction, manufacturing, plantation and services sectors, measures were taken to regularise the large presence of illegal immigrant labour. In this respect, several measures have been implemented by the Government to reduce the number in the country. The New Immigration Act 1995/63 (Amendment 2002), which came into effect on 1 August 2002, provides for heavier penalties for employers of illegal immigrant or foreigners entering the country illegally. About 318,300 illegal immigrants were deported in 2002 as part of the measure to regularise the recruitment of foreign workers in a systematic manner. Currently, the Government is finalising a number of agreements with Indonesia and Sri Lanka relating to recruitment process and procedures to further regulate the admission of foreign workers. The Government plans to have similar agreements with other source countries. From a total of 1.2 million foreign applicants registered by 1 May 2003, the Technical Committee on Foreign Workers under the Ministry of Home Affairs has approved 67,172 at end-July 2003. The foreign workers are employed in the plantations (17,730), manufacturing (18,484), services (3,579) and in particular, construction (27,379).

Outlook for 2004

Higher GDP growth, supported by better external outlook and more vibrant domestic sector...

The economic outlook for 2004 is envisaged to be favourable. Real GDP growth is expected to gain momentum and register a higher rate of 5.5%-6% in 2004. Growth is expected to emanate from higher exports on account of continuing improvement in world economic prospects while domestic demand will continue to be driven by pro-growth fiscal and monetary measures. Whilst all sectors are forecast to register higher growth, services and manufacturing will continue to lead GDP growth, contributing 3.1 and 2.2 percentage points, respectively.

Of particular importance is the shift in the structure of the economy to focus on the services sector in keeping with the status of the nation as a more developed economy. The agriculture sector will be revitalised and emerge as the third engine of growth. In line with better economic prospect, per capita income is projected to continue to increase by 4.3% to RM14,954 (2003: 4.8%, RM14,343), while income in term of purchasing power parity will also increase by 5.3% to USD9,887 (2003: 6%, USD9,390).

Domestic Demand

Sustainable strong domestic demand with private sector resuming its role...

Given the better prospects of world economic growth and international trade in 2004, with firm recovery taking place in several major industrialised countries and regional economies, the Malaysian economy is projected to strengthen and be reinforced by more vigorous domestic economic activities. In this regard, **domestic demand** (excluding change in stocks) in real terms is likely to increase at a fairly strong rate of 4.7% (2003: 5%), generated largely by the private sector resuming its role as the engine of growth and supported by pro-growth fiscal and monetary measures.

To a certain extent, the stronger pick-up anticipated in business confidence and consumer sentiment is expected to increase **private sector expenditure** by 7.5% (2003: 4.6%). However, with a view to consolidating, **public sector expenditure** will decrease by 0.1% (2003: 5.8%). Consequently, private sector contribution to real GDP growth will increase by as much as 4.3 percentage point (2003: 2.6 percentage point) as against zero contribution (2003: 1.9 percentage point) by the public sector.

With the policy emphasis to promote private sector-led growth by creating the enabling and investor-friendly environment as well as favourable external demand conditions, **private investment** outlays are projected to register a considerable growth of 9.9% (2003: 2%). As such, the share of private investment to GDP is projected to increase further to 10.5% (2003: 10.1%). This is in line with the Government's continuous efforts to encourage the private sector, particularly domestic investors, to venture into new growth areas, including the services and agriculture sectors. More buoyant activities are anticipated for high value-added industries as well as information technology, telecommunications, transport and finance. It is also envisaged that SMEs will respond positively to the Government's strategies and measures, including the recent Package of New Strategies towards stimulating the nation's economic growth, with funding continuing into 2004. Likewise, growth in **private consumption** expenditure will be more broad-based and is expected to register a respectably strong growth of 7% (2003: 5.2%). Further improvement in consumer confidence arising from anticipation of higher disposable income, better job prospects and low interest rate will encourage stronger private consumption.

In tandem with the policy to achieve balanced budget in the near term and reduce over-reliance on public sector fiscal stimulus, **public investment** is budgetted to decrease by 4.1% (2003: +4.6%). The Government will, however, continue to implement socio-economic development projects, particularly towards transforming of the rural and agriculture sector into more dynamic value-added economic base. Measures to improve the nation's competitiveness through human resources development will also continue, especially towards improving quality of education at both primary and secondary levels. In the case of **public consumption**, it is budgetted to increase at a moderate rate of 4.9% (2003: 7.2%), mainly to cover emolument and higher outlays on supplies and services.

Sectoral Outlook

All sectors to record higher growth, led by manufacturing and services ...

External developments and strengthening domestic economy point to stronger growth in the **manufacturing sector**. Growth in export-oriented industries, in particular the electronics industry, is envisaged to gain strength following higher inter-regional trade, particularly between ASEAN and East Asia. Efforts to promote domestic consumption as well as advancements into higher value-added products will further boost growth of domestic-oriented industries. Taking cognisance of the on-going development processes, the overall value added of the manufacturing sector is expected to register a stronger growth of 7.2%.

The **agriculture sector** is forecast to expand by 3% largely due to higher production of palm oil following the increase in matured areas in Sabah and Sarawak. Higher utilisation of palm oil in downstream processing, such as oleochemicals will further spur growth of the sector. In addition, the yield of major commodities is also envisaged to increase in line with continuing introduction of new breed of more productive clones in palm oil, rubber and cocoa. Marine fish landing is also expected to increase due to better facilities and equipment made available to the fishing industry through the Package in 2003.

As the domestic economy strengthens in 2004, the demand for energy will continue to increase. Output of natural gas is envisaged to increase by 11.6% due to expanded production capacity and anticipated higher demand in tandem with global economic recovery while output of crude oil is expected to maintain at 600,000 bpd (excluding condensates). As a result, growth of value added of the **mining sector** is forecast to increase by 3.5%.

The **construction** sector will continue to be supported by the property sub-sector, driven by measures and incentives introduced under the Package to stimulate construction and sales of residential properties, in particular affordable houses. On-going public and privatised infrastructure projects as well as off-shore fabrication works in the oil and gas industry will further boost the growth of the sector. The construction sector is, therefore, projected to register a slightly stronger growth of 2.6%.

Growth in the **services sector** will be broad based, fuelled by higher demand for transport, telecommunication financial and insurance services in tandem with improved economic performance. A robust manufacturing sector will underpin higher consumption in utilities and higher trade and commercial activities will further enhance growth. The services sector is, therefore, envisaged to record a higher growth of 5.5% in 2004.

External Trade

Further improvement in external front with firmer world economy and trade recovery...

The better economic performance amidst an improved world growth and trade environment is expected to spur export and import growth by 6.4% and 6.3%, respectively, resulting in a trade balance of RM67,270 million (2003: RM62,854 million). With faster growth in exports, the surplus in the goods account will be higher at RM86,598 million (2003: RM81,043 million). The performance of the services account is expected to improve, registering a smaller deficit of RM8,086 million (2003:-RM 8,458 million) with the recovery in the tourism sector and tourist arrivals returning to the pre-SARS level. Further improvements can be expected in the transportation component, where inflows are envisaged to expand faster by 2.4% compared to the 0.9% growth estimed for 2003. However, outflow in the transportation component is expected to continue, contributing 36.7% of the total outflows in the services account. Similarly, the income and transfer payments due to higher remittances by foreign workers in the country will register a deficit position. Despite the deficit in the services account, on aggregate, the current account of the balance of payments position is projected to record another round of substantial surplus of RM40,064 million (2003: RM36,767 million), suggesting the continuing robustness of the domestic economy.

National Resource Position

Improvement in export earnings and sustained domestic activities is expected to strengthen national resource position further...

National income is anticipated to expand further arising from sustained domestic activities and improved export earnings. Malaysia is, thus, envisaged to continue to record a large **savings-investment** surplus in 2004, amounting to RM40,064 million or 9.8% of GDP (2003: RM36,767 million or 9.5% of GDP). The favourable national resource position reflects the likely outcome of high **gross national savings** in terms of percentage to GDP of 32.2% (2003: 32.8%). The surplus will provide ample domestic funds to finance private sector initiatives at reasonable rates to further support economic growth. With lower expenditure, the bulk of 54.7% (RM72,284 million) of the savings will come from the public sector, while private savings will increase slightly to RM59,946 million (2003: RM57,652 million).