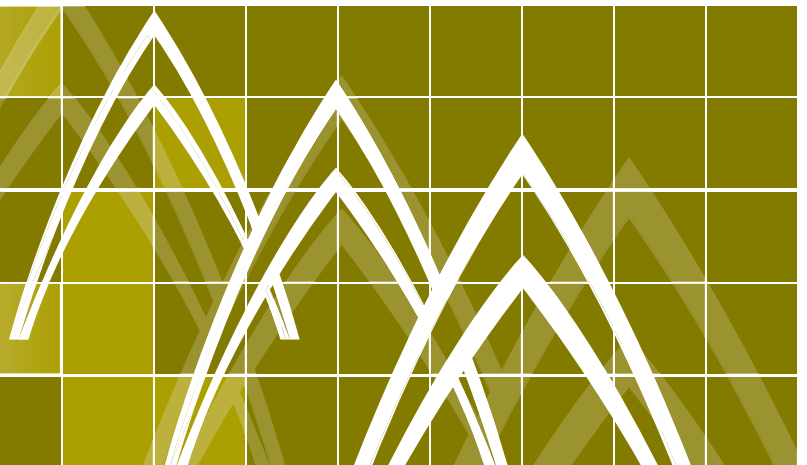


3

Economic Performance and Prospects





Economic Performance and Prospects

Overview

Economy shows signs of recovery...

Malaysia being an open economy is adversely affected with exports contracting sharply, following the global financial crisis and economic downturn. The significant decline in exports in turn affected domestic demand. Consequently, economic growth contracted 6.2% in the first quarter of 2009. However, the Gross Domestic Product (GDP) recorded a smaller decline of 3.9% in the second quarter, aided by speedy and effective implementation of stimulus packages as well as monetary easing. Economic performance is expected to improve in the second half of the year supported by counter-cyclical measures and reinforced by stabilisation in the global economic environment. As such, the economy is expected to turn around in the fourth quarter of 2009, though for the year it is estimated to contract 3.0%.

Domestic demand will be the main driver of the economy attributed to public sector expenditure and private consumption. Public investment is estimated to expand following the implementation of projects under the stimulus packages. In contrast, private investment is expected to contract, reflecting the lower business sentiment. Meanwhile, private consumption is envisaged to record positive growth on account of firm household disposable income, as a result of stabilisation in the job market and recovery in commodity prices.

On the supply side, growth is expected to emanate from services and construction sectors. The services sector is envisaged to register positive growth contributed by strong performance in the communication, finance and insurance as well as accommodation and restaurant sub-sectors. The construction sector continues to strengthen

driven by implementation of various Government projects, particularly construction works under the stimulus packages. However, manufacturing output is envisaged to decline on account of weak external demand. Growth in the agriculture sector is expected to be propelled by sturdy expansion of the non-commodity sub-sector, while the mining sector continues to contract due to lower crude oil production.

The balance of payments (BOP) is expected to remain favourable despite the contraction in global trade. The current account surplus is anticipated to narrow in 2009, but remains large at RM91.8 billion or 13.5% of Gross National Product (GNP). The surplus in the goods account is expected to be lower with exports and imports recording slower growth in 2009. Nevertheless, the surplus will be more than sufficient to offset the deficits in the services, income and current transfers accounts.

Given the contraction of economic activities in the first half of the year and expected recovery in the second half, nominal national income as measured by GNP is estimated to decline 4.8% to RM681.0 billion (2008: 14.2%; RM715.0 billion). In terms of purchasing power parity (PPP), per capita income is envisaged to decrease 14.7% to USD12,826 in 2009 (2008: 13.7%; USD15,040).

Sectoral Performance

Services Sector

The sector remains resilient...

During the first half of 2009, value-added of the **services sector** grew marginally by 0.7% (January – June 2008: 8.2%), attributed to the decline in trade and consumption-related

TABLE 3.1

Gross Domestic Product (GDP) by Sector
2008 – 2010
(at constant 2000 prices)

	Change (%)			Share of GDP (%)			Contribution to GDP growth (percentage point)		
	2008	2009 ¹	2010 ²	2008	2009 ¹	2010 ²	2008	2009 ¹	2010 ²
Agriculture	4.0	-2.3	2.5	7.5	7.6	7.6	0.3	-0.2	0.2
Mining	-0.8	-2.9	1.1	8.1	8.1	7.9	-0.1	-0.2	0.1
Manufacturing	1.3	-12.1	1.7	29.1	26.4	26.2	0.4	-3.5	0.4
Construction	2.1	3.5	3.2	3.0	3.2	3.2	0.1	0.1	0.1
Services	7.2	2.1	3.6	55.0	57.9	58.5	3.9	1.1	2.1
Less: Undistributed FISIM³	5.4	6.0	6.4	3.9	4.3	4.5	0.2	0.2	0.2
Add: Import duties	23.9	-7.2	-9.5	1.3	1.2	1.1	0.3	-0.1	-0.1
GDP	4.6	-3.0	2.0-3.0	100.0	100.0	100.0	4.6	-3.0	2.0-3.0

¹ Estimate.

² Forecast.

³ Financial Intermediation Services Indirectly Measured (FISIM).

Note: Total may not add up due to rounding.

Source: Department of Statistics and Ministry of Finance, Malaysia.

TABLE 3.2

Services Sector Performance
2008 – 2010
(at constant 2000 prices)

	Change (%)			Share of GDP (%)		
	2008	2009 ¹	2010 ²	2008	2009 ¹	2010 ²
Intermediate services						
Transport and storage	6.1	-3.3	2.1	3.8	3.8	3.8
Communication	7.3	5.7	6.6	3.9	4.2	4.4
Finance and insurance	7.7	3.0	4.0	11.0	11.7	11.8
Real estate and business services	1.5	1.0	3.1	5.1	5.4	5.4
Final services						
Utilities (electricity, water and gas)	2.1	-1.4	1.8	2.9	3.0	2.9
Wholesale and retail trade	9.8	1.2	3.5	12.8	13.3	13.5
Accommodation and restaurant	7.3	3.2	3.1	2.4	2.6	2.6
Other services	5.2	4.9	5.0	5.7	6.2	6.3
Government services	11.1	2.6	2.8	7.4	7.8	7.8
Total	7.2	2.1	3.6	55.0	57.9	58.5

¹ Estimate.

² Forecast.

Note: Total may not add up due to rounding.

Source: Department of Statistics and Ministry of Finance, Malaysia.



activities. On a quarter-on-quarter (q-o-q) basis, the sector registered a sharp turnaround of 4.4% in the second quarter of 2009 (Q1 2009: -7.3%). With the economy showing signs of recovery, the sector is anticipated to register growth of 2.1% and account for 57.9% of GDP in 2009 (2008: 7.2%; 55.0%). The **intermediate** and **final services** groups are expected to expand 2.0%, respectively (2008: 6.0%; 7.4%). Growth in the intermediate services group is expected to be led by the communication as well as finance and insurance sub-sectors, while the final services group will be supported by higher activity in accommodation and restaurant as well as wholesale and retail trade sub-sectors.

The **communication sub-sector** is expected to grow 5.7% in 2009 (2008: 7.3%), driven by strong expansion in the telecommunications industry. During the first half of the year, the sub-sector posted favourable growth of 5.3% (January – June 2008: 7.7%), attributed to higher usage of cellular, broadband and third generation (3G) services. As at end-June 2009, the cellular phone subscriber base grew 13.8% to 28.5 million with a penetration rate of 100.8% (end-June 2008: 18.2%; 25.1 million; 90.6%). The robust performance of the segment was attributed to greater usage of voice, data and multimedia services as well as enhanced service quality and network expansion by service providers. Furthermore, advancements in the mobile phone applications and features continue to drive demand for cellular subscriptions.

In addition, the performance of the cellular segment was also contributed by increasing short message services (SMS) traffic. During the first half of the year, SMS transmission rose sharply by 23.3% to 42.4 billion (January – June 2008: 36.7%; 34.4 billion), spurred by competitive pricing and aggressive SMS-based marketing strategies. Moreover, the increasing number of 3G uptake is expected to further boost the segment. As at end-June 2009, the number of 3G subscriptions grew significantly by 141.8% to 6.0 million (end-June 2008: 201.1%; 2.5 million), primarily due to affordability and improved technological features of the 3G mobile devices. Despite a saturated market, prospects in the cellular segment are expected to remain

encouraging as service providers continue to be innovative in providing high-end services such as 3G and mobile broadband. The cellular phone subscriber base is anticipated to grow further by 11.4% to 30.2 million with a penetration rate of 105.6% by year-end (2008: 16.2%; 27.1 million; 96.8%).

Broadband subscriber base grew 53.9% to 2.1 million with a household penetration rate of 24.8% (end-June 2008: 24.1%; 1.4 million; 18.0%) driven by increasing demand for internet access and wider network coverage. Service providers are continuously deploying broadband infrastructure and services beyond urban areas as well as introducing attractive packages to increase the broadband take-up rate. In addition, the roll-out of wireless hotspots is expected to provide further impetus for growth in the segment. As at end-June 2009, total number of Wireless Fidelity (Wi-Fi) hotspots stood at 1,992 locations nationwide (end-June 2008: 1,986), with almost 70% concentrated in Selangor, Kuala Lumpur, Pulau Pinang and Perak.

The Worldwide Interoperability for Microwave Access (WiMAX) operators have started to offer high-speed broadband services in key urban areas. As at end-June 2009, there are a total of 60,800 WiMAX subscribers nationwide. In addition, the roll-out of the High Speed Broadband (HSBB) project by *Telekom Malaysia* (TM) is expected to further enhance the broadband penetration rate. The commercial launch of this service is expected to commence in the first quarter of 2010.

As for postal services, total revenue collected by *Pos Malaysia Berhad* (PMB) contracted 2.0% during the first half of 2009 (January – June 2008: 5.1%), attributed to reduced postal and courier activities. Total mail volume handled declined 1.0% to 650.7 million items (January – June 2008: -2.4%; 657.1 million) due to cost-cutting measures implemented by corporate customers, following the current economic slowdown. These measures include reducing mailing frequencies and expenses as well as migration to e-billing and e-statement. Similarly, PMB's courier volume contracted 2.1% to 5.7 million items (January – June 2008: 24.7%; 5.9 million) attributed to intense competition among courier players.



The **finance and insurance sub-sector** is expected to expand 3.0% in 2009 (2008: 7.7%) supported by steady financing activities for consumer credit and business investment. As at end-July 2009, total loans outstanding of the banking system grew 8.4% to RM752.5 billion (end-July 2008: 9.9%; RM694.5 billion) with loans to small and medium enterprises (SMEs) as well as households comprising 15.9% and 54.7%, respectively (end-July 2008: 17.8%; 54.3%). The sub-sector is also anticipated to benefit from Malaysia's position as a major Islamic financial hub. Financing in the Islamic banking sector grew 12.4% to RM169.2 billion and accounted for 20.2% of total banking system loans as at end-July 2009 (end-2008: RM150.5 billion).

The **real estate and business services sub-sector** is expected to grow 1.0% in 2009 (2008: 1.5%), due to higher stock broking, shared services and outsourcing (SSO) activities as well as information technology (IT) related services. The FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) closed at a record of 1,246.84 points as at 14 October 2009 with market capitalisation of RM940.23 billion (end-2008: 876.75 points; RM663.8 billion). The improved performance was attributed to better investor sentiment. In addition, the stock market responded positively to several liberalisation measures announced in the second quarter of 2009.

With regard to SSO, Malaysia has retained its position as the third best destination for outsourcing activity globally, for the fourth consecutive year. As at end-August 2009, a total of 2,722 regional establishments were approved comprising 1,579 representative offices, 740 regional offices, 210 international procurement centres, 172 operational headquarters and 21 regional distribution centres. The Government's continuous initiatives in ensuring a conducive business environment, which includes liberalising foreign equity participation and facilitating employment of expatriates have encouraged these establishments to locate in Malaysia. During the first eight months of 2009, 119 new regional establishments were approved (January – August 2008: 101) with total proposed investments amounting to RM219.1 million, creating 587 jobs (January – August 2008: RM159.0 million; 796 jobs).

As for IT-related services, during the first eight months of 2009, 170 companies (January – August 2008: 124) were granted Multimedia Super Corridor Malaysia (MSC Malaysia) status, bringing the total to 2,406 (end-August 2008: 2,118). These companies are mainly involved in software and eSolutions, creative multimedia and SSO activities. In addition, the roll-out of MSC Malaysia to other parts of the country with the creation of new Cybercities and Cybercentres are expected to further boost the business services segment. As at end-August 2009, there are a total of 16 MSC Malaysia Cybercities and Cybercentres nationwide, including Putra Square, Kuantan, which was awarded Cybercentre status in July 2009.

During the first half of 2009, value-added of the **wholesale and retail trade sub-sector** contracted marginally by 0.6% (January – June 2008: 12.3%) due to lower private consumption following weaker consumer sentiment and business confidence. During the period, the retail sales index declined 4.7% to 129.0 points (January – June 2008: 9.9%; 135.4 points), while the motor vehicle sales index contracted 9.5% to 104.6 points (January – June 2008: 13.7%; 115.5 points). The sluggish performance of this sub-sector was also reflected by 6.4% decline in the import of consumption goods (January – June 2008: 13.4%).

Prospects of the wholesale and retail trade sub-sector are expected to remain positive with the establishment of new retail complexes as well as expansion of major hypermarkets and superstores. As at end-September 2009, there are a total of 81 foreign hypermarkets and superstores operating in the country (end-September 2008: 71). In addition, the extension of hypermarket operating hours and the launch of Buy Malaysian Goods campaign are envisaged to further support the wholesale and retail trade activity. In 2009, the wholesale and retail trade sub-sector is expected to grow 1.2% (2008: 9.8%).

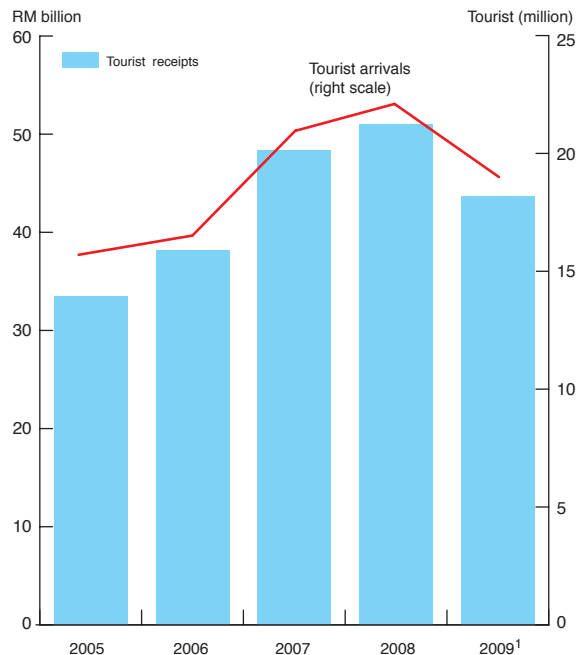
During the first half of 2009, the **accommodation and restaurant sub-sector** grew 2.5% (January – June 2008: 8.6%), supported by continuous promotional activities, particularly by fast food outlets and higher tourist arrivals. The overall performance of the sub-sector is anticipated



CHART 3.1

Tourism Industry

Tourist Arrivals and Tourist Receipts



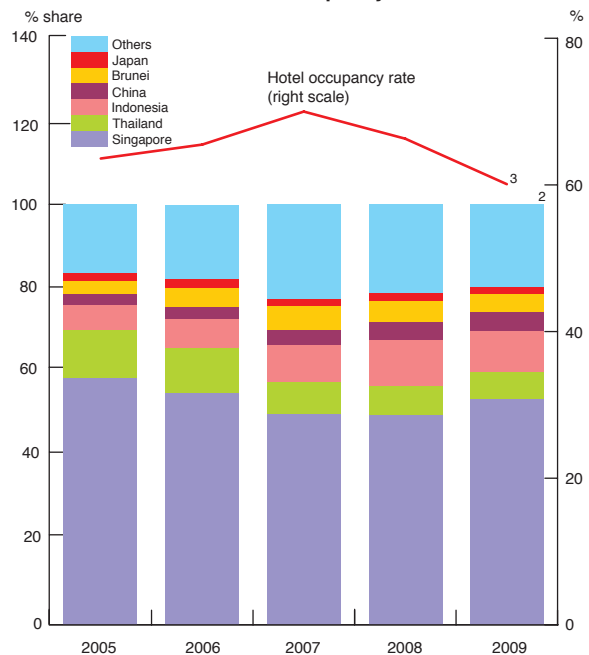
¹ Estimate.

² January – August.

³ January – June.

Source: Malaysia Tourism Promotion Board and Department of Statistics, Malaysia.

Tourist Arrivals by Country and Hotel Occupancy Rate



to increase 3.2% in 2009 (2008: 7.3%) with expenditure on accommodation remaining the largest component of total tourist receipts (31.0%), followed by shopping (26.7%) as well as food and beverages (17.9%). During the first eight months of the year, despite the economic slowdown and the Influenza A(H1N1) outbreak, the number of tourist arrivals rose 4.4% to 15.4 million (January – August 2008: 4.9%; 14.7 million). This was mainly attributed to the offering of attractive travel packages by tourism-related agencies and increased connectivity by airlines. The top three sources of tourist arrivals were from Singapore (8.3 million), Indonesia (1.5 million) and Thailand (1.0 million).

In an effort to further enhance the competitiveness of the tourism industry, a total of RM200 million was allocated to upgrade tourism infrastructure, diversify tourism products, improve the homestay programme as well as host more international

conferences and exhibitions. In addition, the Government has also rebranded the Malaysia My Second Home (MM2H) programme with the aim of making it more appealing and effective, particularly in attracting high net-worth individuals to invest in Malaysia by setting up their business or partnering with local entrepreneurs. This includes the relaxation of the MM2H criteria, whereby participants are now allowed to work for not more than 20 hours per week as well as invest and participate in business actively. As a result, the number of MM2H participants increased 1.2% to 1,055 in the first eight months of 2009 (January – August 2008: -1.8%; 1,042). As at end-August 2009, the total number of MM2H participants stood at 12,794 and were mainly from China (17.6%), Bangladesh (13.4%), the United Kingdom (10.4%) and Japan (7.5%).

The designation of Melaka and George Town as World Heritage Sites (WHS) by United Nations

Selected Niche Growth Areas in the Services Sector

Introduction

Services, unlike goods, are intangible and usually consumed at the time of purchase. The sector comprises a very diverse set of industries and serves as a crucial input in the production of goods and provides linkages across all sectors of the economy. Globally, the sector accounts for almost two-thirds of output, one-third of total employment and nearly 20% of trade.

As an economy becomes more developed, it will shift from primary to secondary and, eventually, to tertiary sector. In Malaysia, the economy is undergoing a structural shift from manufacturing-based to service-oriented economy, with the share of the services sector to Gross Domestic Product (GDP) increasing from 38.2% in 1970 to 51.1% in 1994. During the period 1997 to 2007, almost 2 million jobs were created, of which 91.0% were in the services-related industries. In 2008, the sector accounted for 55.0% of GDP and 52.2% of total employment. In advancing to a high-income economy, the Government has accorded top priority to further develop the services sector to its full potential. The sector has the potential to contribute more than 60% of GDP as in advanced countries such as Germany (69.1%), Japan (72.3%), the United States (79.6%) and the United Kingdom (74.5%).

To unleash the potential of this sector, several niche areas with comparative advantage have been identified. Malaysia is at the forefront of Islamic finance, while tourism, particularly education and health as well as information and communication technology (ICT) are new growth catalyst for the economy.

Islamic Finance

Islamic finance has evolved into a dynamic, fast growing and competitive form of financial intermediation for the global community. As an early mover in Islamic finance, Malaysia is well-positioned to become an international Islamic financial hub. The comprehensive domestic Islamic financial system is supported by a strong legal and regulatory framework and comprises Islamic banking and *takaful* institutions as well as Islamic money and capital markets. The nation is at the forefront in Islamic finance with significant achievements. Malaysia was the first country to issue sovereign global *sukuk*. In product innovation, Malaysia introduced the first Islamic real estate investment trust, exchange-traded fund (ETF) and commodity trading platform.

The Islamic banking system is a robust and competitive component of the domestic financial system. As at end-July 2009, there are 17 Islamic banks, of which six are foreign banks. Islamic banking assets constitute 18.9% of total banking assets, while Islamic financing accounts for 20.2% of total banking system loans as at end-July 2009. The Islamic capital market is vibrant, with *sukuk* issuance growing at an average annual rate of 19.6% since 2001. The Malaysian *sukuk* market is the largest in the world, accounting for more than 60% of global outstanding *sukuk*.

Malaysia continues to undertake measures to strengthen its position as an Islamic financial hub. Among other achievements, the Malaysia International Islamic Financial Centre (MIFC) initiative launched in 2006 has attracted foreign and domestic financial institutions to establish international business units to conduct Islamic banking and *takaful* in foreign currencies. In 2009, the pace of liberalisation has been intensified through the increase in foreign equity limit to 70.0% for Islamic banks and *takaful* companies, the offering of two new licences in Islamic banking and family *takaful* as well as allowing five top international law firms with expertise in Islamic finance to operate in Malaysia. In terms of human capital development, professional, technical and leadership skills training in Islamic finance are provided by institutions, such as the Islamic Banking and Finance Institute Malaysia (IBFIM), International Centre for Education in Islamic Finance (INCEIF) and the International Centre for Leadership in Finance (ICLIF).



Malaysia is well-positioned to capitalise on opportunities from the rapid growth in global Islamic finance. In this regard, efforts to further promote and integrate Islamic finance with the global financial system will be intensified towards establishing Malaysia as a premier Islamic financial centre.

Healthcare Travel

Healthcare travel has been identified as one of the potential industries to be harnessed, leveraging on the availability of well-established, quality and affordable healthcare facilities and services. The healthcare medical services offered include screening services, diagnostics, cosmetic surgery, cardiology, ophthalmology, neurosurgery and gynaecology. In addition, the wellness aspects of healthcare services, which include homeopathy, spa, reflexology and traditional treatment are also offered. Apart from receiving medical and wellness treatment, patients as well as their family can also opt for leisure travel and tourism-related activities.

Healthcare travellers surged almost ten-fold from 39,114 in 1998 to 374,063 in 2008. Revenue generated from healthcare travellers also registered a remarkable increase from RM14.1 million to RM299.1 million during the same period. The bulk of healthcare travellers were from Indonesia, followed by Japan, Europe and India, with Penang, Melaka, Kuala Lumpur and Selangor being the most preferred destinations. In 2009, it is anticipated that healthcare travellers will increase to 430,000, generating total receipts of RM330 million. Markets of growing importance include the United States (US), Canada, Middle East, Bangladesh, Myanmar, Vietnam and Cambodia. For the 2006 – 2010 period, the industry is estimated to generate total foreign exchange earnings of about RM2 billion.

Initiatives to develop and promote Malaysia as a premier, quality and affordable healthcare travel destination, include the setting up of the Malaysia Healthcare Travel Council (MHTC) and branding of the healthcare travel programme as 'Malaysia Healthcare'. A dedicated portal was established to provide essential information on healthcare services. The Government identified 35 private hospitals as key players to spearhead the industry. To ensure provision of quality services, healthcare facilities and services offered are accredited by the Malaysian Society for Quality in Health (MSQH) based on international standards and benchmarks.

Malaysia is fast-gaining recognition as a preferred location and was ranked among the world's top five healthcare travel destinations in 2008 by Nuwire Investor. These destinations were based on quality and affordability of healthcare as well as receptiveness to foreign investment. Malaysia has the essential ingredients to become a world-class destination in this thriving industry. In line with this, healthcare travel is expected to be an important niche market within the tourism industry and contribute significantly to the economy.

Education Tourism

Malaysia is gaining worldwide recognition as the preferred destination for tertiary and higher education, boosting the tourism industry. In this context, Malaysia is ranked 11th in the world by United Nations Educational, Scientific and Cultural Organisation (UNESCO). Foreign students at various public and private institutions of higher learning increased significantly from 1,913 in 1995 to 69,164 in 2008. Of this, about one-third was from China and Indonesia, while the rest were mainly from Middle East, North Africa and West Asia. In 2009, foreign students are expected to exceed 75,000.

With modern facilities and the widespread use of innovative learning technologies, Malaysia offers a broad range of high quality yet affordable courses that are internationally recognised. To date, 21 public higher education institutions, 43 private universities and university colleges and five foreign university branch campuses offer preparatory language courses, direct entry degrees, twinning arrangements, short-term exchange programmes as well as distance learning courses for both undergraduate and postgraduate students.



Recognising the potential, various measures have been undertaken to promote Malaysia as a centre of excellence for education. These include establishing Malaysia as a higher education mobility hub for international students, deploying effective marketing strategies, setting up Malaysian Higher Education Centres in selected cities worldwide and forging pioneering collaboration channels in international public and private institutions of higher learning. In addition, high impact projects will be developed to cater specifically for education, for instance, Iskandar Malaysia's EduCity in Nusajaya will be developed to offer tailor-made programmes for international students.

Information and Communication Technology

The ICT industry has been identified as a strategic driver in the development of the economy. In this context, telecommunications, digital content development as well as high-end shared services and outsourcing (SSO) have been identified as niche areas for further development.

Over the past years, telecommunications industry has achieved an impressive expansion in the provision of services and infrastructure, as reflected by the statistics on telephony services. The mobile phone penetration rate surged from 21.8% in 2000 to 100.8% of population as at end-June 2009. Malaysia has the third highest mobile phone penetration rate in Southeast Asia after Singapore and Thailand. The broadband penetration rate has also increased from only 1.0% in 2004 to 7.5% of population as at end-June 2009.

Most Malaysians are accessing internet, particularly for networking and obtaining information. According to Internet World Statistics, Malaysians are among the top ten internet users in Asia, especially in surfing Friendster, Yahoo and Blog websites. Currently, almost 50% of Malaysian internet traffic is routed via neighbouring countries and 80% are accessing foreign content. Realising the vast potential in this area, there is an immediate need to turn the internet traffic back to Malaysia. More efforts are needed to leverage on the nation's strategic location and capitalise on existing linkages and network to facilitate the expansion of the telecommunications industry.

In this regard, the Government has embarked on public-private collaboration with *Telekom Malaysia* (TM) to roll-out High Speed Broadband (HSBB) project over a period of ten years (2008 – 2017). HSBB, a key national infrastructure initiative, is crucial for Malaysia to make the quantum leap to become a high-income economy. It is a key enabler to provide a conducive environment for private investment and knowledge-intensive activities as well as enhance the nation's competitiveness. The implementation of this project is expected to boost the national GDP by 0.6% and create 100,000 jobs by 2017.

Digital content industry includes creative computer animation, digital games, edutainment programmes, mobile applications and services, interactive television as well as digital archiving and publishing. The Multimedia Super Corridor Malaysia (MSC Malaysia) initiative provides the platform to develop and promote digital content industries. As at end-August 2009, the Creative Multimedia cluster of MSC Malaysia comprised 264 companies involved in post-production, animation, game development, e-learning and interactive content activities. The cluster is expected to generate more than RM3 billion in revenue by end-2009.

The MSC Malaysia Animation and Creative Content Centre (MAC3) Co-Production Fund amounting RM75.0 million was established in August 2009, to facilitate animation and game houses engage in co-productions with foreign partners as well as enhance competency and capability. The Government also established e-Content Fund and Networked Content Development Grant (NCDG) to local animators, visual effect artists and content developers to encourage production and distribution of content for domestic and international markets. As at end-August 2009, RM99.7 million were approved under the e-Content Fund, while RM4.5 million has been approved under the NCDG. Accreditation programmes with local and international content associations have been conducted to enhance capacity and capability of industry players. The Digital Media Zone in Cyberjaya and the Creative Zones in Cybercentres are expected to increase the pool of digital content providers.



Malaysia has secured world recognition as the third best destination for SSO activities for the fourth consecutive year, after India and China, as reflected in the A.T. Kearney Global Services Location Index. In 2008, the SSO cluster of MSC Malaysia generated a sum of RM6.1 billion, or 28.4% of MSC Malaysia's total revenue and created 37,438 jobs. As at end-August 2009, 184 SSO companies have been awarded the MSC Malaysia status. Outsourcing companies are expected to explore business opportunities in key markets such as the US, Europe and Asia Pacific, including Japan and Australia as well as the Middle East in specific areas such as Islamic finance. To seize this vast market opportunity, the Government aims to create 40,000 jobs by 2010, accounting for 40.6% of total employment in MSC Malaysia.

Conclusion

The development of niche areas in the services sector will contribute immensely to the economy. The sector is an important source of growth in terms of income-generation, job creation and entrepreneurial development. The Government will continue to formulate policies to ensure conducive business environment in realising the full potential of this sector. This will enable the sector to play a more aggressive role towards achieving a high-income economy.

Educational, Scientific and Cultural Organisation (UNESCO) further enhanced Malaysia's position as an international tourism destination. In this regard, the Government initiated the signing of the Memorandum of Understanding (MoU) between travel and tour operators from Malaysia and Indonesia to promote Melaka, George Town and Borobudur as WHS travel package, particularly to attract heritage and culture enthusiasts.

Value-added of the **transport and storage sub-sector** declined significantly by 5.2% in the first six months of 2009 (January – June 2008: 9.0%), due to slower economic performance, particularly in travel and trade-related activities. The lacklustre performance of external trade has severely affected demand for sea, air and land transport. In 2009, value-added of the transport and storage sub-sector is expected to contract 3.3% (2008: 6.1%).

In the first seven months of 2009, total containers handled at major ports, namely Port Klang, Tanjung Pelepas (PTP), Penang, Kuantan, Johor, Bintulu and Kuching registered a decline of 7.4% to 8.6 million twenty-foot equivalent units (TEUs) (January – July 2008: 9.3%; 9.3 million

TEUs). The decline was attributed to reduced port activity following sluggish external trade performance, mainly between Asia, Europe and the United States (US) markets. Total container throughput is envisaged to contract 5.1% to 15.2 million TEUs in 2009 (2008: 7.2%; 16.0 million TEUs).

Port Klang, which remains the largest container port in the country, handled 4.0 million TEUs, accounting for 46.3% of total throughput (January – July 2008: 4.7 million TEUs; 50.0%). Meanwhile, PTP handled 3.3 million TEUs, contributing 38.7% of total containers handled (January – July 2008: 3.2 million TEUs; 34.7%). According to Containerisation International (CI), Port Klang improved to 15th position (2007: 16th), while PTP remained at 18th position in terms of total TEUs handled in 2008.

The number of ships calling at major ports also declined 5.5% to 24,004 ships (January – July 2008: -0.1%; 25,395), with Port Klang dominating 36.7% of total ship calls (January – July 2008: 38.8%). The slower international trade activity has led to major shipping lines reducing capacity and consolidating services to operate more



efficiently. In addition, the recent liberalisation of the Cabotage policy on containerised transshipment cargo between the ports of Sepang, Bintulu and Kuching with Klang and PTP is anticipated to revitalise port activities.

The air transport segment was affected by weak consumer sentiment and business confidence, which led to lower spending and reduced demand for air transport services. To remain competitive, airlines have embarked on several initiatives to stimulate demand for air travel. These include reducing air fares by abolishing fuel surcharge and administrative charges, offering attractive travel packages as well as improving connectivity, frequency and efficiency. Overall, the air transport industry is anticipated to remain challenging with fuel price volatility and further liberalisation of the industry.

During the first seven months of 2009, total air cargo handled by MASkargo and AirAsia contracted sharply by 26.2% to 236.6 million tonnes (January – July 2008: 7.8%; 320.5 million tonnes) on account of lower demand for air cargo services, particularly from the manufacturing sector. Similarly, total air cargo handled at all airports in the country declined significantly by 22.9% to 438.7 million tonnes (January – July 2008: 2.6%; 568.9 million tonnes).

As for the passenger segment, the number of passengers on Malaysia Airlines System (MAS) and AirAsia grew moderately by 1.9% to 14.3 million passengers (January – July 2008: 5.3%; 14.1 million), attributed to lower demand for air travel, especially among the premium and long-haul travellers. Similarly, passenger traffic at all airports in the country rose 2.7% to 28.9 million passengers (January – July 2008: 8.2%; 28.1 million). The number of passengers on new airlines, namely Firefly, MASWings and AirAsia X continued to rise significantly by 104.2% to 1.4 million passengers (January – July 2008: 663,300) on account of competitive fares, improved connectivity and frequency.

In an effort to encourage more airlines to operate in Malaysia, effective 1 April 2009, the Government granted a 50% rebate on landing charges for a period of two years to all airlines operating from

Malaysia. Furthermore, recognising the rising demand for budget travel and limited capacity in the current Low-Cost Carrier Terminal (LCCT), Malaysia Airports Holdings Berhad (MAHB) will build and operate a new LCCT at the Kuala Lumpur International Airport (KLIA), which is scheduled for completion in 2011. The new LCCT will be able to accommodate 30 million passengers, up from the current 15 million capacity.

The land transport segment is expected to grow at a slower pace in 2009 due to lower demand, particularly for freight transport services. Growth will be supported by continuous improvement in facilities, services as well as land and rail infrastructure. In the first seven months of 2009, the number of vehicles plying tolled highways rose 5.3% to 742.5 million (January – July 2008: 7.9%; 705.4 million) attributed to lower fuel prices, discounted toll rates for midnight travel as well as completion of highway projects. In contrast, average daily ridership on RapidKL and Rapid Penang bus services decreased 3.7% to 420,269 passengers (January – July 2008: 436,620) due to higher private vehicle usage. Similarly, average daily ridership on urban rail services in the Klang Valley (Ampang Line, Kelana Jaya Line, KL Monorail, Express Rail Link and *KTM Komuter*) declined 3.5% to 439,099 passengers (January – July 2008: 1.5%; 454,903).

During the first seven months of 2009, the *Keretapi Tanah Melayu Berhad* (KTMB) intercity passenger traffic increased significantly by 21.3% to 2.4 million (January – July 2008: -0.1%; 2.0 million), raising revenue by 14.3% to RM47.6 million (January – July 2008: 9.0%; RM41.6 million). This was due to the introduction of new shuttle services such as Kuala Lumpur – Ipoh, Kuala Lumpur – Butterworth as well as Johor Bahru – Singapore. In contrast, revenue from KTMB freight services contracted 8.3% to RM63.3 million (January – July 2008: 0.4%; RM69.0 million) on account of lower demand, mainly from the landbridge operations between Malaysia and Thailand.

Concerted efforts are underway to increase public transport usage from the current 16% to 25% in the Klang Valley by end-2012. One of the major initiatives include the acquisition of 35 train sets



for the Kelana Jaya Line, which will be operating in phases beginning mid-November 2009. To date, 13 train sets are undergoing various stages of testing, commissioning and pre-operation runs. The extension works on the Kelana Jaya and Ampang Lines, which are expected to begin early 2010, will also benefit more than 2 million residents in Subang Jaya – USJ and Kinrara – Puchong areas, upon completion in 2012.

In addition, the *KTM Komuter* services have been extended to Tanjung Malim effective 1 June 2009, while the Sentul – Batu Caves service is expected to begin by March 2010 following the completion of the Sentul – Batu Caves electrified double-tracking project. Other initiatives include continuous integration of transport modes through increased connectivity, frequency and capacity, online purchase of tickets and additional ticket booths at various stations. The performance of the land transport segment is expected to be supported by ongoing public transport infrastructure projects.

Value-added of the **utilities sub-sector** is expected to decline 1.4% in 2009 (2008: 2.1%) on account of lower demand for electricity. During the first half of 2009, electricity generation decreased 4.9%, while sales contracted 5.1% (January – June 2008: 3.8%; 5.8%), in line with the decline of 16.2% in the manufacturing sector. During the period, the industrial segment accounted for 41.7% of total electricity consumption followed by commercial (34.8%) and household (21.9%). Maximum demand for electricity peaked at 14,029 megawatts (MW) in June 2009 (January – June 2008: 14,007 MW; May). Meanwhile, water supply grew 1.8% to 13,436 million litres per day (mld) (January – June 2008: 4.9%; 13,199 mld). In an effort to ensure sustainability and efficiency of water supply, the Government has initiated a restructuring programme for the water supply industry. Under this initiative, three states, namely Johor, Melaka and Negeri Sembilan have agreed to transfer their assets and liabilities to *Pengurusan Aset Air Berhad* (PAAB).

The **other services sub-sector** is expected to increase 4.9% (2008: 5.2%) supported by higher activity in private education and healthcare services. As at end-June 2009, there are 452

private higher education institutions (HEIs), comprising 44 private universities and university colleges as well as five foreign university branch campuses, while the rest are private colleges. As for healthcare services, foreign patients in private hospitals are expected to increase to 430,000, generating revenue of RM330 million in 2009 (2008: 374,063; RM299.1 million). The Malaysia Healthcare Travel Council (MHTC) will be established to promote and develop Malaysia as a world-class healthcare service provider. Meanwhile, the **government services sub-sector** is estimated to expand 2.6% in 2009 (2008: 11.1%) attributed to higher expenditure on emoluments.

Manufacturing Sector

Signs of improvement...

Output of **manufacturing sector** contracted 14.8% in the first eight months of 2009 (January – August 2008: 5.5%) on account of sharp deterioration in export- and domestic-oriented industries. Sales value of manufactured products also declined 24.7% to RM299.8 billion (January – August 2008: 17.6%; RM398.3 billion). However, there are signs that the declining trend is bottoming out. On a month-on-month basis, production and sales of manufacturing products have been improving notably since March this year. This positive development is further reinforced by the Government's stimulus packages spending as well as better consumer sentiment and business confidence.

The domestic-oriented industries declined 9.8% (January – August 2008: 7.6%) as a result of lower output of chemicals and chemical products, construction-related materials as well as food products. Export-oriented industries declined 19.0% (January – August 2008: 4.9%) with significant contraction in electrical and electronics (E&E), machinery and equipment (M&E) as well as wood products following weak external demand. Notwithstanding this, better prospect for export-oriented industries is expected in the second half of the year due to various initiatives to stimulate world growth. Signs of recovery in the domestic-oriented industries began to



emerge, reflected by improved production in the construction-related and resource-based industries as well as transport equipment sub-sector. The capacity utilisation rate improved to 81.7% in the third quarter of 2009 (Q2 2009: 78.2%). With these positive developments, value-added of the manufacturing sector is expected to decline at a slower pace of 12.1% in 2009.

In the **domestic-oriented industries**, production of **chemicals and chemical products** declined 7.7% (January – August 2008: -1.4%) due to lower production of industrial gases (-10.3%) and basic industrial chemicals (-4.8%). Production of fertilisers also contracted 19.2% (January – August 2008: -1.6%) on account of weak demand from the oil palm plantation as commodity prices have yet to recover fully. However, production of paint and varnish turned around 4.0% (January – August 2008: -32.5%) partly due to higher demand for maintenance works of schools, quarters and hospitals.

Output of **construction-related materials** contracted 11.2% (January – August 2008: 11.8%) following lower production of basic iron and steel (-40.8%) as well as glass and glass products (-46.2%). However, new orders for some construction-related materials increased, spurred by accelerating public works. This was reflected in higher production of structural metals products (76.5%), hydraulic cement (5.1%) as well as other articles of concrete, cement and plaster (2.0%). The Government announced several measures including easing the issuance of import and export licences as well as manufacturing licences for producing iron and steel products effective 1 August 2009. This is to enhance competitiveness of the local steel players. In addition, gradual tariff reductions for long and flat products as well as import duty exemption for iron and steel products were announced in June 2009.

Production of **food products** grew 0.2% (January – August 2008: 14.2%) on account of lower output of refined palm oil, processed fish products as well as other food products. However, production of sweetened condensed milk increased 35.8% due to lower cost of dairy raw materials. Production of whole rice and broken

rice also increased 49.6% and 8.9%, respectively (January – August 2008: 13.6%; 17.9%). In line with an increasing Muslim population and rising awareness of food hygiene and safety, the expanding global *halal* food market is expected to provide greater opportunities for Malaysian *halal* food manufacturers. Meanwhile, frozen and processed seafood manufacturers resumed exports to Europe in June 2009 after complying with the European Union's (EU) health standard requirements.

Output of **plastic products** contracted 9.1% (January – August 2008: 1.5%) following lower demand for components from the E&E and transportation sub-sectors. This was reflected in lower production of plastic injection moulded components (-9.3%) as well as plastic bags and films (-14.7%). However, plastic extruded moulded products continued to grow 11.2% (January – August 2008: 5.8%) driven by increasing demand for food and beverages packaging. Output of **transport equipment** fell 13.5% during the first eight months of 2009 (January – August 2008: 25.3%) following lower production of commercial vehicles (-25.7%), motorcycles and scooters (-16.8%) as well as passenger cars below 1,500 cc (-8.3%). Parts and accessories for motor vehicles and engines declined 7.7% (January – August 2008: 26.2%) due to lower demand. However, output of passenger cars above 1,500 cc, especially the luxury car segment increased 6.9% (January – August 2008: 75.9%). To further develop the domestic car market, the Government also introduced auto-scrapping scheme to replace cars of more than ten years. As at end-August, a total of 7,188 new car sales were registered under this scheme. In addition, automobile companies also embarked on attractive promotional packages and introduced new models to stimulate sales. These efforts are expected to sustain total vehicle sales at 500,000 units in 2009.

In the **export-oriented industries**, production of **E&E products** as a group contracted significantly by 30.3% (January – August 2008: 4.3%) due to lower production of semiconductor devices, office, accounting and computing machinery as well as audio visual and communication apparatus. Production of semiconductor devices



TABLE 3.3

Manufacturing Production Index¹ January – August (2005 = 100)

Industries	Index		Change (%)		Share (%)	
	2008	2009	2008	2009	2008	2009
Export-oriented industries	113.1	91.6	4.9	-19.0	56.9	54.1
Electrical and electronic products	111.7	77.9	4.3	-30.3	29.2	23.9
Petroleum products	117.9	118.1	7.9	0.2	16.1	18.9
Textiles, apparel and footwear	102.5	82.5	2.5	-19.5	1.7	1.6
Wood and wood products	93.2	70.9	-1.1	-23.9	3.6	3.2
Rubber products	131.9	118.6	5.9	-10.1	2.9	3.0
Machinery and equipment	134.1	97.5	8.4	-27.3	2.3	2.0
Medical, optical and scientific instruments	104.0	116.3	-4.7	11.8	1.1	1.5
Domestic-oriented industries	119.8	108.1	7.6	-9.8	43.2	45.8
Chemicals and chemical products	108.0	99.7	-1.4	-7.7	13.0	14.1
Non-metallic mineral and other related products	115.0	97.1	11.1	-15.5	3.0	3.0
Plastic products	134.1	122.0	1.5	-9.1	4.0	4.2
Food products	128.8	129.1	14.2	0.2	4.7	5.5
Transport equipment	117.2	101.3	25.3	-13.5	4.4	4.5
Off-estate processing	112.5	105.6	15.8	-6.1	3.6	4.0
Fabricated metal products	151.7	147.8	11.9	-2.5	3.7	4.2
Basic metals	132.1	88.9	8.8	-32.7	2.8	2.2
Paper and paper products	127.6	96.3	0.5	-24.5	1.4	1.2
Printing and related activities related to printing	128.6	122.2	11.8	-5.0	1.0	1.1
Beverages	119.1	105.2	8.1	-11.7	1.3	1.4
Tobacco products	100.1	91.9	-3.2	-8.1	0.3	0.4
Total	115.8	98.6	5.5	-14.8	100.0	100.0

¹ Manufacturing sector's growth was measured based on the Industrial Production Index (IPI). Revision of IPI by the Department of Statistics has broadened the industries surveyed and reflects current industry's activities. As such, the changes also increased the weights of export-oriented industries to 45.8 points compared with 43.1 points under previous classification.

Source: Department of Statistics, Malaysia.

TABLE 3.4

Growth of the Construction-related Industries January – August (2005 = 100)

	Change (%)		Share (%)	
	2008	2009	2008	2009
Construction-related industries	11.8	-11.2	7.3	7.8
Glass and glass products	27.2	-46.2	0.9	0.6
Non-metallic mineral products (n.e.s.)	5.2	-1.9	2.1	2.4
Structural metal products, tanks, reservoirs and steam generators	33.2	76.5	0.9	1.9
Wire, wire products and metal fasteners	5.4	-21.9	0.7	0.7
Basic iron and steel	2.1	-40.8	1.8	1.3
Other basic precious and non-ferrous metals	23.4	-18.4	0.9	0.9

Source: Department of Statistics, Malaysia.

TABLE 3.5

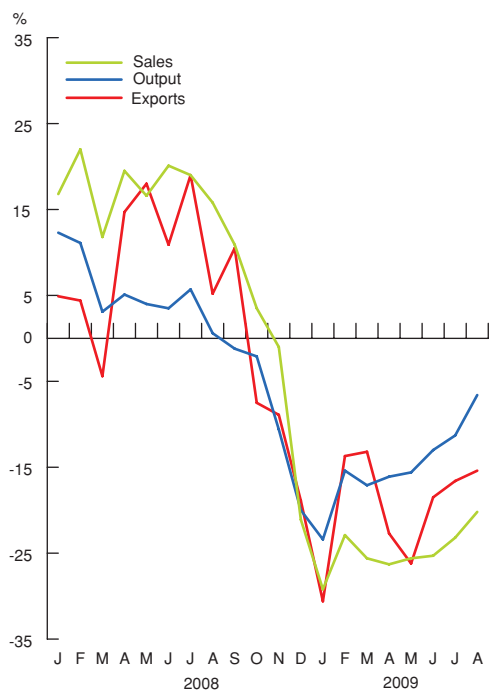
Growth of the E&E Industry January – August (2005 = 100)

	Change (%)		Share (%)	
	2008	2009	2008	2009
Total manufacturing	5.5	-14.8	100.0	100.0
Total E&E products	4.3	-30.3	29.2	23.9
Semiconductors and other components	2.2	-27.1	12.2	10.4
Audio visual and comm. apparatus	1.2	-24.4	4.2	3.7
Office, accounting and computing machinery	9.2	-37.8	10.0	7.3
Electrical machinery and apparatus	2.1	-27.0	2.6	2.2
Domestic appliances	-2.3	-17.8	0.3	0.3

Source: Department of Statistics, Malaysia.

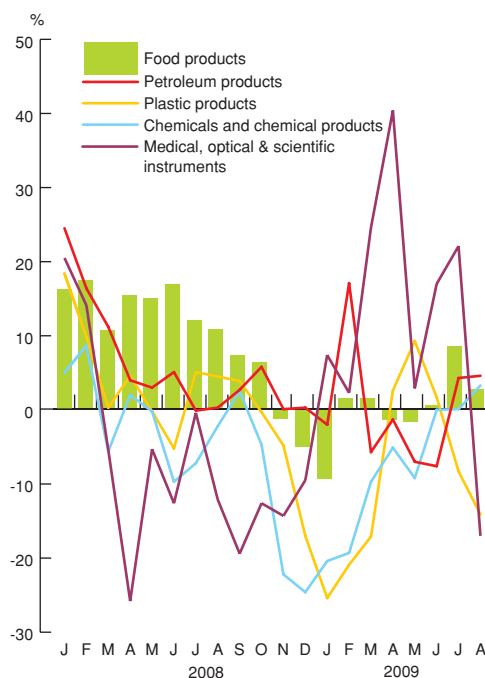


CHART 3.2

Performance of the Manufacturing Sector
(% annual change)

Source: Department of Statistics, Malaysia.

CHART 3.3

Performance of Selected Industries
(% annual change)

Source: Department of Statistics, Malaysia.

including electronic transistors and integrated circuits declined 28.7% (January – August 2008: -4.4%) following weak consumer spending on electronic gadgets globally. Production of office, accounting and computing machinery plunged 37.8% (January – August 2008: 9.2%). However, signs of improvement in global electronic sales emerged in the second quarter of 2009. According to Semiconductor Equipment and Materials International (SEMI), the book-to-bill ratio recorded monthly sequential increase since February to 1.06 in July 2009. This encouraging outlook was further reinforced by higher global chip sales, which increased 5.0% to USD19.1 billion in August 2009 (July 2009: USD18.2 billion) on a month-on-month basis. This was attributed by modest recovery in demand for consumer products, such as netbook computers and cell phones. In addition, the US economic recovery package, which requires sizeable usage of electronic components for infrastructure development such as Smart Grid and health information technology

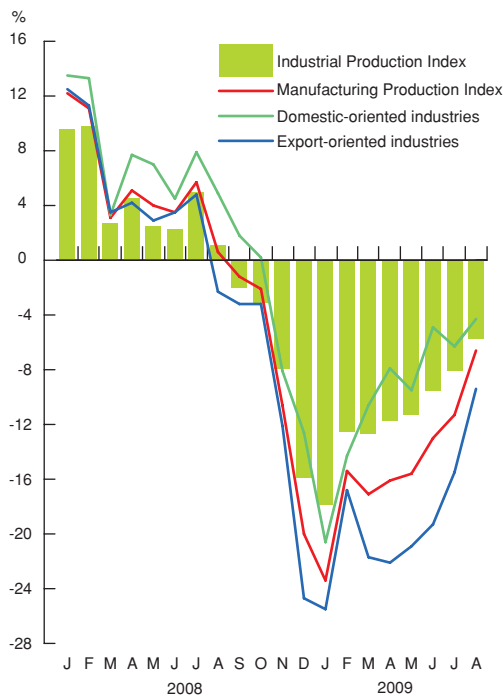
is expected to boost global demand of electronic products. Similarly, stimulus package implemented by the Chinese Government, particularly the subsidy to purchase consumer electronics will further boost global electronics demand. These developments are expected to augur well for Malaysian E&E industry.

Output of **petroleum products** grew 0.2% during the first eight months of 2009 (January – August 2008: 7.9%) on account of higher production of diesel and gas oil (3.4%). However, sales value declined 33.9% to RM54.8 billion (January – August 2008: 49.5%; RM83.0 billion) on account of lower prices. Output of **rubber products** fell 10.1% (January – August 2008: 5.9%) due to contraction in output of rubber, tyres and tubes (-27.2%) following the slowdown in the automobile industry. However, this was cushioned by higher production of rubber gloves to 14.8 billion pairs (January – August 2008: 14.7 billion pairs). Sales of rubber gloves increased 6.4% (January –



CHART 3.4

Output of the Manufacturing Sector (% annual change)



Source: Department of Statistics, Malaysia.

August 2008: 1.2%) attributed to higher prices and increased external demand, particularly from the medical and healthcare industry.

Production of **wood and wood products** declined 23.9% (January – August 2008: -1.1%) due to contraction in the output of veneer sheets (-32.1%), plywood (-26.3%) as well as wooden and cane furniture (-33.8%). Output of laminboard, particle board and other panel boards grew 18.2% (January – August 2008: 43.1%) driven by higher demand for renovation and maintenance of offices and buildings. Production of **medical, optical and scientific instruments** turned around 11.8% in the first eight months of 2009 (January – August 2008: -4.7%). This was boosted by 23.9% increase in sales for medical and surgical equipment as well as orthopaedic appliances. The rebound was attributed to rising domestic and external demand, especially for upgrading healthcare facilities and services, private hospitals and clinics as well as increasing health awareness.

Production of **textiles, apparel and footwear** continued to be affected by sluggish global demand. Manufacture of clothing such as cotton yarn (-24.5%), blouses (-26.4%), cotton cloth (-20.5%) and shirts (-19.2%) contracted as demand decelerated further due to stiff competition from low-cost producers. To reduce costs, textile companies were exempted from the Human Resource Development Fund (HRDF) levy payment for a period of 6 months effective 1 February 2009. Meanwhile, output of **M&E** declined 27.3% (January – August 2008: 8.4%) due to lower production of air conditioning, refrigerating and ventilating machinery (-21.8%) as well as manufacture of machine tools (-37.0%).

Agriculture Sector

Food production posts strong growth...

The **agriculture sector** contracted 2.0% during the first half of 2009 (January – June 2008: 6.4%), mainly due to lower production of oil palm, the largest contributor to the sector. Output of the non-commodity sub-sector including livestock, fishing and other agriculture expanded strongly with the implementation of various programmes. These include High Impact Projects (HIPs) such as Permanent Food Production Parks, National Feedlot Centre and Contract Farming. These programmes focused on commercialising and modernising farming practices to increase productivity and income of farmers as well as food supply. For the year, value-added of the agriculture sector is estimated to decline 2.3% following lower output of oil palm and rubber. In spite of lower output, the share of agriculture sector to GDP is estimated to increase to 7.6%.

Value-added of the **oil palm sub-sector** declined 3.3% in the first six months of 2009 (January – June 2008: 22.7%) due to the decrease in crude palm oil (CPO) production. This was attributed to lower yields and unfavorable weather coupled with increasing replanting activities. In the first nine months, CPO production fell 3.7% to 12.5 million tonnes (January – September 2008: 15.6%; 12.9 million tonnes). For the whole year, it is expected to decline 4.1% to 17.0 million tonnes.

Fresh fruit bunches (FFB) yields declined to 13.6 tonnes per hectare in the first nine months (January – September 2008: 14.8 tonnes per hectare) on account of biological tree stress, heavy rainfall in early part of the year and replanting activity. As 6.0% or 280,000 hectares of oil palm in the country are aging trees of more than 25 years, the Government provided a subsidy of RM6,000 per hectare under the Oil Palm Replantation Incentive Scheme to assist in replanting activities targetting 200,000 hectares. This is an addition to the subsidy of RM1,000 per hectare given in 2008. Meanwhile, the oil extraction rate increased to 20.5% (January – September 2008: 20.2%) due to improvement in milling efficiency and zero tolerance of unripe fruit.

Oil palm cultivated areas expanded 3.9% to 4,575,121 hectares (end-June 2008: 3.8%; 4,401,344 hectares) due to increase in new planted areas, mainly in Sarawak. Of this, 88.0% or 4,024,172 hectares comprised matured areas; 1.0% new areas; 0.8% replanted areas and the remaining for immatured areas. In terms of planted areas, Sabah remained the largest with 29.2%, followed by Sarawak (17.3%) and Johor (15.4%). Private estates accounted for 2,746,833 hectares or 60.0% of the total planted areas, while 27.4% was managed by Federal Land Development Authority (FELDA), Federal Land Consolidation and Rehabilitation Authority (FELCRA), the Rubber Industry Smallholders' Development Authority (RISDA) as well as other Government agencies and the remaining 12.6% by smallholders. Meanwhile, the clearing of new land is expected to increase oil palm cultivated areas by 3.6% to 4,650,000 hectares in 2009. The implementation of Palm Oil Industrial Clusters (POICs) at Lahad Datu in Sabah, Tanjung Manis and Bintulu in Sarawak and Tanjung Langsat in Johor further boosted the expansion of oil palm cultivated areas. Apart from facilitating the downstream processing and export of palm oil, the POICs also act as a catalyst in moving up the value chain in the oil palm industry.

During the first nine months of 2009, CPO prices (Local Delivered) improved to average RM2,234 per tonne due to tight supply and falling stock. Price of CPO is expected to be firm in the second half due to sustained seasonal demand and concerns of lower production arising from

El Nino effect. Given the lower production and increased demand, following stocking-up activity for the month of Ramadan by overseas buyers, palm oil stock declined 19.1% to 1.6 million tonnes as at end-September 2009 (end-September 2008: 33.5%; 2.0 million tonnes). Consequently, CPO price is expected to average RM2,300 per tonne in 2009.

Value-added of the **rubber sub-sector** registered sharp contraction of 31.5% (January – June 2008: -4.5%) due to decline in rubber production. During the first seven months, rubber production reduced by 29.7% to 466,501 tonnes (January – July 2008: -5.4%; 663,799 tonnes), following weak demand. Declining planted areas also contributed to the lower output. For the year, production of rubber is envisaged to contract 21.7% to 840,000 tonnes. However, average yield per hectare is expected to increase to 1.5 tonnes (2008: 1.4 tonnes) due to the wider use of Low Intensity Tapping System (LITS) and higher yield rubber clones. The latest high-yield rubber clone, RRIM 3001, is expected to boost latex production up to 3,000 kilogrammes per hectare per year. In addition, it is also a good rubber timber source for the local furniture industry. About 95% of total rubber output is produced by smallholders and the remaining by estates. Malaysia remains the third largest producer of natural rubber, after Thailand and Indonesia, contributing 10.4% of total world supply.

Total rubber planted area is expected to decline to 1,237,000 hectares in 2009 due to conversion to non-agricultural activities and other more remunerative crops as well as decreasing new land areas for rubber cultivation in Peninsular Malaysia. The Government aims to maintain at least one million hectare of cultivated areas with annual replanting of 20,000 hectares to sustain the growth of rubber industry. As such, almost 8,800 hectares were replanted in the first six months of 2009. In addition, some oil palm plantations in hill areas are expected to be converted to rubber plantations due to higher harvesting costs.

The average price of Standard Malaysian Rubber 20 (SMR 20) declined to RM5.71 per kilogramme in the first nine months of the year (January – September 2008: RM9.18 per kilogramme)



TABLE 3.6

Value-Added in the Agriculture Sector 2008 – 2009

(at constant 2000 prices)

	Growth (%)		Share to Agriculture (%)	
	2008	2009 ¹	2008	2009 ¹
Agriculture	4.0	-2.3	100.0	100.0
Oil palm	12.1	-3.5	32.4	32.0
Rubber	-10.6	-23.0	5.5	4.3
Cocoa	-19.3	-19.3	0.1	0.1
Forestry and logging	-5.6	-14.3	19.8	17.4
Other agriculture ²	5.8	7.1	15.9	17.4
Fishing	4.0	7.9	16.2	17.9
Livestock	7.9	5.3	10.1	10.9

¹ Estimate.² Including *padi*, fruits, vegetables, coconut, tobacco, tea, flowers, pepper and pineapples.

Note: Total may not add up due to rounding.

Source: Department of Statistics and Ministry of Finance, Malaysia.

TABLE 3.7

Oil Palm Area and Palm Oil Production 2008 – 2009

			Change (%)	
	2008	2009 ¹	2008	2009 ¹
Planted areas ('000 hectares)	4,488	4,650	4.3	3.6
Matured areas ('000 hectares)	3,916	3,800	4.0	-3.0
Production ('000 tonnes)				
Crude palm oil	17,734	17,000	12.1	-4.1
Palm kernel oil	2,131	2,040	11.7	-4.3
Yield (tonnes/hectare) ²	20.2	20.1	6.2	-0.2

¹ Estimate.² Fresh fruit bunches yields.

Note: Total may not add up due to rounding.

Source: Ministry of Plantation Industries and Commodities and Ministry of Finance, Malaysia.

TABLE 3.8

Rubber Area, Yield and Production 2008 – 2009

			Change (%)	
	2008	2009 ¹	2008	2009 ¹
Total area ('000 hectares)	1,247	1,237	1.4	-0.8
Smallholdings	1,186	1,177	0.8	-0.7
Estate	61	60	14.5	-2.5
Yield (kg per hectare)				
Smallholdings	1,420	1,440	0.4	1.4
Estate	1,600	1,610	-1.2	0.6
Total production ('000 tonnes)	1,072	840	-10.6	-21.7
Smallholdings	1,013	798	-10.6	-21.2
Estate	59	42	-10.8	-29.5
% of world production	10.9	10.4		

¹ Estimate.

Note: Total may not add up due to rounding.

Source: Department of Statistics, Ministry of Plantation Industries and Commodities and Ministry of Finance, Malaysia.

TABLE 3.9

Production of Other Agriculture 2008 – 2009

('000 tonnes)

			Change (%)	
	2008	2009 ¹	2008	2009 ¹
<i>Padi</i>	2,353	2,460	-1.0	4.6
Livestock				
Meat ²	235.2	235	-0.7	-0.1
Poultry	1,163	1,227	5.7	5.5
Eggs (million)	8,715	9,275	6.3	6.4
Milk (million litre)	56	63	10.6	10.9
Miscellaneous agriculture				
Fruits ³	1,101	1,179	-4.3	7.1
Pepper	22	23	11.1	3.5
Vegetables	754	758	8.5	0.5
Coconut	470	480	-6.9	2.1
Tobacco (million kg) ⁴	60	63	-1.3	4.5
Flowers (million cutting)	150	154	-0.1	2.5

¹ Estimate.² Including beef, swine and mutton.³ Consists of star fruit, papaya, durian, guava, mangoesteen, banana, rambutan, mango and pineapple.⁴ Green and dry tobacco leaves.

Note: Total may not add up due to rounding.

Source: Ministry of Agriculture and Agro-Based Industry and Ministry of Plantation Industries and Commodities, Malaysia.



due to lower global demand. Rubber price is expected to trade higher in the second half of 2009 supported by recovering global demand, though for the whole year, it is expected to average RM5.70 per kilogramme (2008: RM8.31 per kilogramme).

Value-added of the **fishing sub-sector** recorded sturdy growth of 10.4% (January – June 2008: 2.0%) attributed to increase in marine fish landings and aquaculture produce. Marine fish landings expanded 4.2% in the first seven months of the year (January – July 2008: 0.9%) following various incentives given by the Government. These include a RM200 monthly allowance for fishing vessel operators and fishermen of licensed vessels, incentive of 10 sen per kilogramme for catch landed at jetties owned by the Fisheries Department and subsidised diesel at RM1.43 per litre for fishermen. Government's efforts in upgrading and building new jetties also resulted in higher fish landings. Meanwhile, aquaculture produce increased significantly by 30.2% (January – July 2008: 8.2%) due to implementation of Aquaculture Industrial Zones (ZIAs). As at end-June 2009, 20 ZIAs were established. For the year, the fishing sub-sector is estimated to grow strongly by 7.9% (2008: 4.0%).

Value-added of the **livestock sub-sector** grew 5.2% (January – June 2008: 6.3%) driven by higher production of poultry and cattle. The production of poultry is expected to expand 5.5% (2008: 5.7%) benefiting from the establishment of Poultry Permanent Food Production Parks in Johor, Kelantan, Pahang and Terengganu. The introduction and implementation of transferring effective microorganism technology, modern poultry farming as well as incentives for farm enhancement contributed to the increase in poultry production. Value-added of cattle and goat farming increased 12.5% and 38.8% (January – June 2008: 10.9%; -6.7%), respectively, as a result of integrated and commercial feedlot farming as well as the implementation of *Transformasi Usahawan Sektor Ternakan* (TRUST) scheme. This sub-sector is estimated to grow 5.3% in 2009 (2008: 7.9%).

Value-added of **other agriculture sub-sector** comprising *padi*, pineapple, tobacco, coconut, vegetables, fruits, flowers, tea and pepper, posted

strong growth of 8.8% (January – June 2008: 5.6%). This was due to an increase in acreage of fruits and vegetables cultivation as well as promotion of Good Agricultural Practices (GAP). In 2009, self-sufficiency level (SSL) of fruits is expected to reach 64.6% (2008: 61.6%) with the implementation of *Program Dusun Komersial* and increase utilisation of idle land for agriculture purposes.

Padi production is envisaged to turn around 4.6% in 2009 (2008: -1.0%) due to greater technology usage, improvement in irrigation and drainage system as well as implementation of GAP. Various incentives to improve *padi* production include subsidies for fertiliser and a RM100 per hectare for ploughing. Average yield per hectare is estimated to increase 3.7 tonnes (2008: 3.6 tonnes per hectare), with 4.3 tonnes in granary areas (2008: 4.2 tonnes per hectare). SSL is estimated to reach 71% (2008: 69%) following the implementation of *Pelan Peningkatan Beras Negara*.

Mining Sector

Lower output...

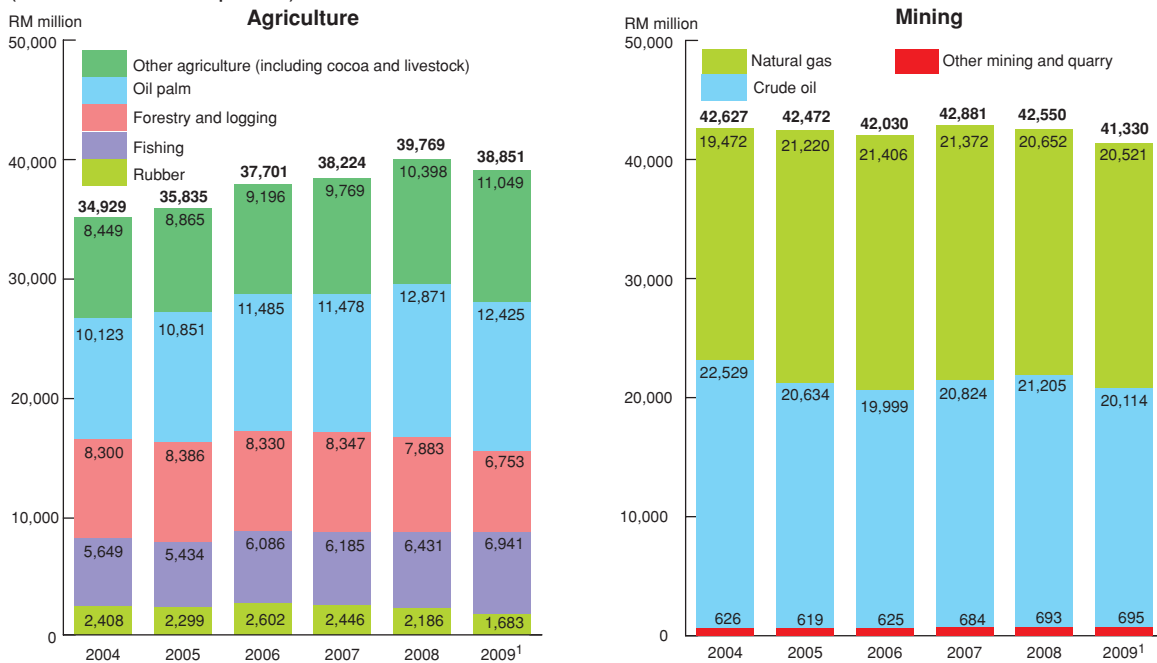
Value-added of the **mining sector** contracted 3.9% in the first half of 2009 (January – June 2008: 1.6%) attributed to lower output of crude oil and natural gas. The sector was affected by weak demand from major importers and lower prices. With the anticipated recovery in the global economy and rising exports of liquefied natural gas (LNG) to China, the sector is expected to improve in the second half of the year, nonetheless contracting at a slower pace of 2.9% in 2009.

Production of **crude oil** (including condensates) declined 5.0% to 667,862 barrels per day (bpd) during the first eight months of 2009 (January – August 2008: 5.7%; 703,076 bpd) following lower external demand and prices. This was further compounded by unplanned shutdowns of oil fields, especially in Peninsular Malaysia. For the year, crude oil production is estimated to contract 4.8% to 663,000 bpd (2008: 2.0%; 696,200 bpd).



CHART 3.5

Value-Added of Major Commodities (at constant 2000 prices)

¹ Estimate.

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

Petroleum Nasional Berhad (PETRONAS) discovered one new oil field (PAUS) in offshore Sarawak and one new gas field (Sepat Barat) in offshore Peninsular Malaysia in 2009. Seven new oil fields and nine gas fields begun production, increasing the total number of producing fields in Malaysia to 104, of which 68 are oil and the remaining are gas. Currently, Malaysia's crude oil Reserves Replacement Ratio (RRR) stands at 1.1 times. As at 1 January 2009, crude oil reserves were at 5.52 billion barrels and is expected to last for 22 years based on the current production level.

Production of **natural gas** declined 1.5% to 1,353,651 million standard cubic feet (mmscf) in the first eight months of 2009 (January – August 2008: -14.8%; 1,373,630 mmscf), partly due to lower global demand. For the year, production of natural gas is expected to increase 2.1% to 2,084,200 mmscf arising from higher demand in the second half of the year and increasing shipments of LNG to China. In addition, the current

TABLE 3.10

Production and Reserves of Crude Oil and Natural Gas 2008 – 2009

			Change (%)	
	2008	2009 ¹	2008	2009 ¹
Crude oil				
Production ('000 barrels per day) ²	696.2	663	2.0	-4.8
Reserves (billion barrels)	5.46	5.52	1.9	1.1
Reserves/production (years)	22	22		
Natural gas				
Production ('000 million standard cubic feet) (mmscf) ³	2,042.1	2,084.2	-16.2	2.1
Reserves (trillion standard cubic feet)	88.0	87.9	-1.0	-0.1
Reserves/production (years)	36	36		

¹ Estimate.² Including condensates.³ Excluding flaring and reinjection.

Note: Total may not add up due to rounding.

Source: Petroleum Nasional Berhad (PETRONAS).



expansion of MLNG DUA facilities in Bintulu is expected to increase production capacity by 1.2 million tonnes. Gas reserves stood at 87.9 trillion cubic feet as at 1 January 2009, sufficient to last for 36 years.

Encouraged by stronger-than-expected oil consumption in the US, China and India, the International Energy Agency (IEA) raised its forecast on global oil demand by 500,000 bpd to 84.4 million bpd in 2009. The price of West Texas Intermediate (WTI), which plummeted to a five-year low of USD31.41 per barrel (pb) in December 2008, has since recovered to average USD69.44 pb in September 2009. In tandem with this, Tapis Blend traded at an average price of USD70.94 pb in September 2009 (December 2008: USD42.65 pb) and is expected to average USD65.00 pb in 2009.

Construction Sector

Growth gains traction...

The **construction sector** expanded 2.0% during the first half of 2009 (January – June 2008: 4.5%) attributed to strong performance of residential, non-residential and special trade works sub-sectors. This was driven by implementation of various projects under the stimulus packages, which among others, include building low-and medium-cost houses as well as upgrading, repairing and maintenance of public buildings and rural roads. As at 30 September 2009, a total of 84,729 projects worth RM13.7 billion were implemented. Apart from increased Government spending, improved consumer sentiment and stabilising job market conditions as well as strong performance of FBM KLCI are expected to augur well for the sector. As such, the sector is expected to expand 3.5% in 2009, the third successive year of positive growth.

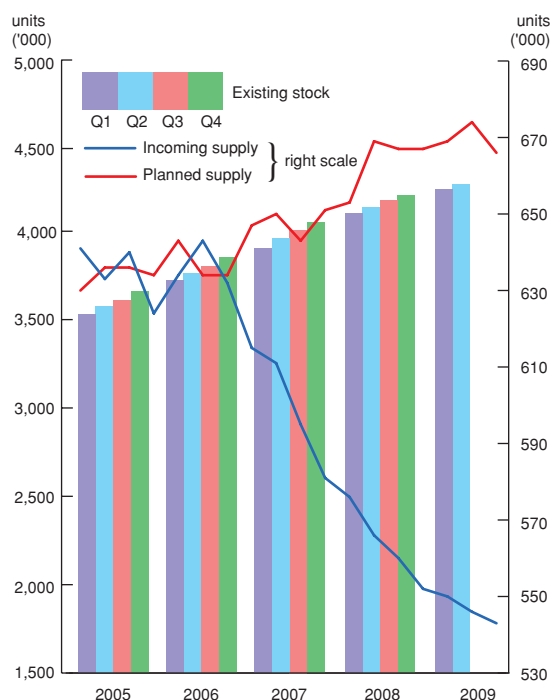
The **civil engineering sub-sector** fell 2.5% (January – June 2008: 6.3%) following weak performance in the first quarter of the year. This is in tandem with the completion of most projects at the tail end of the Ninth Malaysia Plan (9MP) such as Duta – Ulu Kelang Expressway (DUKE)

and Kajang – Seremban Expressway (LEKAS). However, ongoing civil engineering projects and implementation of two stimulus packages to upgrade rural infrastructure are expected to support the sub-sector. Ongoing projects include East Coast Expressway Phase 2 Jabur – Kuala Terengganu, upgrading Penang Bridge, electrified double track projects between Sentul – Batu Caves and Seremban – Gemas as well as *Program Penyelenggaraan Infrastruktur Awam* (PIA) and *Projek Infrastruktur Asas* (PIAS).

The **residential sub-sector** grew 3.6% (January – June 2008: 3.5%) during the first half of 2009. The implementation of Home Ownership for the People (HOPE) project to provide affordable low-and medium-cost houses helped to offset sluggish private housing activities. A total of RM200 million has been allocated in the first stimulus package to build 2,733 units of *Rumah Mesra Rakyat* for the low-and medium-income group, of which 1,200 units have been built.

CHART 3.6

Residential Supply Indicators



Source: National Property Information Centre (NAPIC).



TABLE 3.11

Major Ongoing Construction Projects

Projects	Allocations 2009 RM million
Electrified Double Track Seremban – Gemas	1,000.0
Program Penyenggaraan Infrastruktur Awam (PIA) and Projek Infrastruktur Asas (PIAS)	600.0 ¹
Pahang – Selangor Raw Water Transfer	515.5
High Speed Broadband (HSBB)	435.5
Electrified Double Track Sentul – Batu Caves	138.0
Upgrading of Kota Kinabalu Airport	109.0
East Coast Expressway Phase 2 Jabur – Kuala Terengganu	100.0
Upgrading Penang Bridge	86.1
Senai – Desaru Espressway	70.1

¹ Allocation under the First and Second Stimulus Packages.

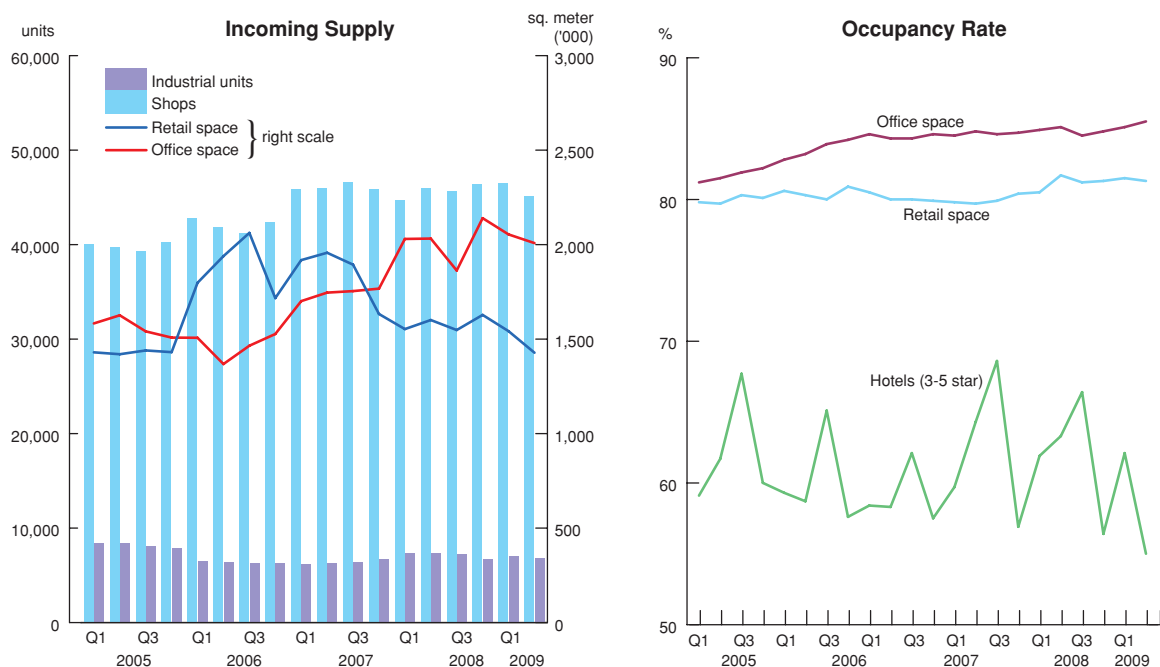
Source: Economic Planning Unit, Ministry of Works, Ministry of Transport and Ministry of Finance, Malaysia.

Despite the sluggish private housing activity, the high-end property segment performed better, with newly launched condominiums and apartments registering higher take-up rate of 32.0% to 1,178 units during the first half of 2009 (January – June 2008: 16.0%; 1,029 units). With developers being cautious, new launches of residential units were lower at 16,069 units (January – June 2008: 36,033 units). During the period, 55,682 units were completed, resulting in an increase of total stock by 3.2% to 4,264,649 units. Given the lower supply and increased sales of high-end properties, the property overhang improved to 21,467 units as at end-June 2009 (end-December 2008: 26,029 units).

In order to further stimulate demand, low-cost house buyers are given full stamp duty exemption, while medium cost property purchasers are given 50% stamp duty exemption for house priced up to RM250,000. An additional RM100 million was injected into the Housing Credit Guaranteed Scheme to assist those without fixed income to own a house. House buyers are given tax

CHART 3.7

Non-residential Supply Indicators



Source: National Property Information Centre (NAPIC).

relief on interest paid on housing loans up to RM10,000 a year for three years. As for civil servants, the tenure for housing loan facility has been extended from 25 to 30 years. The low interest rate and attractive packages offered by developers helped to renew buying interest, especially in high-end properties and preferred locations.

The Foreign Investment Committee (FIC) guidelines for property transactions were substantially relaxed to stimulate foreign investment in the property market. Approval will only be required where it involves a dilution of *Bumiputera* and Government interest for properties valued at RM20 million and above.

The **non-residential sub-sector** expanded 6.3% (January – June 2008: 1.6%) driven by ongoing construction activities of commercial properties, especially purpose-built office and hotels. Occupancy rate of purpose-built office in the second quarter of 2009 increased to 85.7% (Q1 2009: 85.2%) following improved business confidence in the second quarter of 2009. During the first half of 2009, 19 new shopping complexes offering 224,175 square metres (sm) of new retail space were completed (July – December 2008: 16; 273,236 sm). Consequently, the stock of retail space expanded 2.7% to 9.98 million sm as at end-June 2009 (end-March 2009: 2.9%; 9.72 million sm). Despite slower economic activity, occupancy rate of retail space remained high at 81.7% in the second quarter of 2009 (Q1 2009: 81.6%), reflecting sustained consumer and business sentiments in the retail trade.

Construction activity in the leisure property expanded further, supported by the Government's continuous effort in promoting tourism-related industries. This helped to boost the construction of 77 hotels with 20,921 rooms (January – June 2008: 72 hotels; 18,827 rooms). In the first half of 2009, eight new hotels were completed, comprising 1,208 rooms (July – December 2008: five hotels; 933 rooms). There were two completions each in Sarawak and Sabah, and one each in Putrajaya, Perak, Pulau Pinang and Terengganu.

Domestic Demand Performance

Domestic demand remains resilient...

Growth is expected to be driven by domestic demand with an expansion of 1.5% in 2009 (2008: 6.8%). This is due to higher public sector expenditure, which is anticipated to grow 12.0% (2008: 6.3%). In contrast, private sector expenditure is envisaged to decline 2.4% (2008: 7.0%).

Private investment is expected to contract 20.0% (2008: 0.8%) as a result of cautious business sentiment. The Business Expectations Survey conducted by the Department of Statistics, Malaysia (DOSM) indicated private sector capital outlay declined 6.6% in the first half of 2009 (January – June 2008: 50.0%). The manufacturing sector contributed 36.1%, the largest share to the total capital outlay, followed by the services sector (30.2%).

The lower capital outlay corresponded with major investment indicators. Imports of capital and intermediate goods declined 11.8% and 28.5%, respectively (January – August 2008: 5.0%; 11.4%), while sales of commercial vehicles weakened 3.4% during the first eight months of 2009 (January – August 2008: 16.3%). Meanwhile, total loans disbursed by the banking system to the non-household sector contracted 5.7% to RM325.2 billion (January – August 2008: 13.4%; RM345.0 billion).

Total approvals for manufacturing investment by Malaysian Industrial Development Authority (MIDA) declined 60.4% to RM19.1 billion in the first eight months of 2009 (January – August 2008: 35.0%; RM48.4 billion). Similarly, foreign direct investment (FDI) declined 66.7% (January – August 2008: 95.3%) due to the slowdown in global economy and intense competition from other emerging economies. During the period, out of RM12.1 billion FDI approved by MIDA, Japan (RM6.5 billion) was the major contributor, followed by Singapore (RM1.6 billion) and Taiwan (RM0.6 billion). Meanwhile, domestic manufacturing investment approvals contracted to RM7.0 billion (January – August 2008: RM11.9 billion).



In the first eight months of 2009, Selangor (174 projects), Johor (101 projects) and Pulau Pinang (77 projects) continued to attract the majority of projects approved. About 70% of the total projects approved were allocated in these three states. However, in terms of value, Sarawak registered the highest level of investments, totalling RM7.8 billion due to availability of natural resources as well as efforts to promote balanced development in the country through the Sarawak Corridor of Renewable Energy (SCORE). By industry, the chemicals and chemical products received the highest level of investment (RM8.0 billion).

Several measures have been taken to reposition Malaysia as an attractive investment destination. The liberalisation of 27 services sub-sectors and

the financial sector is anticipated to enhance Malaysia's value proposition as a place to do business and invest. In addition, opening up the fund management and stock-broking industries are expected to boost the capital market. The lifting of the *Bumiputera* ownership in the acquisition of equity stakes, mergers and takeovers as well as relaxing the guidelines on property transactions augur well for Malaysia as an attractive investment destination. With these measures in place, coupled with the Government's continuous efforts in attracting investment into the five regional corridors, private investment is likely to register a smaller contraction in the second half of the year. This is in line with the Business Conditions Index (BCI), which soared 14.1 points to 113.7 points in the third quarter of 2009.

TABLE 3.12

Gross Domestic Product (GDP) by Aggregate Demand 2008 – 2010

(at constant 2000 prices)

	Change (%)			Share of GDP (%)			Contribution to GDP growth (percentage point)		
	2008	2009 ¹	2010 ²	2008	2009 ¹	2010 ²	2008	2009 ¹	2010 ²
GDP	4.6	-3.0	2.0-3.0	100.0	100.0	100.0	4.6	-3.0	2.0-3.0
Domestic demand³	6.8	1.5	1.2	88.4	92.5	91.3	5.9	1.3	1.1
Private expenditure	7.0	-2.4	2.9	64.2	64.6	64.9	4.4	-1.6	1.9
Consumption	8.5	1.6	2.9	52.4	54.8	55.0	4.3	0.8	1.6
Investment	0.8	-20.0	3.4	11.8	9.8	9.9	0.1	-2.4	0.3
Public expenditure	6.3	12.0	-3.0	24.2	27.9	26.4	1.5	2.9	-0.8
Consumption	10.9	2.2	-3.4	13.7	14.4	13.6	1.4	0.3	-0.5
Investment	0.7	24.8	-2.5	10.5	13.5	12.8	0.1	2.6	-0.3
Change in stocks				-1.5	-2.6	0.1			
External sector	-3.5	-25.4	-12.2	13.1	10.1	8.6	-0.5	-3.3	-1.2
Exports ⁴	1.3	-15.6	3.5	118.4	103.0	104.0	1.6	-18.4	3.6
Imports ⁴	1.9	-14.4	5.2	105.3	93.0	95.4	2.1	-15.1	4.8
GDP (RM billion, current value)	738.7	691.9	724.5						
Change (%)	15.5	-6.3	4.7						

¹ Estimate.

² Forecast.

³ Excluding change in stocks.

⁴ Goods and non-factor services.

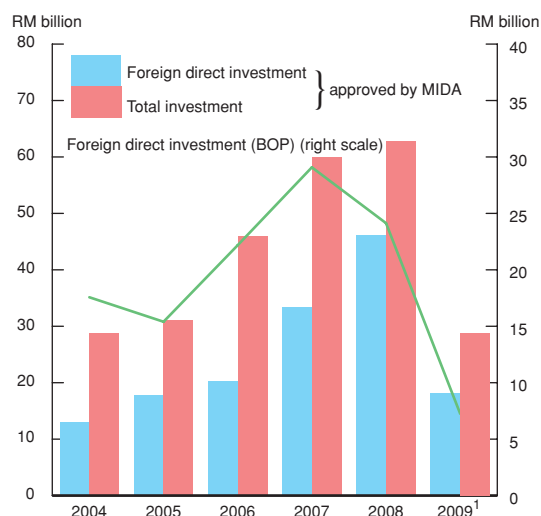
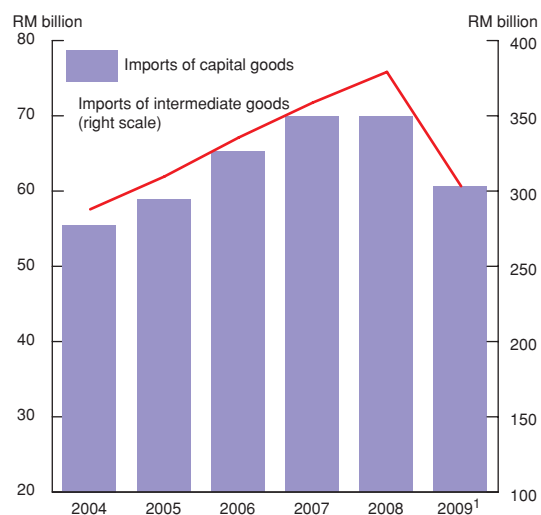
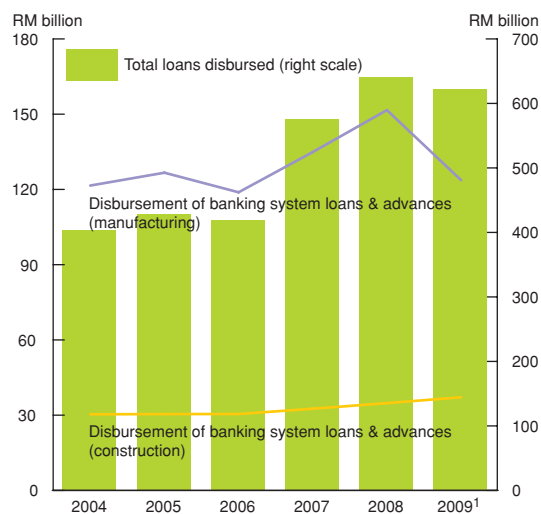
Note: Total may not add up due to rounding.

Source: Department of Statistics and Ministry of Finance, Malaysia.



CHART 3.8

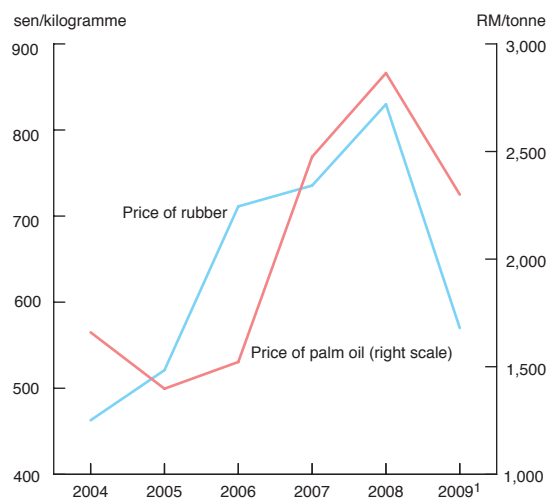
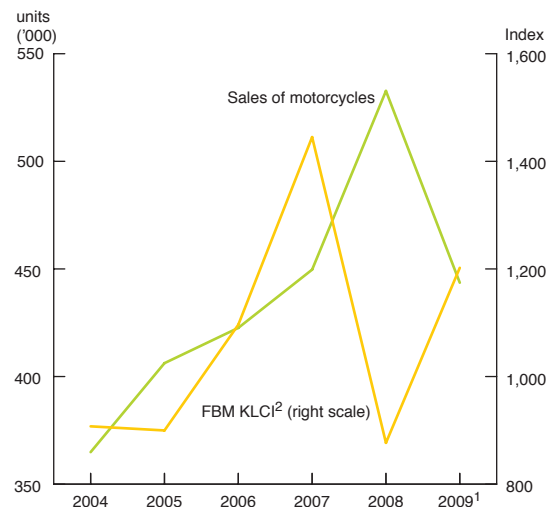
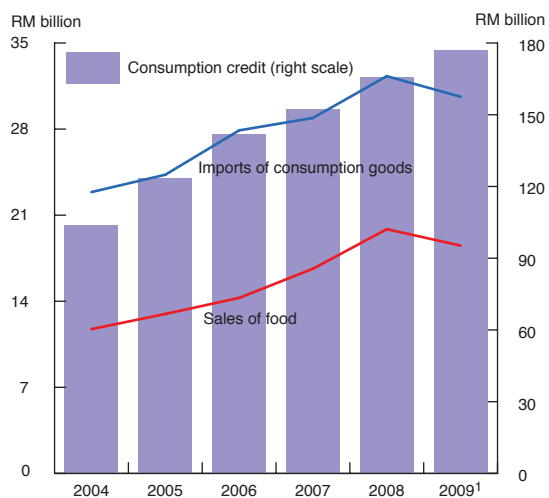
Private Investment Indicators



¹ Estimate.

CHART 3.9

Private Consumption Indicators



¹ Estimate.

² As at end-September 2009.



The lower investment in the private sector is offset by higher **public investment**, which is anticipated to grow 24.8% (2008: 0.7%) supported by the implementation of stimulus packages. Construction of low-cost houses as well as upgrading infrastructure and basic amenities are expected to strengthen domestic sources of growth. Public sector investment is also backed by the capital investment of non-financial public enterprises (NFPEs). PETRONAS continued its investment in oil and gas exploration activities as well as upgrading of MLNG DUA plant in Bintulu. Investment by *Tenaga Nasional Berhad* (TNB) includes overhaul of major power plants, rehabilitation projects and refurbishment work. Meanwhile, TM's capital outlay is largely geared towards the enhancement of telecommunication networks, which includes the implementation of HSBB.

Private consumption is expected to grow at a moderate pace of 1.6% (2008: 8.5%). Growth in private consumption is estimated to pick up in the second half of 2009 attributed to low interest rates as well as firm household disposable income.

The three percent cut in Employees Provident Fund (EPF) contribution is estimated to release up to RM5 billion into the economy. The positive trend in private consumption was also reflected in several major consumption indicators, such as loans disbursed for consumption credit and credit card spending, which recorded growth of 8.9% and 6.5%, respectively in the first eight months of 2009. This is in line with the Consumer Sentiments Index (CSI), which rose strongly by 16.5 points in the third quarter of 2009 to 105.4 points, reflecting expectation of improvement in the economy. Meanwhile, **public consumption** is anticipated to grow 2.2% (2008: 10.9%) attributed to expenditure on supplies and services.

National Resource Position

Resource gap remains in surplus...

National income in current prices is envisaged to decline 4.8% (2008: 14.2%). **Gross National Savings (GNS)** continues to contract 16.7% to RM225.6 billion, constituting 33.1% of GNP

TABLE 3.13

Savings-Investment Gap 2006 – 2010

(at current prices)

	2006	2007	2008	2009 ¹	2010 ²
	RM million				
Public Sector					
Savings	83,226	103,841	80,879	91,011	102,248
Gross capital formation	57,074	61,721	64,417	82,111	81,872
Surplus/Deficit	26,152	42,120	16,462	8,900	20,376
Private Sector					
Savings	130,293	135,278	189,918	134,579	140,987
Gross capital formation ³	60,416	76,988	76,867	51,649	70,403
Surplus/Deficit	69,877	58,290	113,051	82,930	70,583
Overall					
Gross national savings	213,519	239,119	270,797	225,590	243,235
(as % of GNP)	38.3	38.2	37.9	33.1	34.2
Gross capital formation ³	117,490	138,709	141,284	133,760	152,275
(as % of GNP)	21.1	22.2	19.8	19.6	21.4
Surplus/Deficit	96,029	100,410	129,513	91,830	90,959
(as % of GNP)	17.2	16.0	18.1	13.5	12.8

¹ Estimate.

² Forecast.

³ Including change in stocks.

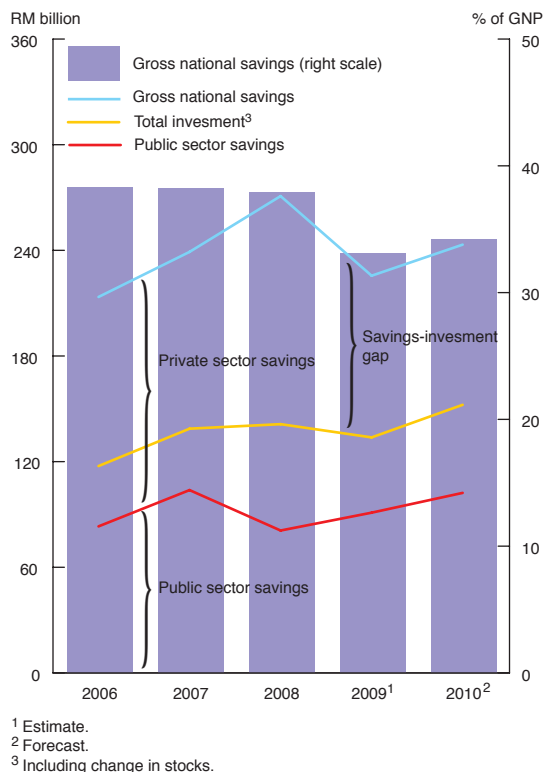
Note: Total may not add up due to rounding.

Source: Department of Statistics and Ministry of Finance, Malaysia.



CHART 3.10

Savings-Investment Gap



(2008: 13.2%; RM270.8 billion; 37.9%), with the private sector accounting for 59.7% of total savings (2008: 70.1%). **The savings-investment gap** in 2009 is anticipated to record a surplus of RM91.8 billion (2008: RM129.5 billion), providing ample liquidity to finance domestic economic activities.

Trade Performance

Export Performance

Exports remain weak...

Exports contracted since October 2008 in tandem with the global economic slowdown. During the first eight months of 2009, total exports declined 22.8% to RM347.1 billion (January – August 2008: 16.1%; RM449.9 billion) due to weak demand for manufactured products and lower commodity prices. For the year, exports are expected to contract 20.0% to RM530.6 billion (2008: 9.6%; RM663.5 billion). Exports of manufactured goods, which accounted for 76.7% of total exports are expected to decline 17.8% to RM407.0 billion (2008: 3.7%; RM495.3 billion), while exports of primary commodities are envisaged to fall 25.4% to RM112.0 billion (2008: 39.0%; RM150.1 billion).

TABLE 3.14

Gross Exports 2008 – 2009

	RM million		Change (%)		Share (%)	
	2008	2009 ¹	2008	2009 ¹	2008	2009 ¹
Manufactured goods	495,337	406,971	3.7	-17.8	74.7	76.7
Agricultural goods	64,651	46,824	34.2	-27.6	9.7	8.8
Mining goods	85,469	65,157	42.9	-23.8	12.9	12.3
Others	18,037	11,674	8.6	-35.3	2.7	2.2
Gross exports	663,494	530,626	9.6	-20.0	100.0	100.0

¹ Estimate.

Source: Department of Statistics and Ministry of Finance, Malaysia.



Exports of Manufactured Goods

Lower exports...

Exports of **manufactured goods** contracted 19.2% to RM272.5 billion (January – August 2008: 9.1%; RM337.1 billion). Exports were severely hit by the synchronised downturn especially in the major export destinations such as the US, Europe and Japan. The downturn in exports was broad-based as reflected by declining demand in most sub-sectors.

During the first eight months of 2009, export earnings from **E&E**, which accounted for 55.8% of total manufactured exports fell 19.2% (January – August 2008: 1.0%) as a result of substantial drop in electronic equipment and parts (-26.8%),

machinery and electrical products (-22.5%) as well as semiconductors (-7.3%). The trend is expected to bottom out as indicated by higher book-to-bill ratio and gradual improvement in global chip sales. Following these positive developments, exports of E&E products are anticipated to pick up towards the end of the year.

Exports of **chemicals, chemical and plastic products** shrank 25.0% (January – August 2008: 17.7%) during the first eight months of the year due to stiff competition from Middle East and other Asian exporters. Export receipts of plastic products contracted 25.6% affected by lower demand for packaging materials and components of the E&E, automobile and telecommunication sub-sectors. However, export performance of medicinal and pharmaceutical products rebounded

TABLE 3.15

Exports of Manufactured Goods January – August

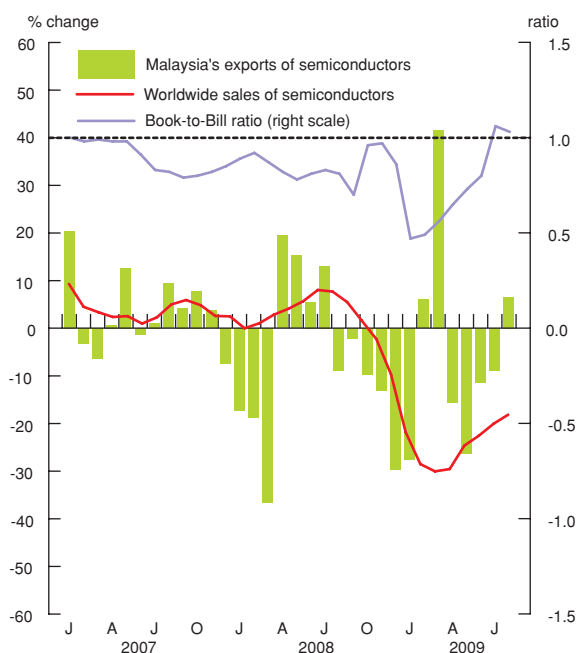
	RM million		Change (%)		Share (%)	
	2008	2009	2008	2009	2008	2009
Electronics, electrical machinery and appliances	188,387	152,177	1.0	-19.2	55.9	55.8
Semiconductors	61,237	56,760	-3.6	-7.3	18.2	20.8
Electronic equipment and parts	73,172	53,589	-1.4	-26.8	21.7	19.7
Machinery and electrical products	53,977	41,828	10.5	-22.5	16.0	15.4
Non-E&E	148,693	120,300	21.5	-19.1	44.1	44.2
Chemicals, chemical and plastic products	32,093	24,061	17.7	-25.0	9.5	8.8
Petroleum-based products	25,766	14,699	61.9	-43.0	7.6	5.4
Iron, steel and metal products	20,295	15,437	17.0	-23.9	6.0	5.7
Wood based products	9,906	8,157	2.1	-17.7	2.9	3.0
Textiles, apparel and footwear	7,313	6,289	4.6	-14.0	2.2	2.3
Food, beverages and tobacco	12,608	10,745	45.6	-14.8	3.7	3.9
Rubber-based products	8,661	8,037	27.4	-7.2	2.6	2.9
Transport equipment	6,492	6,321	21.4	-2.6	1.9	2.3
Non-metallic mineral products	3,370	3,538	36.4	5.0	1.0	1.3
Other manufactured goods	22,188	23,015	1.4	3.7	6.6	8.4
Total	337,080	272,477	9.1	-19.2	100.0	100.0

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.



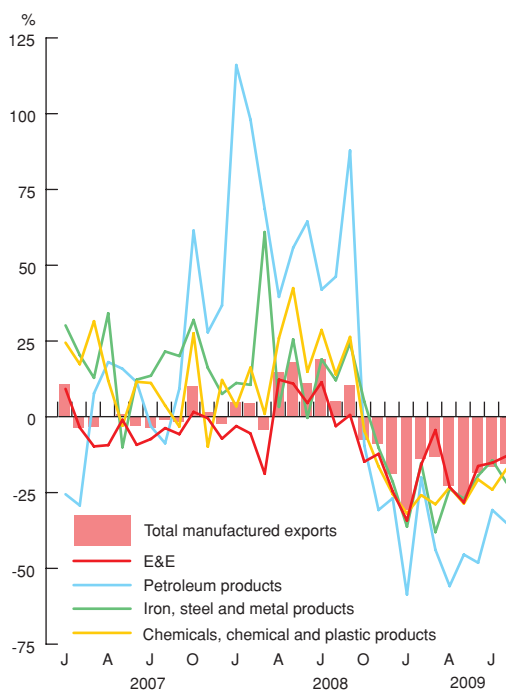
CHART 3.11

Malaysia's Exports of Semiconductors, Worldwide Sales of Semiconductors and the Book-to-Bill Ratio

15.1% (January – August 2008: -8.5%) due to rising demand for healthcare and medical device products.

Receipts of **iron, steel and metal products** declined 23.9% (January – August 2008: 17.0%) affected by falling demand for raw materials and components from construction, engineering fabrication, automobile, E&E, and furniture sub-sectors. Exports of **transport equipment** declined 2.6% (January – August 2008: 21.4%) following lower shipments of road vehicles (-28.4%) despite higher exports of other vehicles (32.9%). **Non-metallic mineral products** expanded 5.0% (January – August 2008: 36.4%) attributed to higher exports of cement and fabricated construction materials (31.6%) as well as glass and glassware (3.7%). Major export destinations for these products were Singapore, Japan and Indonesia.

CHART 3.12

Performance of Selected Manufactured Exports
(% annual change)

Export receipts from **petroleum products** dropped 43.0% (January – August 2008: 61.9%) following slower external demand and steep fall in prices. Lower export earnings were recorded for refined petroleum products (-45.3%), liquefied propane and butane (-52.8%) as well as petroleum gases and other gaseous hydrocarbons (-26.0%). These products were mainly exported to Singapore, Republic of Korea and Indonesia. The shipments of petroleum products were affected by intense competition from petrochemical producers, particularly the Middle East.

Export receipts from rubber gloves, which contributed almost 60% to total rubber products, grew 4.7% on account of higher demand from healthcare industry. This helped to cushion the 7.2% (January – August 2008: 27.4%) decline in exports of **rubber products**. With the local



producers continuing to upgrade their product quality and adhere to stringent world-class standard, Malaysia remains the world's leading producer and exporter of rubber gloves with 60.0% of market share.

During the first eight months of 2009, export earnings of **wood products** contracted 17.7% (January – August 2008: 2.1%). This was due to declining exports of veneer and plywood (-25.9%) as well as wooden furniture (-8.0%) following sluggish housing markets in the US, Europe and Japan. Meanwhile, exports of **textiles, apparel and footwear** fell 14.0% (January – August 2008: 4.6%) as a result of lower demand and increased competition from low-cost producers. Exports of **food, beverages and tobacco products** contracted 14.8% (January – August 2008: 45.6%) due to lower demand for processed food. Processed food, constituting almost 85% of food exports fell 17.4%, while beverages receipts grew 8.1%.

Exports of Primary Commodities

Exports fall significantly...

Export earnings from primary commodities fell significantly by 33.1% to RM66.9 billion in the first eight months of 2009 (January – August 2008: 52.0%; RM100.1 billion) due to lower prices. However, as export prices are expected to improve further in the second half of the year, export earnings are envisaged to register a smaller decline of 25.4% to RM112.0 billion (2008: 39.0%; RM150.1 billion) in 2009.

Export receipts from **agriculture** commodities dropped 33.0% to RM30.5 billion in the first eight months (January – August 2008: 60.7%; RM45.5 billion) as a result of lower prices of palm oil and rubber. Earnings from **mining** declined 33.3% to RM36.4 billion (January – August 2008: 45.4%; RM54.6 billion) due to weak global demand and lower crude oil prices.

Export earnings of **palm oil** declined 29.2% to RM23.5 billion (January – August 2008: 79.9%; RM33.1 billion) during the first eight months due to lower export prices averaging RM2,192 per tonne (January – August 2008: RM3,170 per tonne). Demand from India, Pakistan and Middle East increased, following restocking activity in anticipation of higher demand for vegetable oil during Ramadan. Consequently, export volume expanded 2.3% to 10.7 million tonnes (January – August 2008: 24.1%; 10.5 million tonnes). In contrast, shipments to China, the largest importer as well as the US and the Netherlands declined, following lower demand.

Export receipts of **rubber** declined 57.5% to RM2.5 billion (January – August 2008: 26.0%; RM5.9 billion) on account of contraction in export volume and prices. For the year, export price is estimated at RM5.50 per kilogramme (2008: RM8.86 per kilogramme), while volume is envisaged to decline 24.7% to 689,000 tonnes (2008: -10.1%; 915,100 tonnes). This is in an anticipation of lower global demand from automobile industries. Export receipts for the year are estimated to decline 53.3% to RM3.8 billion (2008: 10.6%; RM8.1 billion).

Exports of **crude petroleum** contracted 51.0% to RM14.9 billion (January – August 2008: 51.4%; RM30.5 billion) following decline in price. Export volume increased 1.3% to 11.0 million tonnes (January – August 2008: -2.9%; 10.8 million tonnes) as demand picked up pace following stabilising global economy. With estimated average export price of RM1,702 per tonne (2008: RM2,652 per tonne), export receipts are expected to drop 39.9% to RM25.9 billion (2008: 31.0%; RM43.0 billion) in 2009.

Export receipts of **LNG** contracted 9.1% to RM20.8 billion during the first eight months (January – August 2008: 33.7%; RM22.9 billion) due to decline in export volume. For the year, exports are envisaged to decline 5.7% to RM38.4 billion (2008: 55.7%; RM40.7 billion) despite an increase in export volume by 4.9% (2008: 0.9%).



TABLE 3.16

Primary Commodity Exports 2008 – 2009

	2008	2009 ¹	Change (%)	
			2008	2009 ¹
Agriculture				
Palm oil²				
Volume ('000 tonnes)	16,057	10,698	17.4	2.3
Unit value (RM/tonne)	2,931	2,192	22.8	-30.9
Value (RM million)	47,051	23,453	44.1	-29.2
Palm kernel oil				
Volume ('000 tonnes)	1,153	696	32.1	-1.8
Unit value (RM/tonne)	3,573	2,425	20.3	-37.5
Value (RM million)	4,119	1,687	58.9	-38.6
Saw logs				
Volume ('000 cubic metres)	4,352	2,563	-6.3	-18.6
Unit value (RM/cubic metre)	471	492	3.5	8.4
Value (RM million)	2,049	1,261	-3.0	-11.6
Sawn timber				
Volume ('000 cubic metres)	2,707	1,137	-19.3	-39.9
Unit value (RM/cubic metre)	1,142	1,232	20.4	12.7
Value (RM million)	3,091	1,401	-2.8	-32.3
Rubber				
Volume ('000 tonnes)	915	438	-10.1	-34.6
Unit value (sen/kilogramme)	886	576	23.0	-35.0
Value (RM million)	8,109	2,522	10.6	-57.5
Pepper				
Volume ('000 tonnes)	13	8	-11.2	-1.1
Unit value (RM/tonne)	12,876	11,587	3.5	-11.1
Value (RM million)	172	95	-8.0	-12.1
Cocoa				
Volume ('000 tonnes)	8	8	-57.2	52.1
Unit value (RM/tonne)	7,900	8,700	21.5	8.7
Value (RM million)	60	70	-48.3	65.0
Total agriculture (RM million)	64,651	30,490	34.2	-33.0
Mining				
Crude petroleum				
Volume ('000 tonnes)	16,230	10,980	-4.4	1.3
Unit value (RM/tonne)	2,652	1,361	36.9	-51.6
Value (RM million)	43,040	14,947	31.0	-51.0
Liquefied natural gas				
Volume ('000 tonnes)	22,873	14,688	0.9	-4.8
Unit value (RM/tonne)	1,781	1,416	54.3	-4.6
Value (RM million)	40,732	20,794	55.7	-9.1
Tin				
Volume ('000 tonnes)	28	16	74.7	-16.1
Unit value (RM/tonne)	55,000	43,332	11.1	-33.2
Value (RM million)	1,698	707	117.6	-44.0
Total mining (RM million)	85,469	36,448	42.9	-33.3
Total value (RM million)	150,120	66,938	39.0	-33.1

¹ January – August.

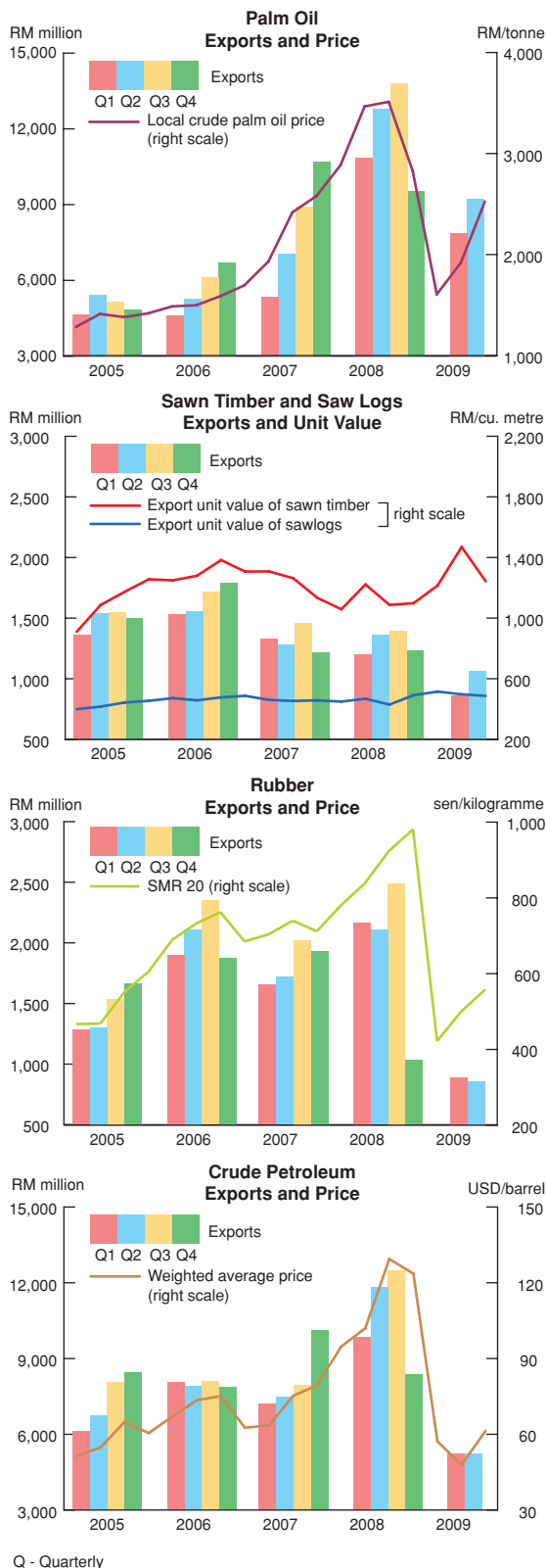
² Includes crude palm oil, processed palm oil and stearin.

Note: Total may not add up due to rounding.

Source: Department of Statistics, Ministry of Plantation Industries and Commodities, Malaysia.

CHART 3.13

Primary Commodity Exports





Import Performance

Imports continue to decline...

Gross value of imports declined 23.9% to RM270.5 billion during the first eight months of 2009 (January – August 2008: 8.7%; RM355.4 billion) reflecting lower import volume and prices. For the year, imports are anticipated to drop 18.6% to RM424.5 billion (2008: 3.3%; RM521.6 billion). Imports of intermediate goods are envisaged to decline 21.6% to RM297.2 billion (2008: 5.7%; RM379.1 billion), while capital goods are expected to contract 15.0% to RM59.4 billion (2008: 0.01%;

RM69.9 billion) as investment activities remain sluggish in the manufacturing sector. Imports of consumption goods are expected to decline 7.1% to RM30.0 billion (2008: 11.8%; RM32.3 billion) due to lower domestic demand.

During the first eight months of 2009, imports of **intermediate goods** dipped 28.5% to RM185.0 billion (January – August 2008: 11.4%; RM258.5 billion). Imports of parts and accessories as well as industrial supplies declined 24.2% and 27.5%, respectively. Meanwhile, imports of **capital goods** contracted 11.8% to RM41.2 billion (January – August 2008: 5.0%; RM46.7 billion) due to lower

TABLE 3.17

Gross Imports by End Use January – August

	RM million		Change (%)		Share (%)	
	2008	2009	2008	2009	2008	2009
Capital goods	46,692	41,189	5.0	-11.8	13.1	15.2
Capital goods (except transport equipment)	41,064	34,996	6.4	-14.8	87.9	85.0
Transport equipment (industrial)	5,628	6,192	-4.3	10.0	12.1	15.0
Intermediate goods	258,527	184,967	11.4	-28.5	72.7	68.4
Food and beverages, primary and processed mainly for industry	11,354	8,830	39.0	-22.2	4.4	4.8
Industrial supplies, primary and processed	92,303	66,883	13.6	-27.5	35.7	36.2
Fuel and lubricants primary processed, others	33,731	17,381	50.9	-48.5	13.0	9.4
Parts and accessories of transport equipment	9,096	8,720	15.9	-4.1	3.5	4.7
Parts and accessories of capital goods (except thermionic valves and tubes)	43,323	35,063	12.7	-19.1	16.8	19.0
Thermionic valves and tubes	68,722	48,091	-7.1	-30.0	26.6	26.0
Consumption goods	21,666	20,300	15.4	-6.3	6.1	7.5
Food and beverages, primary and processed, mainly for household consumption	8,650	8,884	27.3	2.7	39.9	43.8
Transport equipment (non-industrial)	328	294	49.3	-10.5	1.5	1.4
Other consumer goods	12,687	11,122	7.8	-12.3	58.6	54.8
Durables	2,918	2,325	2.8	-20.3	13.5	11.5
Semi-durables	3,905	3,104	7.8	-20.5	18.0	15.3
Non-durables	5,864	5,693	10.5	-2.9	27.1	28.0
Others (including dual use goods)	10,603	6,017	26.1	-43.3	3.0	2.2
Imports for re-exports	14,815	16,043	-14.4	8.3	4.2	5.9
Total	355,408	270,500	8.7	-23.9	100.0	100.0

Source: Department of Statistics, Malaysia.



investment in the manufacturing sector. However, imports of transport equipment for industrial use rose 10.0% driven by higher imports of aircrafts and ships as major transportation companies took delivery on contractual orders.

During the first eight months of 2009, imports of **consumption goods** fell 6.3% to RM20.3 billion (January – August 2008: 15.4%; RM21.7 billion). Imports of food and beverages rebounded 23.2% (January – August 2008: -6.6%) due to sustained demand for essential food items. However, other items of consumption goods including transport equipment for non-industrial use, durables and semi-durables contracted 10.5%, 20.3% and 20.5%, respectively. **Other imports** including dual use goods plummeted 43.3% to RM6.0 billion (January – August 2008: 26.1%; RM10.6 billion) following a decline of 61.3% in imports of processed fuel and lubricants as well as motor spirit. **Imports for re-exports** comprising E&E, telecommunication equipment as well as iron and steel products expanded 8.3% to RM16.0 billion during the period (January – August 2008: -14.4%; RM14.8 billion).

Direction of Trade

Trade surplus remains...

During the first eight months of 2009, total trade declined 23.3% to RM617.6 billion (January – August 2008: 12.7%; RM805.3 billion) with a trade surplus of RM76.6 billion (January – August 2008: RM94.5 billion). Singapore, China, the US and Japan, being the main trading partners accounted for 47.4% of total trade. Meanwhile, ASEAN (not including Singapore) and the EU accounted for 13.1% and 11.0%, respectively.

Singapore, the largest trading partner since 2008 recorded a decline of 28.6% in trade value to RM77.0 billion in the first eight months of 2009 (January – August 2008: 14.6%; RM108.0 billion). Exports and imports declined 28.1% and 29.5%, respectively (January – August 2008: 18.3%; 9.1%). The main items exported comprised mainly electronic integrated circuits, parts and accessories for machines and petroleum spirits,

while major imports were motor spirits and parts of electronic integrated circuits. A trade surplus of RM18.9 billion was registered despite lower exports to Singapore (January – August 2008: RM25.5 billion).

China emerged as the second largest trading partner since February 2009 and remained the nation's main source for imports. In the first eight months of 2009, total trade contracted 12.9% to RM77.3 billion (January – August 2008: 21.2%; RM88.8 billion) with exports declining 9.7% (January – August 2008: 37.4%). Main exports were electronic integrated circuits and palm oil. Imports comprising parts and accessories for machines and data processing machine declined 16.2% (January – August 2008: 8.4%). Trade balance recorded a larger surplus of RM3.0 billion (January – August 2008: RM55.7 million).

Trade with the **US** declined for the second consecutive year. During the first eight months of 2009, trade decreased 25.9% to RM70.2 billion (January – August 2008: -3.9%; RM94.7 billion). Thus, the US slid to third position as major trading partner due to weak demand for E&E products. Exports contracted 31.8% (January – August 2008: -8.4%) following lower shipments of palm oil (-35.0%) and E&E (-37.1%). Imports contracted 16.8% (January – August 2008: 4.1%) except for transport equipment and manufactures of plastics. A trade surplus of RM7.7 billion was registered in the first eight months of 2009 (January – August 2008: RM19.6 billion).

Total trade with **Japan** declined 23.5% to RM68.0 billion (January – August 2008: 13.8%; RM89.0 billion). Exports comprising LNG, E&E, parts and accessories for machines as well as wood products contracted 22.8% (January – August 2008: 25.5%). This was due to lower demand for LNG and weak consumer sentiment as well as sluggish housing activities. Imports decreased 24.2% (January – August 2008: 4.0%) following reduced orders for electronic integrated circuits as well as ships and boats. Trade activities in the first eight months of the year recorded a surplus of RM926.0 million (January – August 2008: RM404.1 million).



TABLE 3.18

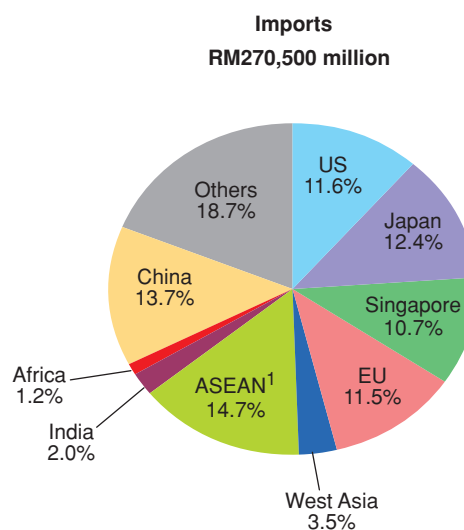
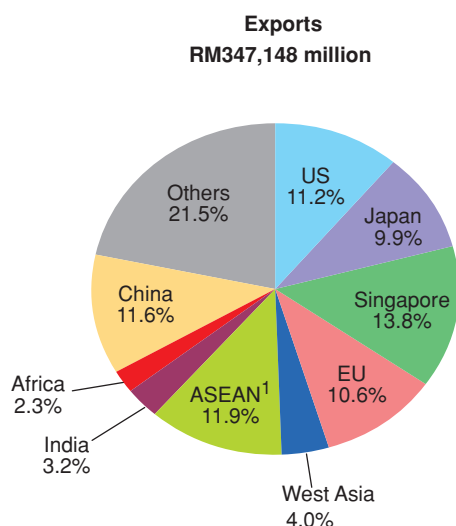
Direction of External Trade-Malaysia January – August

	RM million				Trade Balance				Growth Rate (%)				Share of Total (%)			
	Exports		Imports		2008		2009		Exports		Imports		Exports		Imports	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
Singapore	66,736	47,983	41,228	29,061	25,508	18,922			18.3	-28.1	9.1	-29.5	14.8	13.8	11.6	10.7
China	44,426	40,138	44,370	37,177	56	2,961			37.4	-9.7	8.4	-16.2	9.9	11.6	12.5	13.7
United States	57,132	38,938	37,576	31,274	19,556	7,664			-8.4	-31.8	4.1	-16.8	12.7	11.2	10.6	11.6
Japan	44,696	34,485	44,292	33,559	404	926			25.5	-22.8	4.0	-24.2	9.9	9.9	12.5	12.4
North East Asia (not including China & Japan)	49,178	40,585	43,977	30,351	5,201	10,234			11.4	-17.5	-3.3	-31.0	10.9	11.7	12.4	11.2
Hong Kong SAR	19,652	18,122	9,552	6,858	10,100	11,264			10.5	-7.8	0.9	-28.2	4.4	5.2	2.7	2.5
Republic of Korea	17,994	13,433	16,807	12,387	1,187	1,046			17.6	-25.3	1.3	-26.3	4.0	3.9	4.7	4.6
Taiwan	11,445	8,925	17,930	11,089	-6,485	-2,164			4.4	-22.0	-7.4	-38.2	2.5	2.6	5.0	4.1
ASEAN (not including Singapore)	51,596	41,334	51,913	39,864	-317	1,470			23.2	-19.9	17.1	-23.2	11.5	11.9	14.6	14.7
Thailand	22,486	18,569	19,957	16,242	2,530	2,327			15.8	-17.4	13.6	-18.6	5.0	5.3	5.6	6.0
Indonesia	14,549	11,206	16,453	14,188	-1,904	-2,982			31.0	-23.0	28.3	-13.8	3.2	3.2	4.6	5.2
Philippines	6,676	4,443	5,441	2,397	1,235	2,046			24.3	-33.4	-7.0	-55.9	1.5	1.3	1.5	0.9
European Union (27)	50,275	36,940	40,746	31,169	9,529	5,771			-0.6	-26.5	2.5	-23.5	11.2	10.6	11.5	11.5
Germany	10,157	8,703	14,841	11,603	-4,684	-2,900			3.9	-14.3	-6.9	-21.8	2.3	2.5	4.2	4.3
Netherlands	15,312	11,190	2,624	1,898	12,688	9,292			4.5	-26.9	21.1	-27.7	3.4	3.2	0.7	0.7
United Kingdom	6,663	4,686	5,134	3,930	1,529	756			1.2	-29.7	10.7	-23.5	1.5	1.3	1.4	1.5
South Asia	22,684	17,338	7,655	5,712	15,029	11,626			30.7	-23.6	71.5	-25.4	5.0	5.0	2.2	2.1
India	15,761	11,050	7,150	5,283	8,611	5,767			22.4	-29.9	74.1	-26.1	3.5	3.2	2.0	2.0
Pakistan	4,142	3,699	302	282	3,840	3,418			59.5	-10.7	45.6	-6.6	0.9	1.1	0.1	0.1
West Asia	17,066	13,847	16,957	9,546	109	4,301			37.6	-18.9	49.9	-43.7	3.8	4.0	4.8	3.5
United Arab Emirates	7,834	6,767	5,769	3,962	2,065	2,805			17.5	-13.6	88.3	-31.3	1.7	1.9	1.6	1.5
Saudi Arabia	2,256	1,985	5,425	2,988	-3,169	-1,003			31.8	-12.0	24.7	-44.9	0.5	0.6	1.5	1.1
Iran	1,607	1,366	1,405	631	202	734			10.3	-15.0	44.1	-55.1	0.4	0.4	0.4	0.2
Australia	16,736	12,726	7,598	6,382	9,138	6,344			26.0	-24.0	9.3	-16.0	3.7	3.7	2.1	2.4
New Zealand	2,607	1,196	1,893	1,083	714	113			71.9	-54.1	77.1	-42.8	0.6	0.3	0.5	0.4
Africa	8,486	7,923	3,952	3,162	4,534	4,761			33.3	-6.6	26.6	-20.0	1.9	2.3	1.1	1.2
Rest of the World	18,282	13,715	13,252	12,160	5,031	1,555			38.2	-25.0	1.2	-8.2	4.1	4.0	3.7	4.5
Total	449,900	347,148	355,409	270,500	94,492	76,548			16.1	-22.8	8.7	-23.9	100.0	100.0	100.0	100.0

Source: Department of Statistics, Malaysia.

CHART 3.14

Direction of External Trade-Malaysia
January – August 2009
(% share)



¹ Not including Singapore.

Source: Department of Statistics, Malaysia.

Trade with **ASEAN (not including Singapore)** contracted 21.6% to RM81.2 billion in the first eight months of 2009 (January – August 2008: 20.0%; RM103.5 billion). Exports and imports fell 19.9% and 23.2%, respectively (January – August 2008: 23.2%; 17.1%). Major traded items were E&E, refined petroleum as well as chemicals and chemical products. Within the ASEAN (not including Singapore), Thailand was the leading trading partner, accounting for 49.7%, followed by Indonesia (36.2%) and Philippines (9.8%). A trade surplus of RM1.5 billion was recorded with ASEAN (not including Singapore) (January – August 2008: -RM316.9 million).

During the first eight months of 2009, trade with the **EU** contracted 25.2% to RM68.1 billion (January – August 2008: 0.7%; RM91.0 billion). Exports declined 26.5% (January – August 2008: -0.6%), while imports contracted 23.5% (January – August 2008: 2.5%). Germany remains the leading trading partner, accounting for 29.8%, followed by the Netherlands (19.2%) and the UK

(12.6%). However, exports to the Netherlands slumped 26.9% due to lower exports of E&E products and palm oil. Trade with the EU continued to register a surplus of RM5.8 billion (January – August 2008: RM9.5 billion).

Balance of Payments

Surplus in current account...

The **balance of payments** is expected to remain favourable in 2009 with the current account posting a surplus for the 12th consecutive year. However, the current account surplus is envisaged to narrow to RM91.8 billion or 13.5% of GNP in 2009 (2008: RM129.5 billion; 18.1%) due to lower surplus in the goods and higher deficit in the services account. The financial account is anticipated to record a net outflow following lower FDI inflow. Overall balance is expected to record a surplus, enhancing Malaysia's strong international reserves.



TABLE 3.19

Current Account of the Balance of Payments
2009 – 2010
(RM million)

	2009 ¹			2010 ²		
	Receipts	Payments	Net	Receipts	Payments	Net
Goods	527,078	406,892	120,185	555,628	437,493	118,135
Services	91,151	91,954	-803	94,350	92,832	1,518
Transportation	15,888	28,685	-12,797	17,158	32,047	-14,889
Travel	47,342	22,623	24,719	48,431	23,328	25,103
Other services	27,792	39,938	-12,146	28,627	36,731	-8,104
Government transactions	128	708	-579	135	726	-591
Income	25,791	36,717	-10,926	27,810	40,167	-12,357
Compensation of employees	3,046	4,496	-1,451	3,310	5,967	-2,657
Investment income	22,745	32,221	-9,476	24,500	34,200	-9,700
Current transfers	1,363	17,990	-16,627	1,498	17,834	-16,336
Current account	645,382	553,552	91,830	679,287	588,327	90,960

¹ Estimate.² Forecast.

Note: Total may not add up due to rounding.

Source: Ministry of Finance, Malaysia.

The **goods account** is expected to register a smaller surplus of RM120.2 billion (2008: RM170.6 billion) in 2009. This is due to contraction in exports by 20.7% to RM527.1 billion (2008: 9.6%; RM664.3 billion). Imports are anticipated to decline 17.6% to RM406.9 billion (2008: 3.2%; RM493.8 billion) following a slowdown in export-oriented manufacturing activities and lower domestic consumption.

The **services account** comprising travel, transportation, government transactions and other services is expected to record a deficit of RM803.0 million (2008: +RM163.0 million) on account of lower net inflows from travel account. The global economic slowdown and outbreak of Influenza A(H1N1) are anticipated to impact on tourist arrivals. Travel receipts are estimated to contract 7.1% to RM47.3 billion (2008: 5.5%; RM51.0 billion). Outflow of payments for business, leisure, education, health and pilgrimage are expected to increase 0.8% to RM22.6 billion (2008: 17.1%; RM22.4 billion). Consequently, the *travel account* is projected to record a smaller net inflow of RM24.7 billion (2008: RM28.5 billion).

In 2009, the *transportation account* is envisaged to record a lower deficit of RM12.8 billion (2008: -RM15.4 billion), given the slowdown in trading activity. Gross payments abroad are expected to register a decline of 24.3% to RM28.7 billion (2008: 0.4%; RM37.9 billion) due to lower freight payments as trade volume shrank. Gross receipts are anticipated to contract 29.4% to RM15.9 billion (2008: -8.5%; RM22.5 billion) as a result of lower earnings on passenger and cargo services. *Other services account* is envisaged to record net outflows.

The **income account** is expected to record a smaller deficit of RM10.9 billion (2008: -RM23.7 billion) mainly due to lower repatriation of profits and dividends by foreign companies. Outflows are expected to be lower by 42.3% to RM36.7 billion (2008: 20.7%; RM63.6 billion) as the bulk of earnings are expected to be retained for re-investment purposes. Inflows from income account are estimated to decline 35.4% to RM25.8 billion (2008: 2.8%; RM39.9 billion). The *compensation of employees account*, which includes salaries and other benefits earned by expatriates and Malaysians working abroad, is anticipated to record a larger deficit of RM1.5 billion (2008: -RM731.0 million).



Gross payments in the **current transfers account** are expected to contract 4.8% to RM18.0 billion (2008: 10.0%; RM18.9 billion) as the number of foreign workers is anticipated to decline. Current transfers receipts are estimated to fall 3.3% to RM1.4 billion (2008: -2.4%; RM1.4 billion) due to lower remittances from Malaysians working abroad. As such, the deficit is expected to narrow to RM16.6 billion (2008: -RM17.5 billion).

In 2009, the **financial account** is expected to record a deficit as a result of reduction in FDI inflows, while investment abroad by Malaysian companies is expected to moderate. This will ease the net outflow in the financial account. The *other investment* is expected to record a net outflow, reflecting net repayments of external loans by the official sector and extension of trade credits by exporters.

As at 30 September 2009, Malaysia's **international reserves** remained high at RM334.3 billion or USD96.0 billion (end-December 2008: RM317.4

billion; USD91.5 billion). The reserves are adequate to finance 9.5 months of retained imports and is 3.9 times the short-term external debt. In line with the expected sizeable trade surplus in 2009, the international reserves are envisaged to strengthen further.

Prices

Inflationary pressures recede...

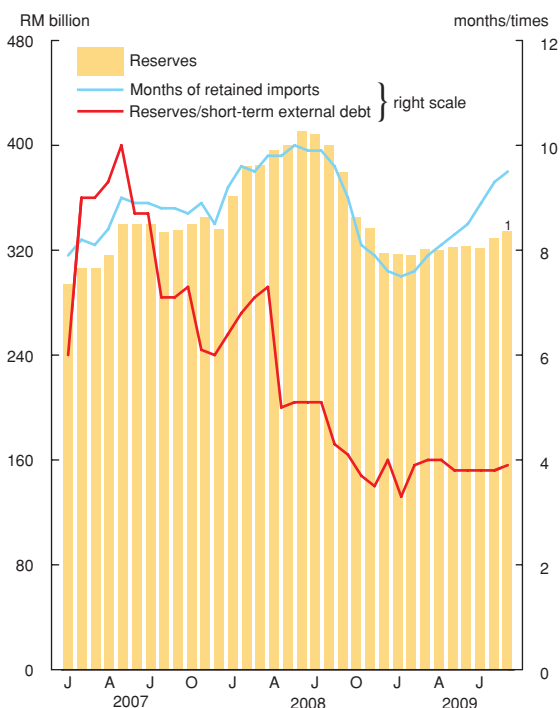
Inflation was subdued worldwide in 2009 as crude oil and food commodity prices fell sharply from their highs in 2008 on softer demand following the global economic downturn. Crude oil (WTI) prices declined 51.5% to average USD55.7 pb in the first eight months of 2009 (January – August 2008: 77.5%; USD114.7 pb). Prices of food commodities such as wheat, rice, soybean, corn and palm oil also decreased to between 4.3% and 33.3% (January – August 2008: 39.7%; 84.2%).

Domestic inflation eased with the **Consumer Price Index (CPI)** increasing at a slower pace of 1.3% in the first eight months of 2009 (January – August 2008: 4.8%). The moderation reflected the high-base effect of fuel price adjustments in June 2008 and slower food price increases as well as moderate demand. Inflation turned negative in June by 1.4%, the first time since August 1986 (-0.5%) and again in July and August by 2.4%. This was on account of the cumulative effect of the reductions in petrol and diesel prices through August to December 2008. The negative inflation is expected to be temporary, with inflation forecast to rise to about 1% for 2009.

With the highest weight of 31.4% in the CPI basket, the **food and non-alcoholic beverages group** remained the biggest contributor to inflation during the first eight months of 2009. Prices of food and non-alcoholic beverages rose 5.9% and contributed 1.6 percentage points to the CPI increase (January – August 2008: 7.5%; 2.4 percentage points). Prices in the **housing, water, electricity, gas and other fuels group**, the second largest component in the CPI basket with a weight of 21.4%, increased 1.5% and

CHART 3.15

International Reserves



¹ As at 30 September 2009.
Source: Bank Negara Malaysia.



TABLE 3.20

Consumer Price Index (CPI)
January – August
(2005 = 100)

Group	Weight	Annual change (%) 2009	Contribution to CPI growth (%) 2009
Food and non-alcoholic beverages	31.4	5.9	143.4
Alcoholic beverages and tobacco	1.9	8.2	12.8
Clothing and footwear	3.1	-0.8	-1.7
Housing, water, electricity, gas and other fuels	21.4	1.5	23.4
Furnishings, household equipment and routine household maintenance	4.3	3.8	11.8
Health	1.4	2.5	2.4
Transport	15.9	-9.3	-120.2
Communication	5.1	-0.5	-1.9
Recreation services and culture	4.6	1.2	3.7
Education	1.9	2.5	3.4
Restaurants and hotels	3.0	3.5	8.2
Miscellaneous goods and services	6.0	3.5	14.7

Source: Department of Statistics, Malaysia.

contributed 0.3 percentage point to the increase in CPI (January – August 2008: 1.4%; 0.3 percentage point).

Prices in the **transport group** fell 9.3% during the first eight months of 2009, resulting in a -1.3 percentage point change in the CPI (January – August 2008: 8.6%; 1.4 percentage point), following lower fuel retail prices compared to the previous year. Prices of petrol and diesel, which were increased to RM2.70 and RM2.58 per litre, respectively in June 2008, were lowered seven times between August and December 2008 to RM1.80 per litre and RM1.70 per litre, respectively. Prices in the **clothing and footwear group** and **communication group** declined 0.8% and 0.5%, respectively (January – August 2008: -0.5%; -0.6%) due to market competition. Technological

advancements and intensive promotion drove prices down in the communication group. Price declines in the two groups together with transport helped to moderate the increase in CPI.

The **Producer Price Index (PPI)** declined 9.5% during the first eight months of 2009 (January – August 2008: 11.5%), attributed to falling prices

TABLE 3.21

Producer Price Index (PPI)
January – August
(2000 = 100)

	Weight	Annual change (%) 2009	Contribution to PPI growth (%) 2009
Domestic economy	100.0	-9.5	100.0
Food and live animals	5.3	1.2	-0.7
Beverages and tobacco	1.0	1.6	-0.1
Crude materials, inedible except fuels	4.4	-19.0	11.9
Mineral fuels, lubricants and related materials	11.9	-25.4	53.1
Animal and vegetable oils and fats	3.8	-29.0	22.5
Chemicals and related products n.e.s ¹	5.1	-5.9	3.2
Manufactured goods classified chiefly by material	10.8	-0.8	0.9
Machinery and transport equipment	50.5	-2.3	9.6
Miscellaneous manufactured articles	6.9	1.5	-0.8
Commodities and transactions not classified elsewhere in the SITC ²	0.4	-10.8	0.5
Local production	65.6	-12.5	68.9
Imports	34.4	-3.0	31.1

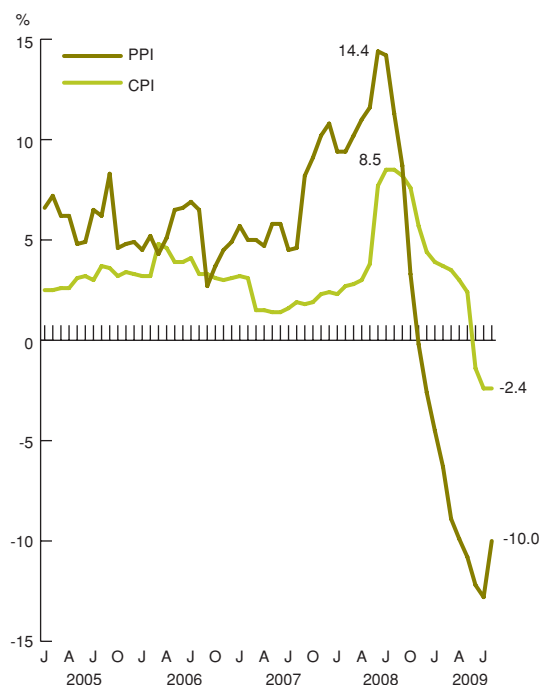
¹ Not elsewhere stated.

² Standard International Trade Classification.

Note: Total may not add up due to rounding.
Source: Department of Statistics, Malaysia.

CHART 3.16

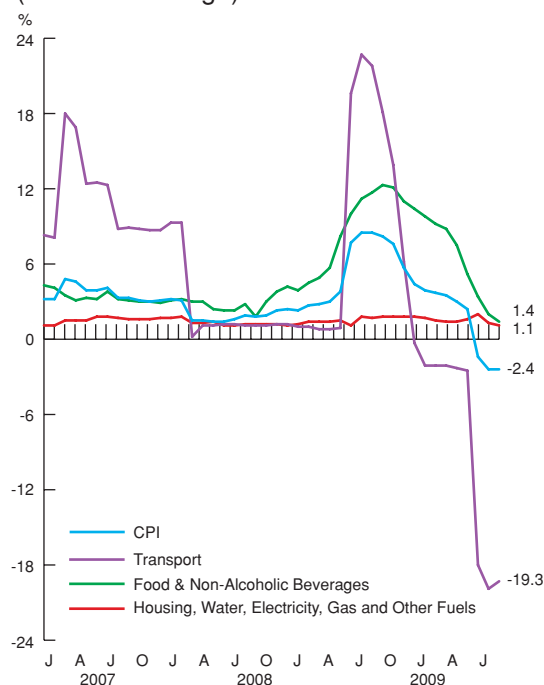
CPI and PPI Trends (% annual change)



Source: Department of Statistics, Malaysia.

CHART 3.17

Change of Total CPI Against Selected Groups (% annual change)



Source: Department of Statistics, Malaysia.

of food commodities and crude oil. The major price declines involved the animal and vegetable oils and fats (-29.0%), mineral fuels, lubricants and related materials (-25.4%) as well as crude materials, inedible except fuels (-19.0%) groups (January – August 2008: 44.4%; 41.5%; 14.9%). The sharp drop in commodity prices saw the PPI declining since November 2008 to August 2009, marking 10 consecutive months of decrease. The PPI for local production declined 12.5% (January – August 2008: 14.2%), while the PPI for imported components fell 3.0 % (January – August 2008: 6.0%).

Labour Market

Labour market stabilises...

The unemployment rate increased to 3.6% (2008: 3.3%) in the second quarter of 2009. The labour market is expected to improve

further with **employment** increasing 0.1% to 11.6 million workers in 2009 (2008: 1.6%; 11.6 million workers). **Labour force** is envisaged to expand 0.8% to 12.1 million persons (2008: 1.6%; 12.0 million persons).

TABLE 3.22

Labour Market Indicators

	('000)		Change (%)	
	2008	2009 ¹	2008	2009 ¹
Labour force	11,967.5	12,061.1	1.6	0.8
Employment	11,576.5	11,585.0	1.6	0.1
Unemployment	391.1	476.1	3.3 ²	3.9 ²

¹ Estimate.

² Percentage of labour force.

Source: Economic Planning Unit, Malaysia.



Labour force participation rate is expected to be sustained at 63.1% (2008: 62.7%). Male participation rate remains high at 79.5% (2008: 79.0%) and female at 46.0% (2008: 45.7%). The 25 – 34 age group represents the largest proportion, accounting for 31.4% of the total workforce, followed by 35 – 44 age group at 25.2%. The aged dependency ratio (65 years and above) is expected to increase to 6.7% (2008: 6.6%). The workforce with tertiary education is expected to increase 5.2% to 2.6 million, constituting 21.9% of the workforce (2008: 7.0%; 2.5 million; 21.2%). The services sector is expected to account for 52.6% of total employment, followed by manufacturing (28.4%), agriculture (12.0%), construction (6.6%) and mining (0.4%).

The Government, under the second stimulus package, initiated 163,000 training and job placement opportunities in the public and private sectors. Of this, 100,000 were undertaken through collaboration with the private sector. As at 28 September 2009, under both stimulus packages, 19,384 graduates, retrenched workers and youths were trained under the train and

place programme. Employers were provided with double tax deduction on remuneration paid to local workers retrenched since 1 July 2008.

Job vacancies reported via the jobsmalaysia increased 25.9% to 884,437 in the first eight months of 2009 (January – August 2008: 30.5%; 702,326). Vacancies in the manufacturing sector grew 51.9% to 328,711, followed by services 45.0% to 328,194 and construction 4.9% to 66,944 (January – August 2008: 20.3%; 70.7%; -23.2%). Vacancies in mining and agriculture sector shrank 28.3% and 17.9%, respectively (January – August 2008: 42.8%; 37.6%).

Vacancies for professional jobs increased 28.6% to 132,991 (January – August 2008: 124.8%; 103,452). Vacancies for elementary jobs increased 10.2%, particularly in the manufacturing sector (January – August 2008: 55.8%). The share of professional jobs increased to 15.0%, while elementary occupations fell to 58.2% (January – August 2008: 14.7%; 66.5%). Demand for graduate workers increased 70.5% to 122,759, with the services sector recording the highest (January – August 2008: 73.4%; 72,003).

TABLE 3.23

Employment by Sector

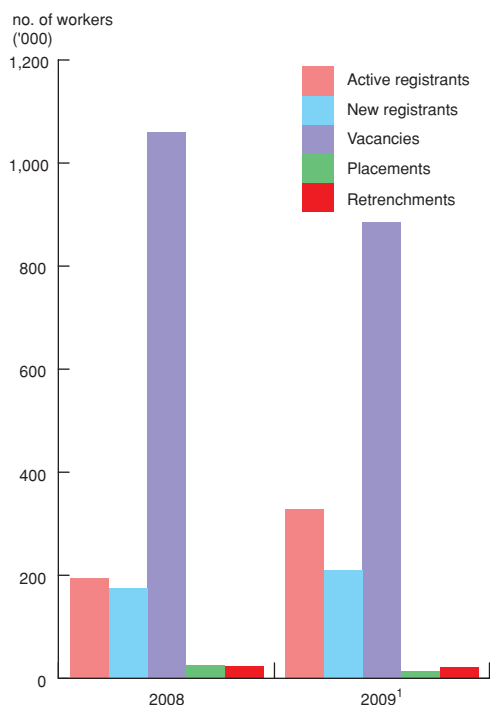
	('000)		Change (%)		Share (%)	
	2008	2009 ¹	2008	2009 ¹	2008	2009 ¹
Agriculture	1,390.9	1,391.9	0.1	0.1	12.0	12.0
Mining	42.8	42.5	-0.2	-0.7	0.4	0.4
Manufacturing	3,338.2	3,293.1	1.3	-1.4	28.8	28.4
Construction	758.4	759.9	0.1	0.2	6.6	6.6
Services	6,046.1	6,097.6	2.3	0.9	52.2	52.6
Utilities (Electricity, water and gas)	97.6	96.6	0.8	-1.1	0.8	0.8
Transport, storage and communication	673.2	675.1	2.0	0.3	5.8	5.8
Wholesale and retail trade, accomodation and restaurant	1,984.3	1,999.8	1.4	0.8	17.1	17.3
Finance, insurance, real estates and business services	811.9	814.1	2.8	0.3	7.0	7.0
Government services	1,263.5	1,276.5	3.1	1.0	10.9	11.0
Other services	1,215.6	1,235.5	2.9	1.6	10.5	10.7
Total	11,576.5	11,585.0	1.6	0.1	100.0	100.0
Primary	1,433.7	1,434.5	0.1	0.0	12.4	12.4
Secondary	4,096.6	4,053.0	1.1	-1.1	35.4	35.0
Tertiary	6,046.1	6,097.6	2.3	0.9	52.2	52.6

¹ Estimate.

Source: Economic Planning Unit, Malaysia.

CHART 3.18

Job Market Indicators



¹ January — August.
Source: Ministry of Human Resources, Malaysia.

manufacture of radio, television and communication equipment and apparatus subsector recorded retrenchment of 159 workers. Retrenchments are expected to decline further with increased capacity utilisation in the manufacturing sector in the second half of 2009. Major industries such as the E&E reported improvement in sales orders and have started to re-hire workers.

As at end-January 2009, the number of **foreign workers** fell to 1.9 million (end-December 2008: 2.1 million). This is due to higher retrenchments which resulted in the reduction of unskilled foreign workers in the country. Workers from Indonesia and Bangladesh constitute the largest portion of foreign workers, accounting for 51.7% and 16.6%, respectively. About 34.6% of foreign workforce were employed in manufacturing, followed by plantation (16.6%) and construction (15.6%).

The Government encourages skilled **expatriates** to work in selected high-end industries. As at end-July 2009, a total of 33,601 expatriates, mainly from India (18.8 %) and China (8.6%) were employed, with the majority in the services (70.5%) and the manufacturing (24.0%) sectors.

Prospects for 2010

Malaysian Economy

Domestic demand supports growth...

The economy is expected to benefit from stabilising global economic conditions, augmented by fiscal measures and accommodative monetary policy. GDP growth is forecast to turn around to 2.0% – 3.0% in 2010 (2009: -3.0%) driven by domestic demand, particularly the private expenditure and supported by expected recovery in external demand. The broad-based recovery with positive contribution from all sectors in the economy is expected to raise nominal per capita GNP by 2.5% to RM24,661 (2009: -6.7%; RM24,055). In terms of PPP, per capita income is expected to increase 2.7% to USD13,177 (2009: -14.7%; USD12,826).

The number of **active job seekers** stood at 328,365 as at end-August 2009 (end-December 2008: 194,191). The bulk was diploma and degree holders, accounting for 48.0%, followed by *Sijil Pelajaran Malaysia* (SPM) 32.6% (end-December 2008: 55.6%; 26.0%). The largest age group between 20 – 24 years accounted for 53.7%, followed by the 25 – 29 years at 22.3% (end-December 2008: 59.3%; 23.1%). To assist job seekers, the Government embarked on several initiatives, including organising job fairs and activating 80 operation centres to monitor retrenchments nationwide.

The number of **retrenched workers** reduced to 641 in August 2009 compared with 8,383, the highest retrenchment level recorded in August 2008. The manufacturing sector recorded retrenchment of 207 workers, accounting for 32.3%. The



Sectoral Outlook

Broad-based recovery...

Growth in the **services sector** is anticipated to expand 3.6% in 2010 with a higher share of 58.5% to GDP (2009: 2.1%; 57.9%), emanating from favourable performance in the communication, finance and insurance, wholesale and retail trade as well as real estate and business services sub-sectors. Recovery in trade-related activity is expected to further enhance growth in the transport and storage as well as utilities sub-sectors. Prospects for the services sector are expected to remain favourable, as the Government continues to intensify its efforts in developing the sector as the key driver of growth. Several proactive measures were undertaken to strengthen the competitiveness of the sector as well as attract more investments, technology and professionals.

Value-added of the **manufacturing sector** is expected to rebound 1.7% (2009: -12.1%). Export-oriented industries are expected to benefit from the recovery of global trade, while domestic-oriented industries expand in line with better consumer sentiment and business confidence. The E&E industry is anticipated to turn around driven by higher demand for electronic equipment and parts as well as semiconductors. The resource-based industry is envisaged to grow steadily attributed to improved demand of petroleum, chemical, rubber and plastic products. With better job prospects and higher disposable income, the transportation equipment sub-sector, in particular, the passenger cars segment is expected to rebound. In addition, increasing construction activities with the recovery in housing sector will augur well for iron and steel as well as cement segments.

The **agriculture sector** is anticipated to rebound 2.5% (2009: -2.3%) following the recovery in the commodity sub-sector. Production of CPO is envisaged to grow 4.9% to 17.8 million tonnes (2009: -4.1%; 17.0 million tonnes) on account of expanded matured areas to 3,980,000 hectares

(2009: 3,800,000 hectares). With oil palm trees recovering from biological tree-stress, FFB yields is poised to increase to 20.9 tonnes per hectare (2009: 20.1 tonnes per hectare). Rubber output is projected to increase due to better demand and prices. The non-commodity sub-sector mainly livestock and other agriculture is projected to expand further as implementation of various HIPs gather pace. Fishing industry is projected to expand further due to higher aquaculture produce with increasing number of ZIAs.

The **mining sector** is expected to turn around 1.1% (2009: -2.9%) on account of higher production of crude oil and natural gas. Production of crude oil is projected to increase 0.8% to 668,000 bpd (2009: -4.8%; 663,000 bpd) due to higher demand. Several new oil fields are expected to start production in 2010, contributing to higher production of crude oil. Production of natural gas is expected to increase 2.0% to 2,126,100 mmscf (2009: 2.1%; 2,084,200 mmscf) following higher demand from domestic and external markets. The expansion of MLNG DUA is expected to increase the overall production capacity of gas in Bintulu to 23.9 million tonnes a year.

The **construction sector** is envisaged to expand 3.2% (2009: 3.5%), with all sub-sectors registering steady growth. The sector is expected to benefit from the economic recovery and ongoing construction activities under the second stimulus package. In addition, exploration activities by oil and gas industries are expected to spur the construction sector. Major projects such as the Light Rail Transit (LRT) extension works on the Kelana Jaya and Ampang Lines, Pahang – Selangor Raw Water Transfer, new LCCT at KLIA and expansion of Penang International Airport as well as electrified double track between Ipoh – Padang Besar are expected to drive growth of the civil-engineering sub-sector. The non-residential sub-sector is expected to pick up strongly spurred by better demand for property and commercial buildings. The residential sub-sector is also projected to strengthen following improved consumer sentiment and job prospects.

Domestic Demand

Private sector leads growth...

Aggregate domestic expenditure (excluding change in stocks) is expected to record positive growth of 1.2% (2009: 1.5%) attributed to the rebound in private sector expenditure at 2.9% (2009: -2.4%). In contrast, public sector expenditure is anticipated to decline 3.0% (2009: 12.0%) as the Government is expected to roll back gradually and facilitate the private sector to lead the economy. Private investment is expected to turn around 3.4% (2009: -20.0%), while public investment is estimated to contract 2.5% (2009: 24.8%).

Private consumption is expected to grow 2.9% (2009: 1.6%) as a result of higher disposable income arising from better commodity prices, more stable employment conditions and strong stock market performance. Conversely, **public consumption** is envisaged to contract 3.4% (2009: 2.2%) in line with the move towards more prudent as well as effective and efficient spending.

National Resource Position

Savings-investment gap remains substantial...

In 2010, GNS is anticipated to rebound 7.8% (2009: -16.7%) in line with the expected increase in the nominal national income by 4.6% (2009: -4.8%). Of the total GNS, 58.0% is expected to be generated by private sector. Total investment expenditure (including change in stocks) is envisaged to increase 13.8% to RM152.3 billion and account for 21.4% of GNP (2009: -5.3%; RM133.8 billion; 19.6%). The **savings-investment surplus** is expected to remain substantial at RM91.0 billion or 12.8% of GNP (2009: RM91.8 billion; 13.5%), which could be mobilised for long-term productive investment.

External Sector

Balance of payments remains favourable...

External position is expected to improve in tandem with recovery in global growth and trade. The BOP position is expected to remain favourable with the current account continuing to record a surplus in 2010. The current account balance will be contributed by a surplus in the **goods account** amounting to RM118.1 billion (2009: RM120.2 billion). With sustained global E&E demand and firm commodity prices, exports are estimated to grow 5.4% to RM555.6 billion (2009: -20.7%; RM527.1 billion), while imports at 7.5% to RM437.5 billion (2009: -17.6%; RM406.9 billion).

The surplus in the **services account** is estimated at RM1.5 billion (2009: -RM803.0 million) as a result of higher tourist arrivals and expansion in regional travel. The improvement in the services account is due to higher net inflows in the *travel account*, projected at RM25.1 billion (2009: RM24.7 billion). The expansion in external trade coupled with higher freight charges is expected to result in a larger net outflows of RM14.9 billion (2009: -RM12.8 billion) in the *transportation account*.

In contrast, the deficit in the **income account** is envisaged to increase marginally to RM12.4 billion (2009: -RM10.9 billion) due to higher earnings of multinational corporations (MNCs) operating in Malaysia. Net outflows in the **current transfers account**, mainly remittances by foreign workers are expected to record a mild decline at RM16.3 billion (2009: -RM16.6 billion). The surplus in the goods and services account will be more than sufficient to offset net outflows in the income and current transfers account. The **current account** will continue to record a large surplus of RM91.0 billion or 12.8% of GNP (2009: RM91.8 billion; 13.5%).

