

Economic Performance and Prospects

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Economic Performance and Prospects

Overview

Strong economic recovery...

The Malaysian economy is expected to post robust growth this year, led by sturdy domestic demand and strong export performance. The positive projection also takes into account the implementation of macroeconomic policy initiatives, which spurred higher consumption activity and recovery in private investment. A stable employment market, moderate inflation as well as strong business and consumer confidence coupled with firm recovery in the region provided a conducive environment for the Malaysian economy to expand at a rapid pace of 9.5% in the first half of 2010 (January – June 2009: -5.1%). Going forward, while growth in advanced economies is expected to be slow and uneven in the second half of 2010, developments in emerging economies remain positive and will provide impetus to the export sector. On the domestic front, the strong fundamentals and revival of private investment will support domestic demand in the second half of the year. Accordingly, the economy is expected to expand 7.0% in 2010 (2009: -1.7%).

On the demand side, while public expenditure continues to support economic activities, growth is envisaged to be driven by strong business and consumer spending. Private investment is expected to pick up significantly, supported by steady inflows of foreign direct investment (FDI) and higher domestic investment, given the improved corporate earnings and capacity utilisation rate across most industries. Implementation of Government transformation initiatives, measures to enhance competitiveness and productivity as well as an accommodative monetary policy will provide the impetus for private investment to strengthen in 2010. Public investment, while remaining supportive of growth, is focused on providing essential services and

improving the public delivery system. Meanwhile, consumer spending is expected to increase, given better sentiment and higher income following more stable employment prospects. In contrast, public consumption is estimated to moderate in line with the Government's prudent spending measures.

On the supply side, growth is expected to be broad-based. The services sector is envisaged to continue contributing significantly to growth, led by the wholesale and retail trade, communication as well as finance and insurance sub-sectors. The manufacturing sector is expected to expand strongly, on account of higher external demand, especially for electrical and electronic (E&E) products. Meanwhile, resilient domestic consumption and improving private investment will further stimulate domestic-oriented industries such as transport equipment as well as construction-related materials. The agriculture sector will continue to expand further, supported by higher output from the commodity and non-commodity sub-sectors. The construction sector is envisaged to expand due to ongoing implementation of stimulus projects and improved demand in the property market. Similarly, the mining sector is expected to improve, on account of higher natural gas production.

Malaysia's external position is expected to remain strong in 2010 in line with improved global trade, especially during the first half of the year. The current account is expected to register a surplus of RM103.8 billion or 13.8% of Gross National Income (GNI), backed by sizeable exports of goods despite stronger rebound in imports. The large surplus in current account is further augmented by continued surplus in the services account due to higher travel receipts. Similarly, the financial account is expected to improve, supported by net portfolio inflow and increasing FDI.

TABLE 3.1

Gross Domestic Product (GDP) by Sector 2009 – 2011

(at constant 2000 prices)

	Change (%)			Share of GDP (%)			Contribution to GDP growth (percentage point)		
	2009	2010 ¹	2011 ²	2009	2010 ¹	2011 ²	2009	2010 ¹	2011 ²
Agriculture	0.4	3.4	4.5	7.7	7.4	7.4	0.0	0.3	0.3
Mining	-3.8	1.0	2.9	7.7	7.3	7.1	-0.3	0.1	0.2
Manufacturing	-9.4	10.8	6.7	26.6	27.6	27.9	-2.7	2.9	1.9
Construction	5.8	4.9	4.4	3.3	3.3	3.2	0.2	0.2	0.1
Services	2.6	6.5	5.3	57.6	57.3	57.3	1.4	3.7	3.0
Less: Undistributed FISIM ³	7.2	5.8	3.9	4.2	4.2	4.1	0.3	0.2	0.2
Add: Import duties	-5.8	8.7	1.5	1.2	1.3	1.2	-0.1	0.1	0.0
GDP	-1.7	7.0	5.0-6.0	100.0	100.0	100.0	-1.7	7.0	5.0-6.0

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.

In tandem with robust economic activities in the first half of the year, GNI is estimated to expand 12.8% to RM749.9 billion (2009: -7.3%; RM665.0 billion). Consequently, per capita income in terms of purchasing power parity (PPP) is envisaged to increase 19.7% to USD14,102 in 2010 (2009: -14.3%; USD11,781).

expected to increase 6.4% (2009: 3.4%), led by the communication as well as finance and insurance sub-sectors. Meanwhile, the **final services** group is anticipated to expand 6.5% (2009: 2.0%), supported by the wholesale and retail trade as well as accommodation and restaurant sub-sectors.

Sectoral Performance

Services Sector

Services sector spearheads growth...

During the first half of 2010, the **services sector** expanded 7.9% (January – June 2009: 0.8%), supported by robust trade and consumption-related activities. In tandem with the better performance envisaged across all sectors of the economy, the services sector is projected to expand 6.5% and account for 57.3% of Gross Domestic Product (GDP) in 2010 (2009: 2.6%; 57.6%). The **intermediate services** group is

The **wholesale and retail trade sub-sector** registered impressive growth of 9.0% (January – June 2009: -0.8%), with the retail and motor vehicle sales indices rebounding 10.6% to 142.7 points and 19.4% to 124.7 points (January – June 2009: -4.7%, 129.0 points; -9.6%, 104.5 points), respectively. Similarly, distributive trade sales value increased 12.4% to RM185.3 billion (January – June 2009: -4.7%; RM164.8 billion), due to higher wholesale and retail activities at 12.0% and 12.1% (January – June 2009: -10.4%; 5.2%), respectively. The higher growth of the retail sector was attributed to aggressive expansion of hypermarkets and superstores. As at end-September 2010, there was a total of 125 foreign-owned hypermarkets and superstores

operating nationwide (end-September 2009: 81). The outlook for the wholesale and retail trade sub-sector is expected to remain encouraging with growth of 7.4% in 2010 (2009: 1.2%), supported by improved domestic consumption, particularly during the holiday and festive seasons.

The **accommodation and restaurant sub-sector** grew 5.7% (January – June 2009: 2.5%), due to higher tourism-related activities. The average hotel occupancy rate stood at 58.0%, with the highest rate recorded in Pahang (76.8%). In 2010, the sub-sector is expected to grow 4.7% (2009: 2.8%), driven by higher tourist arrivals and the establishment of new hotels, particularly in the Klang Valley. The growing popularity of apartment hotels as an alternative to hotels, especially to cater for high-spending and long-stay tourists, is also expected to boost growth of the sub-sector. Total tourist receipts are envisaged to reach RM59.2 billion in 2010 (2009: RM53.4 billion), with expenditure on accommodation remaining

the largest component at 31.2%, followed by shopping (29.0%) as well as food and beverages (17.2%). For the year, tourist arrivals are expected to reach 24.0 million (2009: 23.6 million).

Homestay and eco-tourism programmes have emerged as new niche growth areas, while encouraging environment conservation and sustainable tourism development. Recognising the vast potential in terms of employment and income creation, efforts are being undertaken to enhance participation of the rural population in community-based tourism programmes. As at end-June 2010, there was a total of 2,998 trained and licenced homestay operators nationwide. During the first six months of 2010, the programme attracted 88,666 visitors comprising 65,361 domestic and 23,305 foreign visitors (January – June 2009: 77,603; 59,713; 17,890). As part of innovative efforts to promote the homestay programme, the Government launched the Homestay e-Marketing Promotion in April

TABLE 3.2

Services Sector Performance 2009 – 2011

(at constant 2000 prices)

	Change (%)			Share of GDP (%)		
	2009	2010 ¹	2011 ²	2009	2010 ¹	2011 ²
Intermediate services						
Transport and storage	-2.8	7.0	6.2	3.8	3.8	3.8
Communication	6.0	7.3	8.9	4.1	4.2	4.3
Finance and insurance	5.1	6.3	5.6	11.7	11.7	11.7
Real estate and business services	2.4	5.6	4.9	5.4	5.4	5.3
Final services						
Utilities (electricity, water and gas)	0.4	8.5	5.6	3.0	3.0	3.0
Wholesale and retail trade	1.2	7.4	5.6	13.3	13.4	13.4
Accommodation and restaurant	2.8	4.7	5.2	2.5	2.4	2.4
Other services	4.4	4.2	5.4	6.1	5.9	5.9
Government services	2.0	6.7	1.9	7.6	7.6	7.3
Total	2.6	6.5	5.3	57.6	57.3	57.3

¹ Estimate.

² Forecast.

Note: Total may not add up due to rounding.

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

Green Technology

Introduction

Green Technology (GT) is the development and application of products, equipment and systems used to conserve the natural environment and resources with the objective to minimise and reduce the negative impact of human activities. Based on World Bank Indicators, Malaysia's carbon emission was 7.1 tonnes per capita in 2005, higher than the world average of 4.5 tonnes per capita. In a bid to minimise the environmental impact, Malaysia has voluntarily made a commitment to reduce up to 40% of carbon emission intensity to Gross Domestic Product (GDP) by year 2020 compared with the 2005 level.

Why Go Green

There are various reasons for adopting green measures, which include:

- Reversing climate change effect by reducing global warming. Without a global shift to a low-carbon resource economy, the world's greenhouse gas (GHG) emission will increase 70% by 2050 and temperature 4°C – 6°C by the end of the century¹;
- Conserving depleting natural resources for future generations;
- Reducing pollution such as contamination of air, water and soil;
- Exploiting GT as a new growth area and generating green job opportunities across major sectors; and
- Leveraging on Malaysia's abundant natural resources to maximise the potential of GT, such as production of renewable energy (RE).

Government Initiatives

Strengthening Institutional Framework

To ensure a more comprehensive development of GT, the Ministry of Energy, Water and Communications was restructured as the Ministry of Energy, Green Technology and Water (KeTTHA) on 9 April 2009. KeTTHA subsequently formulated the National Green Technology Policy. In addition, a National Green Technology Council was formed to better coordinate GT initiatives among ministries and agencies. These measures will be the main catalyst for the development of a dynamic and robust GT industry.

Promoting Green Technology Development

Realising that GT has the potential to become an important source of growth, the Government has taken several measures to further promote its use in the 2010 Budget. These include:

- Restructuring the Malaysia Energy Centre as Malaysia Green Technology Corporation (GreenTech Malaysia) tasked with formulating a GT development action plan to set standards and promote GT, intensify green awareness activities and promote the practice of an environment-friendly lifestyle;
- Organising the International GreenTech and Eco Products Exhibition and Conference Malaysia (IGEM) from 14 – 17 October 2010, to attract internationally renowned companies and experts in GT to showcase their products in Malaysia;

¹ Interim Report of the Green Growth Strategy: Implementing Our Commitment For a Sustainable Future, Meeting of the OECD Council at Ministerial Level, 27 – 28 May 2010.

CHART 1

National Green Technology Policy**NATIONAL GREEN TECHNOLOGY POLICY****Objectives**

- To minimise growth of energy consumption while enhancing economic development;
- To facilitate the growth of the GT industry and enhance its contribution to the national economy;
- To increase national capability and capacity for innovation in GT development and enhance Malaysia's competitiveness in GT in the global arena;
- To ensure sustainable development and conserve the environment for future generations; and
- To enhance public education and awareness on GT and encourage its widespread use.

Four Pillars**Energy**

Seek to attain energy independence and promote efficient utilisation.

Environment

Conserve and minimise the impact on the environment.

Economics

Enhance the national economic development through the use of technology.

Social

Improve the quality of life.

Key Areas of Focus***Energy***

- Application of GT in power generation and energy supply side management, including co-generation by the industrial and commercial sectors; and
- Application of GT in all energy utilisation sectors and demand side management programmes.

Building

- Adoption of GT in the construction, management, maintenance and demolition of buildings.

Water and Waste Management

- Adoption of GT in the management and utilisation of water resources, waste water treatment, solid waste and sanitary landfills.

Transportation

- Incorporation of GT in transportation infrastructure and vehicles, in particular biofuels and public road transport.

Source: Ministry of Energy, Green Technology and Water, Malaysia.

- Developing Putrajaya and Cyberjaya as GT pioneer townships;
- Giving priority to environment-friendly products and services that comply with GT standards in Government procurement;
- Providing tax exemption equivalent to 100% of the additional capital expenditure to obtain the Green Building Index (GBI) certificate. Buyers of buildings awarded with GBI certificate are eligible for stamp duty exemption on instrument of transfer of ownership; and
- Establishing a Green Technology Financing Scheme (GTFS) of RM1.5 billion to provide soft loans to producers and users of GT.

TABLE 1

Green Technology Financing Scheme

	Producer	User
Size	Maximum RM50 million per company	Maximum RM10 million per company
Tenure	15 years	10 years
Criteria for Eligibility	Malaysian-owned company (≥51% Malaysian equity)	Malaysian-owned company (≥70% Malaysian equity)
Financial Institution	Commercial Banks, Islamic Banks and Development Financial Institutions	
Government Incentive	Interest subsidy of 2% and Government guarantee of 60% of amount borrowed	

Tenth Malaysia Plan

The Tenth Malaysia Plan (10MP) further introduces initiatives to protect the environment. These include the introduction of the AFFIRM framework of Awareness, Faculty, Finance, Infrastructure, Research and Marketing to develop a comprehensive ecosystem for environmental sustainability; introduction of Feed-in Tariff (FiT) of 1% that will be incorporated into the electricity tariff of consumers and establishment of a Renewable Energy Fund from the FiT under KeTTHA to support the development of RE.

Enhancing Cooperation among Ministries

To promote and foster awareness from young, KeTTHA is working with the Ministry of Education and Ministry of Higher Education to integrate green topics with the curriculum. The Ministry of Human Resources, Ministry of Youth and Sports as well as Ministry of Tourism will also include green courses in their skills training programmes. This will further enhance skills and capabilities in GT. Initiatives are also being undertaken with the Ministry of Transport as well as Ministry of International Trade and Industry to develop an infrastructure roadmap for the use of electric vehicles beginning with a pilot project in Putrajaya.

Conclusion

While the public sector continues to spearhead measures to promote the adoption of GT to reduce carbon emission and protect the environment, it is important that all segments of society play their part to ensure the success of GT development. In line with the New Economic Model (NEM), adopting a green lifestyle is essential not only to drive economic growth and improve quality of life, but also to preserve the environment for future generations.

as well as homestay promotion through smartphone applications in September 2010. Through these initiatives, homestay operators will be able to reach a wider segment of potential tourists and attract about 178,000 visitors, yielding RM12.0 million in receipts for 2010 (2009: 161,561; RM10.9 million). Meanwhile, the Government's efforts in promoting eco-tourism programmes such as the Indigenous Community Tourism Packages will continue to benefit the *Orang Asli* community. To ensure greater participation in eco-tourism activities, courses will be provided to train the *Orang Asli* as boat operators or forest guides.

In the Meetings, Incentives, Conventions and Exhibitions (MICE) industry, efforts were intensified to gain a larger share of the global market. In 2010, the number of MICE visitors is expected to remain at 1.2 million, generating RM9.8 billion receipts. In addition, the Government has been actively promoting the Malaysia My Second Home (MM2H) programme. Since its inception in 2002 up to end-August 2010, the MM2H programme has attracted 14,358 participants, including 2,396 from China, 1,779 from Bangladesh and 1,586 from the United Kingdom (UK). In the first eight months of 2010, the MM2H programme drew 1,041 participants, with the highest number from Iran (155), followed by Japan (143) as well as China (98).

The **communication sub-sector** is expected to record higher growth of 7.3% in 2010 (2009: 6.0%), largely driven by robust performance of the telecommunications industry. During the first half of the year, the sub-sector grew 7.6% (January – June 2009: 5.3%), attributed to higher usage of cellular, broadband and third generation (3G) services. As at end-June 2010, the cellular phone subscriber base rose 10.2% to 31.5 million, registering a penetration rate of 108.8% (end-June 2009: 13.8%; 28.5 million; 100.8%), with prepaid users dominating almost 80% of total subscriptions. Growth was led by increasing smartphone applications as well as customised data plans and tariff packages. In addition, Mobile Virtual Network Operators (MVNOs) have increased competition in the

industry by successfully expanding the existing customer reach through the utilisation of unused bandwidth. Amid intense competition and various upgrading efforts by industry players, the cellular phone subscriber base is anticipated to expand 9.0% to 32.8 million, achieving a penetration rate of 112.5% by year-end (2009: 8.8%; 30.1 million; 105.4%).

Increased short message services (SMS) usage contributed positively to the growth of the cellular segment. SMS traffic expanded 11.8% to 47.4 billion during the first half of 2010 (January – June 2009: 23.3%; 42.4 billion), on account of rising demand for data services, especially during the 2010 FIFA World Cup season. Going forward, the bundling of SMS into cellular packages as well as higher adoption of mobile services such as mobile banking are expected to further increase SMS traffic. Additionally, higher uptake of 3G subscriptions is expected to boost growth of the cellular segment. As at end-June 2010, the number of 3G subscriptions grew 30.1% to 7.9 million (end-June 2009: 141.8%; 6.0 million), attributed to wider coverage and increasing demand for mobile internet access. The recent nationwide upgrade of 3G to 3.5G has also created demand, primarily from bandwidth intensive users.

The broadband segment continued to expand with the subscriber base increasing 49.7% to reach 3.2 million, recording a household penetration rate of 37.5% (end-June 2009: 57.0%; 2.2 million; 27.1%). Growth was spurred by continuous network extensions and transmission upgrades as well as offerings of competitive packages by service providers. As at end-June 2010, the total number of Wireless Fidelity (Wi-Fi) hotspot locations increased to 2,677 nationwide (end-June 2009: 1,995), with growth exceeding 100% in Perlis (250.0%), Negeri Sembilan (194.0%) and Sabah (151.4%). The increase was largely attributed to citywide Wi-Fi broadband projects carried out by state and local governments with support from industry players. The expansion of Worldwide Interoperability for Microwave Access (WiMAX) services contributed further to the rising demand for wireless broadband access.

As at end-June 2010, WiMAX subscribers more than doubled totalling 165,000 (end-June 2009: 60,800), largely due to affordability and aggressive marketing strategies.

Growth in the broadband segment is anticipated to remain buoyant with the Government's continuous efforts to encourage broadband adoption through various initiatives. These include tax relief for broadband subscriptions, promoting computer ownership as well as providing netbook and broadband packages for students and the low-income group. In addition, the roll-out of the High Speed Broadband (HSBB) project coupled with the National Broadband Initiative (NBI), launched in March 2010, are expected to further boost broadband penetration. As at end-August 2010, the HSBB service coverage exceeded 500,000 premises in the Klang Valley, Penang and Johor with 10,625 subscribers. A total of 750,000 premises nationwide are expected to have access to HSBB by year-end.

The NBI aims to create more demand for broadband, especially among students and the low-income group in line with the Government's aspiration of moving towards an inclusive information society. Among the incentives provided under the NBI include the distribution of one million netbook packages with broadband access to 650,000 students from low-income families as well as 350,000 packages to the low-income group in rural areas. In addition, 615,000 households around the existing 246 Community Broadband Centres (CBCs) will be provided with wireless broadband access under the CBC-to-home project. Apart from that, 873 communication towers will be built by end-2011 to increase cellular coverage and encourage higher adoption of wireless internet services.

Total mail volume handled by *Pos Malaysia Berhad* (PMB) contracted 5.3% to 621.9 million items during the first half of 2010 (January – June 2009: -3.4%; 650.1 million), on account of lower mailing frequencies as well as customer substitution to email, e-billing and SMS. This is in line with the worldwide decline of postal services

following the increasing popularity of email and SMS as convenient and cost-effective modes of communication. Total courier volume grew, albeit at a slower pace of 3.8% (January – June 2009: 23.7%), largely attributed to aggressive competition from industry players. To further improve operations and service delivery, PMB has introduced *PosLaju* International Premium Service for faster document and package delivery as well as shipment tracking service via SMS. In addition, the new self-service terminals at selected post offices are expected to reduce processing time and cost.

In the broadcasting industry, the subscription-based satellite television, Astro All Asia Networks (ASTRO), has 3.0 million subscribers translating to a household penetration rate of 49.2% as at end-June 2010 (end-June 2009: 2.8 million; 44.9%). This was largely due to enhanced demand for diverse content, strategic marketing campaigns as well as increased subscriptions to sports packages in conjunction with the Thomas Cup, Uber Cup and the 2010 FIFA World Cup. The performance of the industry is expected to remain upbeat in 2010 with the offerings of High-Definition Television (HDTV) and Internet Protocol Television (IPTV) services as well as the commencement of the Commonwealth and Asian Games in October and November 2010, respectively.

The **transport and storage sub-sector** rebounded strongly by 8.7% (January – June 2009: -5.2%), attributed to improving economic conditions, resulting in higher travel and trade-related activities. The brisk performance was also supported by increasing freight rates and capacity expansion, due to rising demand for sea, air and land transport. In consonance with improved domestic and global trade, the sub-sector is envisaged to register impressive growth of 7.0% in 2010 (2009: -2.8%).

In the first seven months of 2010, container handling at major ports, namely Port Klang, Tanjung Pelepas (PTP), Penang, Kuantan, Johor, Bintulu and Kuching, surged 19.6% to 10.3 million twenty-foot equivalent units (TEUs)

(January – July 2009: -7.6%; 8.6 million TEUs). Growth was driven by robust international trade, particularly in the Asian region as well as continuous improvements in port efficiency and productivity. In 2010, total container throughput is estimated to grow 11.7% to 17.5 million TEUs (2009: -2.2%; 15.7 million TEUs), on account of expanding global trade and domestic economic activities.

As the top two container ports in the country, Port Klang and PTP continued to be listed among the world's top 20 container ports. According to Containerisation International (CI), Port Klang and PTP improved their ranking to 14th and 17th position (2008: 15th; 18th), respectively in terms of total TEUs handled in 2009. During the first seven months of 2010, Port Klang handled 5.1 million TEUs, accounting for 49.7% of total throughput (January – July 2009: 4.0 million TEUs; 46.3%), while PTP handled 3.7 million TEUs and contributed 36.1% to total container throughput (January – July 2009: 3.3 million TEUs; 38.7%).

Similarly, the number of ship calls at major ports increased 5.8% to 27,573 (January – July 2009: -2.7%; 26,050 ships), with Port Klang accounting for 37.1% of total ship calls (January – July 2009: 34.8%). The better performance was attributed to various initiatives undertaken to attract more main line operators to domestic ports. These included enhancing connectivity through strategic partnerships with shipping lines as well as provision of modern port equipment and efficient services to ensure faster vessel turnaround time. In addition, improved international trade led to major shipping lines, including Maersk Line to redeploy their vessels to cater for the rising volume of containers. To further enhance capacity and competitiveness of domestic ports, the Government is committed to upgrading port infrastructure, including dredging port channels to cater for larger vessels under the Tenth Malaysia Plan (10MP).

Growth of the air transport segment improved markedly during the first seven months of 2010, due to strong demand for passenger and cargo

services, especially from Asia and the Middle East. Total passengers on five domestic airlines, namely Malaysia Airlines System (MAS), AirAsia, Firefly, MASWings and AirAsia X rose 13.6% to 18.9 million (January – July 2009: 8.3%; 16.7 million), driven by higher demand, particularly from budget travellers. Growth was also supported by improved connectivity, capacity and efficiency as well as offerings of attractive travel packages with competitive fares.

Passenger traffic at airports nationwide registered significant growth of 16.0% to 33.5 million (January – July 2009: 2.7%; 28.9 million), on account of capacity expansion and higher tourist arrivals. Similarly, passenger traffic at the Kuala Lumpur International Airport (KLIA) rose 18.9% to 19.3 million, accounting for 57.5% (January – July 2009: 2.0%; 16.2 million; 56.1%) of total passenger volume. The favourable performance was further supported by the cash-based incentives offered by Malaysia Airports Holdings Berhad (MAHB) under the Airline Recovery Programme to existing and new airlines for three years since 1 January 2009 as well as the 50% rebate on landing charges provided under the Second Stimulus Package. As a result, three new airlines from the Middle East, namely Mahan Air, Oman Air and Royal Jordanian Airline started operations at KLIA, bringing the total to 60 airlines as at end-July 2010.

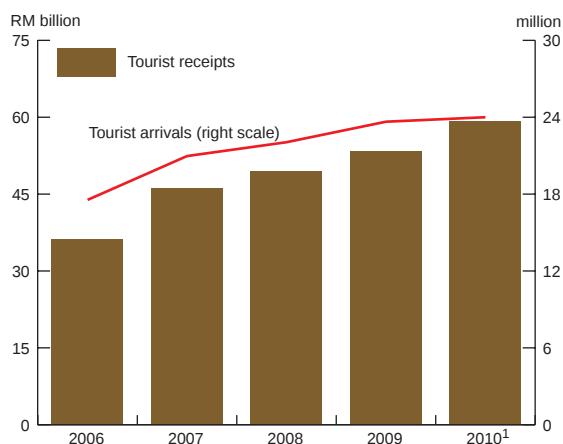
Total air cargo handled by *MASKargo* and AirAsia increased sharply by 28.9% to 306.0 million tonnes (January – July 2009: -26.2%; 237.3 million tonnes). Similarly, total air cargo handled at airports nationwide increased strongly by 21.3% to 532.2 million tonnes (January – July 2009: -22.9%; 438.7 million tonnes). The favourable performance was due to improved global demand for manufactured products, especially E&E as well as restocking activity by businesses.

The air transport segment is anticipated to remain competitive with higher demand for cheaper airfares and gradual liberalisation of the industry. The industry is envisaged to benefit from the ASEAN Multilateral Agreement on Full Liberalisation of Passenger Air Services (MAFLPAS), which is

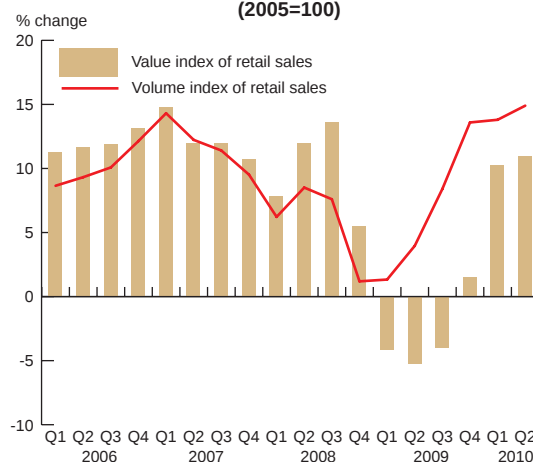
CHART 3.1

Selected Indicators for the Services Sector

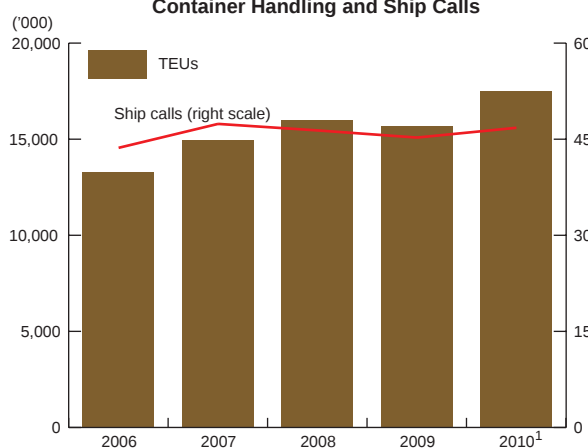
Tourist Arrivals and Receipts



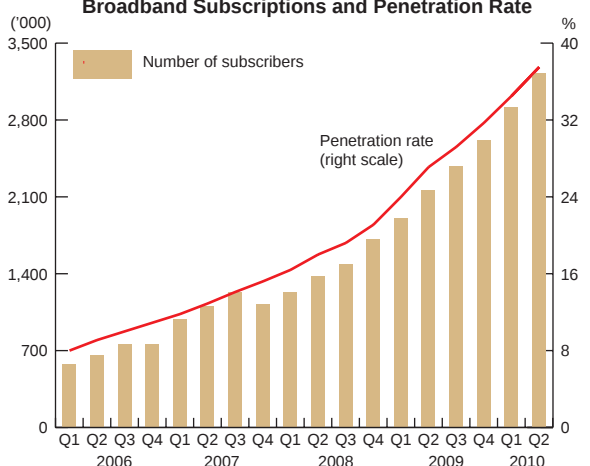
Retail Sales Indices (2005=100)



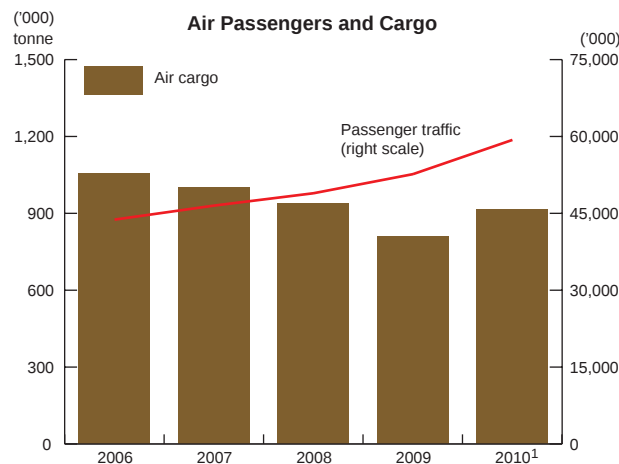
Container Handling and Ship Calls



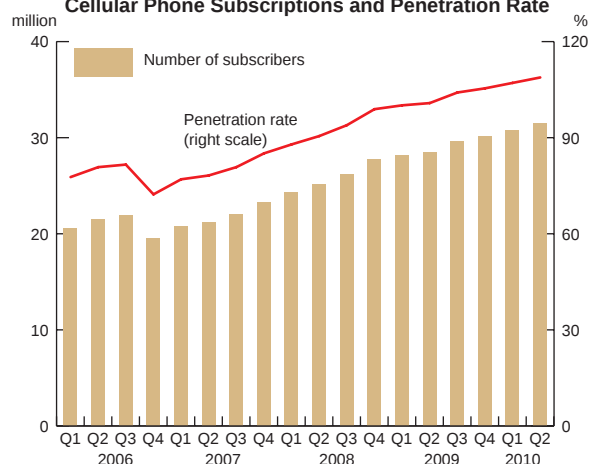
Broadband Subscriptions and Penetration Rate



Air Passengers and Cargo



Cellular Phone Subscriptions and Penetration Rate


¹ Estimate.

Source: Malaysia Tourism Promotion Board, Department of Statistics, Seven major ports, Malaysia Airports Holdings Berhad, Senai Airport and Malaysian Communications and Multimedia Commission.

expected to be concluded by end-2010. The implementation of MAFLPAS will further expand airline connectivity and accessibility to all ASEAN cities, unlike previously, when airlines were only allowed to land in ASEAN capital cities under the ASEAN Multilateral Agreement on Air Services. Furthermore, the construction of a new Low-Cost Carrier Terminal (LCCT), also known as KLIA 2, with an annual capacity of 30 million passengers is anticipated to further boost the travel industry. Upon completion by April 2012, the current LCCT will be transformed into an air cargo terminal, thus increasing the capacity of the KLIA cargo warehouse to meet rising demand for airfreight services.

The performance of the land transport segment improved during the first seven months of 2010, driven by efforts to enhance urban public transport usage under the National Key Result Area (NKRA) on public transport. As a result, ridership on urban rail services in the Klang Valley (Ampang Line, Kelana Jaya Line, KL Monorail, Express Rail Link and *KTM Komuter*) increased 3.6% to 98.7 million passengers (January – July 2009: -3.7%; 95.2 million). Major capacity and service enhancements included deployment of 17 four-car train sets on the Kelana Jaya line, integration of transport modes through provision of unlimited travel passes for RapidKL bus and rail services as well as the commencement of Sentul – Batu Caves *KTM Komuter* service beginning 31 July 2010.

During the first seven months of 2010, *Keretapi Tanah Melayu Berhad* (KTMB) intercity passenger traffic increased 1.1% to 2.5 million (January – July 2009: 21.3%; 2.4 million), raising revenue by 6.6% to RM50.5 million (January – July 2009: 13.9%; RM47.4 million). This was due to rising demand as well as improved frequency and services. The KTMB intercity service was further boosted by the introduction of the Electric Train Service (ETS) between Ipoh – Kuala Lumpur – Seremban on 12 August 2010. This service reduces travel time between Ipoh and Kuala Lumpur to about two hours from three hours previously. KTMB freight revenue also grew 6.6% to RM67.5 million (January – July 2009:

-8.3%; RM63.3 million), largely attributed to rising shipments of conventional cargo, particularly construction-related materials.

Total ridership on RapidKL bus services declined 15.6% to 65.5 million passengers (January – July 2009: -6.2%; 77.6 million), largely due to the modal shift to rail services. Nevertheless, total revenue rose 25.7% to RM78.5 million (January – July 2009: -5.4%; RM62.4 million) following the introduction of the zonal fare system. To increase ridership and reduce travel time in Klang Valley, RapidKL expanded its fleet and bus routes as well as introduced Bus Expressway Transit (BET) services. As for Rapid Penang bus services, total ridership grew 20.2% to 14.8 million passengers (January – July 2009: 24.8%; 12.3 million) following improved efficiency and wider coverage. Meanwhile, the number of vehicles plying tolled highways continued to rise 5.8% to 783.8 million (January – July 2009: 5.0%; 740.7 million). The increase was attributed to higher usage during holiday and festive seasons, the provision of various discounted toll rates as well as the opening of new highways such as Kajang – Seremban (LEKAS), Kemuning – Shah Alam (LKSA) and South Klang Valley Expressway (SKVE).

Efforts to provide a comprehensive and efficient public transport system will be further intensified to increase the modal share of public transport usage in Klang Valley from 12% in 2009 to 30% by 2015. Major initiatives include the introduction of a high-capacity mass rapid transit system covering a 20-kilometre radius from Kuala Lumpur city centre, procurement of 12 four-car train sets for the KL Monorail service and the implementation of Bus Rapid Transit (BRT) system. In addition to the Integrated Transport Terminal (ITT) in Bandar Tasik Selatan, a new ITT will be constructed in Gombak. An integrated cashless ticketing system will also be introduced involving 16 public transport operators in Klang Valley to eliminate the need for multiple ticketing.

In terms of institutional capacity, a Land Public Transport Commission (LPTC) was established in June 2010 as the single regulator for the land public transport industry. The objective

is to integrate the planning, regulation and enforcement of land public transport, while ensuring safety, reliability and accessibility. Currently, LPTC's priority is to establish a National Land Public Transport Master Plan as well as an implementation framework for public transport operators, beginning with the introduction of a new fare structure.

In 2010, the **finance and insurance sub-sector** is expected to expand 6.3% (2009: 5.1%), supported by higher bank lending and insurance activities. During the first seven months of 2010, loan applications, approvals and disbursements posted double-digit growth of 18.2%, 18.1% and 15.2% (January – July 2009: 5.0%; -9.9%; -2.1%) respectively, backed by strong domestic economic growth. Loan disbursements were largely channelled to the household sector. Total loans outstanding also grew at a stronger pace of 11.9% to RM841.7 billion as at end-July 2010 (end-2009: 7.8%; RM783.5 billion). Meanwhile, Islamic financing expanded 25.1% to RM211.6 billion, accounting for 21.4% of total banking system lending (end-2009: 24.1%; RM186.8 billion; 21.6%). Financing remained concentrated on the household sector amounting to RM134.4 billion or 63.5% of total financing (end-2009: RM117.7 billion; 63.0%). In addition, growth of the sub-sector was supported by the steady performance of the insurance industry. New business premiums for ordinary life insurance increased 12.6% to RM3.6 billion (January – July 2009: 26.3%; RM3.3 billion), while new business contributions for family *takaful* rose 25.8% to RM1.6 billion (January – July 2009: 7.9%; RM1.3 billion). Furthermore, gross direct premiums for general insurance grew 9.3% (January – July 2009: 5.6%), driven by higher contributions from the motor and fire segments. Meanwhile, gross direct contributions for the *takaful* industry rose 27.6% (January – July 2009: 26.2%), due to higher contributions from offshore oil-related, aviation, cargo, marine hull and fire businesses.

The **real estate and business services sub-sector** is expected to grow 5.6% in 2010 (2009: 2.4%), supported by higher real estate as well as shared services and outsourcing (SSO) activities. During the first six months

of 2010, the sub-sector rebounded strongly by 8.1% (January – June 2009: -1.1%), with the number of real estate transactions increasing 19.0% to 184,675 (January – June 2009: -9.5%; 155,190) and value rising 48.0% to RM50.6 billion (January – June 2009: -26.5%; RM34.1 billion). Loans approved for the purchase of residential properties increased 31.6% to RM39.4 billion (January – June 2009: 0.3%; RM29.9 billion) following improving consumer sentiment and labour market conditions.

Meanwhile, in SSO activity, Malaysia maintained its strong position as the third most preferred location globally. During the first eight months of 2010, 118 new regional establishments were approved (January – August 2009: 119) with total proposed investments amounting to RM165.1 million, creating 640 employment opportunities (January – August 2009: RM219.1 million; 741 jobs). This resulted in the number of regional establishments to total 2,881 (end-2009: 2,763), comprising 1,659 representative offices, 797 regional offices, 213 international procurement centres, 188 operational headquarters and 24 regional distribution centres. These establishments were mainly foreign companies involved in various activities such as E&E, finance, chemicals, oil and gas as well as logistics.

Since the launch of the Multimedia Super Corridor Malaysia (MSC Malaysia) in 1996 to end-August 2010, a total of 2,640 MSC Malaysia status companies have been approved, of which 2,037 companies are still in operation. Of the latter, 77.1% were Malaysian-owned, 20.1% foreign-owned and the remaining, joint ventures. During the first eight months of 2010, 120 companies mainly involved in creative multimedia, InfoTech and SSO activities were awarded MSC Malaysia status (January – August 2009: 170). The business services segment is expected to gain from the continuous expansion of MSC Malaysia. As at end-August 2010, a total of 19 MSC Malaysia cybercities and cybercentres were operating nationwide.

The **utilities sub-sector** is estimated to grow 8.5% in 2010 (2009: 0.4%), due to rising demand for electricity, particularly from the

manufacturing sector. During the first seven months of 2010, electricity generation rose 11.7%, while sales increased 12.6% (January – July 2009: -3.9%; -4.3%). The industrial segment accounted for 43.3% of total electricity consumption, followed by the commercial (33.7%) and household (21.4%) segments. During the period, maximum demand for electricity peaked at 15,072 megawatts (MW) in May 2010 (January – July 2009: 14,029 MW in June). Meanwhile, water supply rose 1.4% to 13,392 million litres per day (mld) (January – July 2009: -0.05%; 13,207 mld). The Government is committed to restructuring the water supply industry to improve efficiency and ensure sustainability. To date, four states, namely Johor, Melaka, Negeri Sembilan and Perlis have completed the restructuring programme, while negotiations with Kedah, Kelantan, Pahang, Perak and Terengganu are expected to be finalised by year-end.

The **other services sub-sector** is expected to expand 4.2% in 2010 (2009: 4.4%), led by higher activities in private education and healthcare services. As at end-June 2010, there were 472 private higher education institutions (PHEIs), comprising 42 private universities and university colleges, five foreign university branch campuses as well as 425 private colleges. The number of foreign students enrolled in local universities is expected to increase 14.3% to 92,336 in 2010 (2009: 16.8%; 80,750), with 65,909 in private universities and 26,427 in public universities (2009: 58,294; 22,456). Meanwhile, the healthcare travel industry is expected to attract 370,000 foreign patients in 2010, generating revenue of RM331.4 million (2009: 336,225; RM288.2 million). This is supported by the provision of quality and affordable healthcare facilities and services by private hospitals. In addition, beginning September 2010, private healthcare providers are allowed to advertise their facilities and services in all forms of media as part of the Government's liberalisation efforts to further boost competitiveness of the industry. Value-added of the **government services sub-sector** is expected to grow 6.7% in 2010 (2009: 2.0%), due to higher expenditure on emoluments with the aim to improve the quality of public service delivery, particularly through the NKRAs.

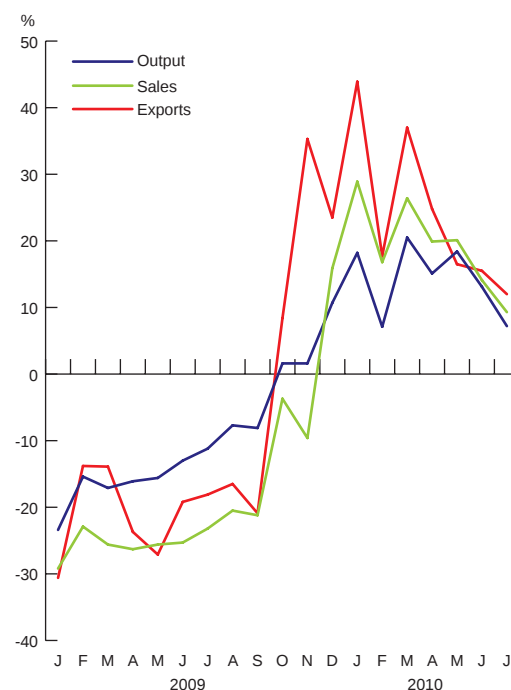
Manufacturing Sector

Strong rebound in output...

The **manufacturing sector** posted a sterling performance, surging 16.4% in the first six months of 2010 (January – June 2009: -16.2%). Growth was led by the upturn in global demand and reinforced by strong performance of domestic-oriented industries. Output expanded 14.1% (January – July 2009: -16.0%) with sales value of manufactured products expanding 19.0% to RM307.4 billion (January – July 2009: -25.4%; RM258.3 billion). Export-oriented industries registered double-digit growth of 12.1% (January – July 2009: -20.3%) with a sharp turnaround in most sub-sectors as a result of strong external demand. Similarly, growth in domestic-oriented industries was robust, expanding 16.3% (January – July 2009: -10.6%), driven mainly by the chemicals, construction-related and transport

CHART 3.2

Performance of the Manufacturing Sector (% annual change)



Source: Department of Statistics, Malaysia.

equipment sub-sectors. The capacity utilisation rate improved to 82.0% in the second quarter of 2010 (Q1 2010: 81.7%), prompting higher capital expenditure in the sector. For the year, the manufacturing sector is expected to grow 10.8% (2009: -9.4%), spurred by strong domestic and regional demand.

The **E&E** sub-sector rebounded significantly by 27.4% (January – July 2009: -32.4%) following the broad-based global recovery in demand and restocking activities. Growth emanated mainly from the expansion in demand for semiconductor devices, audio visual and communication apparatus as well as electrical machinery. Apart from the restocking activities, the remarkable growth in

semiconductor devices, which expanded 62.8% (January – July 2009: -30.8%) was attributed to increased global spending on electronic gadgets, particularly on new products such as smartphones and tablet computers as well as automotive applications. In addition, the increasing global demand for energy-saving devices such as light emitting diode (LED) and solar photovoltaics contributed to the strong performance in the semiconductor industry. The growth was in line with global semiconductor sales which have risen strongly since November 2009. As reported by the Semiconductor Industry Association, worldwide sales surged 48.5% during the first seven months of 2010 with broad-based recovery in demand for most product categories.

TABLE 3.3

Manufacturing Production Index
January – July
 (2005 = 100)

Industries	Index		Change (%)		Share (%)	
	2009	2010	2009	2010	2009	2010
Export-oriented industries	90.6	101.6	-20.3	12.1	54.2	53.4
Electrical and electronic products	75.6	96.3	-32.4	27.4	23.5	26.3
Petroleum products	118.9	105.4	-0.4	-11.4	19.3	15.0
Textiles, apparel and footwear	81.1	80.0	-20.0	-1.3	1.6	1.4
Wood and wood products	71.3	85.4	-24.1	19.7	3.3	3.5
Rubber products	116.5	145.9	-12.0	25.3	3.0	3.3
Machinery and equipment	96.8	138.6	-28.4	43.2	1.9	2.5
Medical, optical and scientific instruments	120.4	126.2	16.8	4.9	1.6	1.4
Domestic-oriented industries	106.7	124.0	-10.6	16.3	45.8	46.6
Chemicals and chemical products	98.1	118.2	-9.3	20.4	14.1	14.8
Plastic products	122.4	125.4	-8.3	2.4	4.3	3.9
Basic metals	87.4	113.6	-34.1	30.0	2.2	2.5
Fabricated metal products	142.4	163.7	-5.8	14.9	4.1	4.2
Non-metallic mineral and other related products	95.9	115.2	-15.9	20.2	3.0	3.1
Paper and paper products	94.6	114.0	-26.2	20.5	1.2	1.3
Printing and service activities related to printing	122.3	130.0	-6.3	6.3	1.1	1.0
Transport equipment	100.3	136.9	-13.1	36.5	4.5	5.4
Food products	128.3	132.2	-0.1	3.0	5.5	5.0
Beverages	104.1	132.5	-10.1	27.3	1.4	1.6
Tobacco products	93.2	92.3	-5.0	-1.0	0.4	0.3
Off-estate processing	104.3	106.4	-5.9	2.0	4.0	3.5
Total	97.3	111.1	-16.0	14.1	100.0	100.0

Source: Department of Statistics, Malaysia.

Malaysian electronic manufacturers continued to benefit from this positive development in view of their diversified product mix and export markets. Furthermore, the electronics sub-sector is increasingly integrated with the global supply chain network, particularly with China, Singapore and other industrialised Asian economies. Going forward, the sub-sector is expected to expand albeit at a slower pace as indicated by the moderating book-to-bill ratio of 1.17 in August 2010 (July 2010: 1.23).

Likewise, the output of audio visual and communication apparatus expanded sharply by 68.7% (January – July 2009: -27.0%), spurred by pent-up demand for consumer electronic products, which were largely held back during the 2009 economic downturn. Most notably, production of television sets increased 95.3%, due to upgrading and replacement activities before the 2010 FIFA World Cup season.

Production of **wood and wood products** expanded 19.7% (January – July 2009: -24.1%), largely due to higher output of veneer sheets and plywood (24.2%) as well as wooden and cane furniture (20.9%). This was attributed to increasing demand for wooden structures following the recovery in the Japanese housing market. With improving demand, export prices of plywood increased 7.8% to RM1,370 per cubic meter during the first seven months of 2010 (January – July 2009: RM1,270 per cubic meter).

Meanwhile, output of **petroleum products** contracted further by 11.4% (January – July 2009: -0.4%), on account of lower crude oil supply as well as plant maintenance which affected refinery activity. Lower production was recorded for gasoline (-21.3%), fuel oil (-21.5%), liquefied petroleum gas (LPG) (-10.6%) as well as diesel and gas (-27.3%). Moving forward, the sub-sector will be supported by demand from energy intensive industries as well as the pick-up in economic activities in the region.

Output of **rubber products** rebounded 25.3% (January – July 2009: -12.0%), supported by increased production of rubber tyres and tubes

(36.7%) as well as rubber gloves (14.9%). The strong performance was partly driven by increasing domestic and external demand for rubber tyres following the fast recovery of the passenger vehicles industry in the region. Growth in the sub-sector was also supported by demand for rubber gloves, especially from the healthcare industry. Despite rising input cost, which resulted in higher prices, demand for rubber gloves is expected to remain resilient, supported by rising hygiene awareness, enforcement of more stringent healthcare regulations and increasing population, particularly in emerging economies. The global demand for rubber gloves is estimated to increase to 150 billion pieces with expected growth of 8.0% to 10.0% per annum. Given these positive developments and high capacity utilisation rate, rubber glove manufacturers are expanding production capacities aggressively to meet future demand, particularly from emerging economies such as China, India and Russia.

Production of **machinery and equipment (M&E)** turned around 43.2% (January – July 2009: -28.4%), on account of higher manufactures of air conditioning, refrigerating and ventilating machinery (33.9%) as well as machine tools (77.7%). The increase was largely due to upgrading and replacement of M&E following better business prospects. Likewise, demand for M&E is expected to increase as manufacturing expansion projects which were on hold during the economic downturn, are implemented.

Output of **medical, optical and scientific instruments** grew 4.9% (January – July 2009: 16.8%), mainly contributed by increased demand of optical instruments and photographic equipment, which registered significant growth of 87.7% (January – July 2009: -55.0%). This impressive performance was due to rising domestic and external demand, especially for upgrading healthcare facilities and services, private hospitals and clinics as well as increased consumer health awareness. The sub-sector is anticipated to expand further in 2010, supported by the rapid growth of the Malaysian healthcare travel industry averaging 22.0% annually.

Meanwhile, output of **textiles, apparel and footwear** contracted 1.3% (January – July 2009: -20.0%), due to stiff competition from regional low-cost producers. In addition, local manufacturers have moved up the value chain in producing designs, as well as relocating their facilities to lower-cost producing countries. This was reflected in the production of wearing apparels which contracted 2.5% (January – July 2009: -16.7%). Overall, the lacklustre performance was offset by the increase in manufacture of knitted and crocheted fabrics and articles (5.8%).

In the domestic-oriented industries, production of **chemicals and chemical products** posted stronger growth of 20.4% (January – July 2009: -9.3%). The strong recovery in overall manufacturing activity provided further impetus to growth in basic chemicals, which are widely used in the manufacture of electronic, personal care and toiletries, pulp and paper, food, petroleum, rubber as well as pharmaceutical products. Production of basic chemicals increased 11.0% (January – July 2009: -8.9%), on account of expansion in demand for plastics resin and synthetic rubber (38.7%), fertilisers and nitrogen compounds (38.1%) as well as other basic industrial chemicals (7.9%). In addition, production of paints and varnishes grew 25.8%, bolstered by ongoing construction-related activities, particularly maintenance works of public buildings implemented under the fiscal stimulus packages. Similarly, output of soap and detergents, cleaning and polishing preparations increased strongly by 98.6%, spurred by higher demand for deep cleansing and hygiene products.

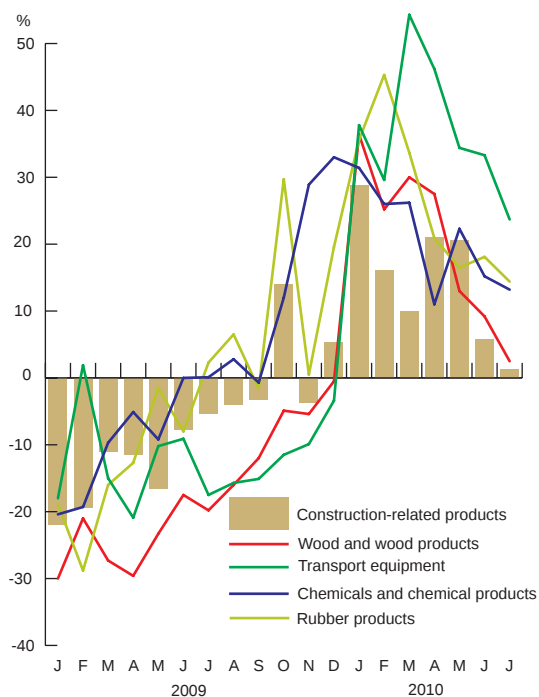
Output of **construction-related materials** as a group expanded significantly by 14.2% (January – July 2009: -13.2%), supported by higher demand from the non-residential and civil engineering sub-sectors. This was reflected in the higher production of glass and glass products (72.9%), refractory ceramics (60.3%), wire products (20.1%) as well as basic iron and steel (36.4%). Going forward, the sub-sector is expected to expand strongly in tandem with the anticipated pick-up in housing construction and implementation of 10MP projects.

Manufacture of **transport equipment** increased sharply by 36.5% (January – July 2009: -13.1%), driven by higher passenger vehicle sales amid strong consumer confidence and greater stability in the job market. Of significance, output of motor vehicles registered sturdy growth of 26.0% (January – July 2009: -15.9%) with passenger cars and commercial vehicles increasing strongly by 27.2% and 17.8%, respectively. Spurred by better economic outlook, the total industry volume (TIV) recorded a new high of 56,139 units in March 2010. During the first eight months of 2010, TIV increased 16.5% to 409,806 units (January – August 2009: -7.2%; 351,846 units). Sales of new passenger vehicles expanded 15.6% to 369,689 units, while commercial vehicles increased 24.8% to 40,117 units. In line with the strong performance, output of parts and accessories for motor vehicles and engines rebounded 21.5% (January – July 2009: -7.5%), while production of bodies for motor vehicles, trailers and semi-trailers expanded 59.9% (January – July 2009: 40.2%). Backed by better economic conditions, improved consumer sentiment, easy access to financing as well as introduction of new car models in the coming months, the TIV is expected to increase to 580,000 units in 2010 (2009: 536,905 units).

In tandem with increased consumer spending, production of **food** rebounded 3.0% (January – July 2009: -0.1%), mainly contributed by higher output in refined palm oil products (5.7%) as well as processed fish products (9.4%). Growth was also recorded in the manufacture of cocoa products (22.5%) as well as bread, cake and other bakery products (8.9%) as a result of various measures taken by local food manufacturers to promote and market their products overseas. Production of **beverages** increased 27.3% (January – July 2009: -10.1%), boosted by higher consumption, particularly during the 2010 FIFA World Cup season. Meanwhile, to tackle increasing input costs, greater efforts have been undertaken by the food and beverage industry players to upgrade their food processing technology to improve cost-efficiency and profit margin. In response to rising demand as well as leveraging on Malaysia's *halal* certification and logo which have gained

CHART 3.3

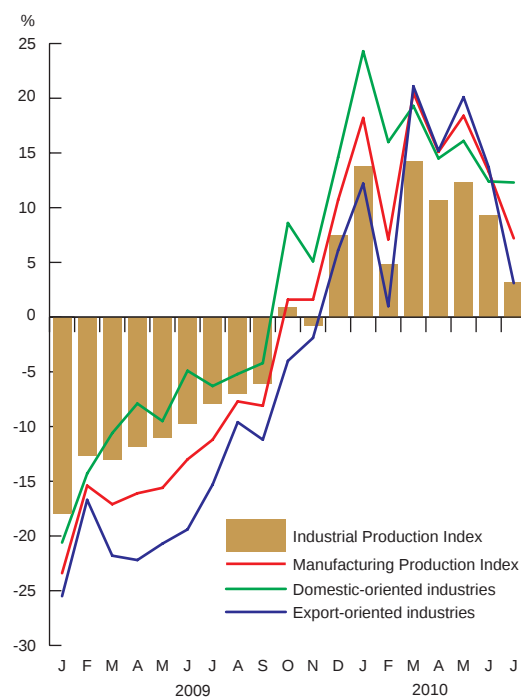
Performance of Selected Industries (% annual change)



Source: Department of Statistics, Malaysia.

CHART 3.4

Output of the Manufacturing Sector (% annual change)



Source: Department of Statistics, Malaysia.

TABLE 3.4

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

	Change (%)		Share (%)	
	2009	2010	2009	2010
Total Manufacturing	-16.0	14.1	100.0	100.0
Total E&E	-32.4	27.4	23.5	26.3
Semiconductors and other components	-30.8	39.0	10.0	12.2
Audio visual and comm. apparatus	-27.0	68.7	3.6	5.3
Office, accounting and computing machinery	-38.6	-14.7	7.4	5.5
Electrical machinery and apparatus	-26.0	51.3	2.2	3.0
Domestic appliances (n.e.c.) ¹	-17.9	12.9	0.3	0.3

¹ not elsewhere classified.

Source: Department of Statistics, Malaysia.

TABLE 3.5

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

	Change (%)		Share (%)	
	2009	2010	2009	2010
Construction-related Industries	-13.2	14.2	7.8	7.7
Glass and glass products	-49.4	72.9	0.6	0.8
Non-metallic mineral products (n.e.c.) ¹	-0.8	8.1	2.4	2.3
Structural metal products, tanks, reservoirs and steam generators	66.7	-16.7	1.9	1.4
Wire, wire products and metal fasteners	-23.5	20.1	0.7	0.7
Basic iron and steel	-42.5	36.4	1.3	1.5
Other basic precious and non-ferrous metals	-18.8	22.5	0.9	1.0

¹ not elsewhere classified.

Source: Department of Statistics, Malaysia.

worldwide acceptance, more manufacturers are venturing into *halal* food production industry to capitalise on the fast-growing global *halal* food market valued at USD600 billion.

Production of **plastic products** grew 2.4% (January – July 2009: -8.3%), supported by strong performance in the consumer packaging segment. Output of plastic bags and films accelerated 34.4% (January – July 2009: -15.8%), due to higher demand from regional emerging economies. Production of plastic blow moulded products increased 0.6% (January – July 2009: -6.4%), emanating largely from domestic demand for packaging materials from the food and beverages industries. However, the overall growth of the plastic products sub-sector was affected by the decline in production of plastic injection moulded components (-7.5%) and plastic foam products (-46.1%) on account of sharp decline in orders from major overseas buyers, particularly the United States (US) and the European Union (EU).

Riding on the recovery in global demand, the **off-estate processing** sub-sector improved 2.0% (January – July 2009: -5.9%). Manufacture of crude palm oil (CPO) increased 0.6% (January – July 2009: -3.6%), while rubber remilling and latex processing rebounded 13.7% (January – July 2009: -20.7%). Despite marginal increase in CPO processing activities, the overall capacity utilisation rate remained high at 83.0% during the first seven months of 2010.

Agriculture Sector

Plantation sub-sector rebounds...

The **agriculture sector** recovered with growth of 4.5% during the first half of 2010 (January – June 2009: -2.0%), partly on account of higher production of major commodities amid robust exports and high prices. Growth was also supported by the favourable performance of the non-plantation sub-sector comprising fishing, livestock and other food crops. The implementation of High Impact Projects (HIPs), including Aquaculture Industrial Zones (ZIA) and

TABLE 3.6

Value-Added in the Agriculture Sector 2009 – 2010

(at constant 2000 prices)

	Growth (%)		Share to Agriculture (%)	
	2009	2010 ¹	2009	2010 ¹
Agriculture	0.4	3.4	100.0	100.0
Oil palm	-1.1	1.3	31.8	31.2
Rubber	-19.8	9.9	4.4	4.7
Cocoa	-33.8	-2.6	0.1	0.1
Forestry and logging	-5.9	-1.3	18.6	17.7
Other agriculture ²	9.0	6.6	17.1	17.6
Fishing	5.5	4.1	17.2	17.3
Livestock	7.2	9.5	10.8	11.4

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.

Permanent Food Production Parks (TKPM) as well as the Integrated Agriculture Development Project also contributed to growth. In addition, Government initiatives such as establishing consortiums and cooperatives to undertake large-scale production, encouraging greater private sector investment, adopting modern farming technology and research and development (R&D) as well as providing adequate infrastructure will further boost the sector. For 2010, the sector is expected to grow 3.4% (2009: 0.4%).

Value-added of the **oil palm sub-sector**, the largest contributor to the agriculture sector, grew 0.3% (January – June 2009: -3.3%), supported by higher CPO production in the early part of the year. Production of CPO increased 1.8% to 11.1 million tonnes during the first eight months of 2010 (January – August 2009: -4.0%; 10.9 million tonnes). The increase in production was mainly from Sabah and Sarawak, which rose 9.2% to 4.8 million tonnes, accounting for 43.4% of total production. CPO production is expected

to continue to rise in the second half of the year following higher fresh fruit bunches (FFB) yield amid the more favourable weather compared to the first half. The OER is also expected to rise given the good agriculture and milling practices. Consequently, production is estimated to increase 1.3% to 17.8 million tonnes for 2010 (2009: -1.0%; 17.6 million tonnes). With production of 17.6 million tonnes in 2009, Malaysia contributed about 40% of world palm oil production and is the world's largest exporter of palm oil, accounting for 46.0% of global palm oil exports. The palm oil sector is envisaged to play a major role in propelling Malaysia towards high income status with foreign exchange earnings more than doubling to RM100 billion in 2020.

The FFB yield per hectare declined to 11.8 tonnes during the first eight months of 2010 (January – August 2009: 11.9 tonnes per hectare) as a result of dry weather during the second quarter of 2010. However, the FFB yield is expected to rise in the second half of 2010 as effects of the earlier dry weather taper off and the seasonal up-cycle begins to set in. For the year, FFB yield is projected to be higher at 19.3 tonnes per hectare (2009: 19.2 tonnes per hectare).

TABLE 3.7

Oil Palm Area and Palm Oil Production 2009 – 2010

			Change (%)	
	2009	2010 ¹	2009	2010 ¹
Planted areas ('000 hectares)	4,691	4,818	4.5	2.7
Matured areas ('000 hectares)	4,076	4,165	4.1	2.2
Production ('000 tonnes)				
Crude palm oil	17,565	17,800	-1.0	1.3
Palm kernel oil	2,097	2,100	-1.6	0.1
Yield (tonnes/hectare) ²	19.2	19.3	-4.9	0.5

¹ Estimate.

² Fresh fruit bunches yield.

Note: Total may not add up due to rounding.

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

Total oil palm planted areas expanded 4.0% to 4,757,627 hectares (end-June 2009: 3.9%; 4,575,122 hectares). Firm prices and continuous global demand will spur more cultivated areas of palm oil, particularly in Sabah and Sarawak. For 2010, total hectareage planted is expected to increase to 4,818,220 hectares (2009: 4,691,161 hectares) with the opening of 190,000 hectares of new cultivated areas, mainly in Sarawak. Of the total planted areas, 86.4% comprise matured areas.

During the first nine months of 2010, CPO prices (Local Delivered) rose to RM2,571 per tonne (January – September 2009: RM2,243 per tonne), supported by increased demand from major markets, such as China, the EU, the US and United Arab Emirates (UAE) as well as tight supplies following unfavourable weather and tree stress. Despite anticipated higher supplies in the coming months, CPO prices are expected to remain stable during the second half of the year as exports, especially to Pakistan and the Middle East are envisaged to rise, particularly during the festive seasons. Furthermore, anticipated higher crude oil and other vegetable oil prices, such as rapeseed and soyabean oils will also contribute to steady CPO prices. For 2010, CPO prices are expected to remain firm averaging RM2,500 per tonne (2009: RM2,236 per tonne).

Meanwhile, palm oil stock comprising CPO and processed palm oil increased to 1.7 million tonnes as at end-August 2010 (end-August 2009: 1.4 million tonnes), due to higher output of CPO in the months of July and August. Despite anticipated higher output in the remaining months, the stock level is expected to remain below 2.0 million tonnes (end-December 2009: 2.2 million tonnes), on account of stable domestic and external demand in the second half of the year.

The **rubber sub-sector** surged 17.5% (January – June 2009: -31.5%) following significant increase in production of natural rubber. Production rebounded strongly by 13.9% to 531,474 tonnes (January – July 2009: -29.7%; 466,501 tonnes),

on account of intensive tapping by smallholders following higher rubber prices. Smallholders accounted for 94.4% of total output. In contrast, production by estates declined 6.9% during the period as more estate land is being converted for other economic activities. Production of rubber is expected to moderate in the second half of 2010 as tapping will be affected by wet weather in the remaining months. For the year, rubber output is expected to rebound 9.7% to 940,000 tonnes (2009: -20.1%; 857,019 tonnes).

Rubber cultivated areas are expected to increase 1.0% to 1,031,720 hectares in 2010 (2009: -18.0%; 1,021,540 hectares), due to the opening of about 10,000 hectares of new land, particularly in Sabah and Sarawak. Given the importance of the rubber industry for rural development and downstream activities, the Government continues to provide assistance to smallholders to expand rubber planted areas. Among major initiatives are the replanting of 20,000 hectares of rubber areas and increasing 20,000 hectares of new planted

areas annually, mainly in Sabah and Sarawak. This is to meet the objective of increasing rubber production to reach 1.8 million tonnes and total rubber planted areas to 1.2 million hectares by 2020 under the Malaysia Rubber Industry (MRI) Strategies 2010 – 2020.

The natural rubber price (SMR 20), rose strongly to RM9.82 per kilogramme during the first nine months (January – September 2009: RM5.71 per kilogramme). The price hike was attributed to higher demand, mainly from China which has the largest automotive industry in the world as well as Germany, Republic of Korea (ROK) and the US. SMR 20 prices peaked to a new high of RM10.60 per kilogramme on 16 April 2010. For the year, rubber prices are expected to remain high averaging RM9.50 per kilogramme (2009: RM6.37 per kilogramme) as global consumption is envisaged to increase and supply is affected by less favourable weather conditions in major producing countries during the second half of the year.

The **fishing sub-sector** grew 5.5% during the first half of 2010 (January – June 2009: 10.6%), driven by increasing aquaculture produce. Aquaculture produce rose sharply by 38.8% to 249,090 tonnes (January – June 2009: 9.1%; 179,412 tonnes) following the rigorous implementation of ZIA since 2007. To date, 95 ZIA have been identified, of which 45 were gazetted as HIPs. As at end-June 2010, 29 ZIA were established and commenced operations. Various Government programmes including fish breeding, *Pemulihan Kolam Terbiar*, *Bumi Hijau* and further development of new sources of growth, such as ornamental fish, seaweed and aquatic plants are envisaged to further strengthen the agriculture sector. For the year, aquaculture produce is expected to increase 22.9% to 500,000 tonnes (2009: 14.9%; 406,938 tonnes). In contrast, marine fish landings declined 2.9% to 692,343 tonnes during the first six months (January – June 2009: 4.8%; 713,258 tonnes) as exploitation of coastal fisheries has reached its optimum level. Consequently, marine fish landings are estimated to decline to 1.3 million tonnes in 2010 (2009: 1.4 million tonnes). To increase marine fish landing, the

TABLE 3.8

Rubber Area, Yield and Production 2009 – 2010

			Change (%)	
	2009	2010 ¹	2009	2010 ¹
Total area (‘000 hectares)	1,022	1,032	-18.0	1.0
Smallholdings	961	966	-19.0	0.5
Estate	61	66	0.0	8.4
Yield (kg per hectare)	1,450	1,480	1.4	2.1
Smallholdings	1,440	1,470	1.4	2.1
Estate	1,610	1,620	0.6	0.6
Total production (‘000 tonnes)	857	940	-20.1	9.7
Smallholdings	800	884	-21.0	10.5
Estate	57	56	-5.3	-1.8
% of world production	9.3	9.4		

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
2009 – 2010**
(‘000 tonnes)

			Change (%)	
	2009	2010 ¹	2009	2010 ¹
Livestock				
Meat ²	250	283	6.4	13.2
Poultry	1,202	1,296	3.4	7.8
Eggs (million)	9,270	9,826	6.4	6.0
Milk (million litre)	62	67	10.3	7.5
Miscellaneous agriculture				
Fruits ³	1,121	1,230	1.8	9.7
Pepper	22	24	-1.4	10.5
Vegetable	767	651	28.9	-15.1
Coconut (million unit)	379	528	-16.7	39.3
Tobacco (million kg) ⁴	25	42	-58.7	69.4
Flowers (million cutting)	441	468	39.1	6.2

¹ Estimate.

² Including beef, mutton and swine.

³ Consists of star fruit, papaya, durian, guava, mango, mangoesteen, banana, rambutan 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.

Government has provided various measures to encourage deep-sea fishing, including issuance of new permits and licences as well as training for fishermen. In addition, the construction of more artificial reefs and fish shelters is expected to increase marine fish stock. For the year, the fishing sub-sector is expected to grow 4.1% (2009: 5.5%).

The **forestry and logging sub-sector** recorded growth of 0.8% (January – June 2009: -11.9%). Production of saw logs in the first quarter was strong as the global economic recovery gathered pace, while major importers mainly from China and India started to restock. In addition, domestic consumption rose following increasing demand for timber and timber products, particularly in the construction sector. However, production of saw

logs declined in the second quarter as logging activities were constrained by wet weather. Output of saw logs, particularly from Sabah is expected to decline further in the second half in accordance with production quota under the Sustainable Forest Management Policy. Thus, the sub-sector is anticipated to decline 1.3% in 2010 (2009: -5.9%).

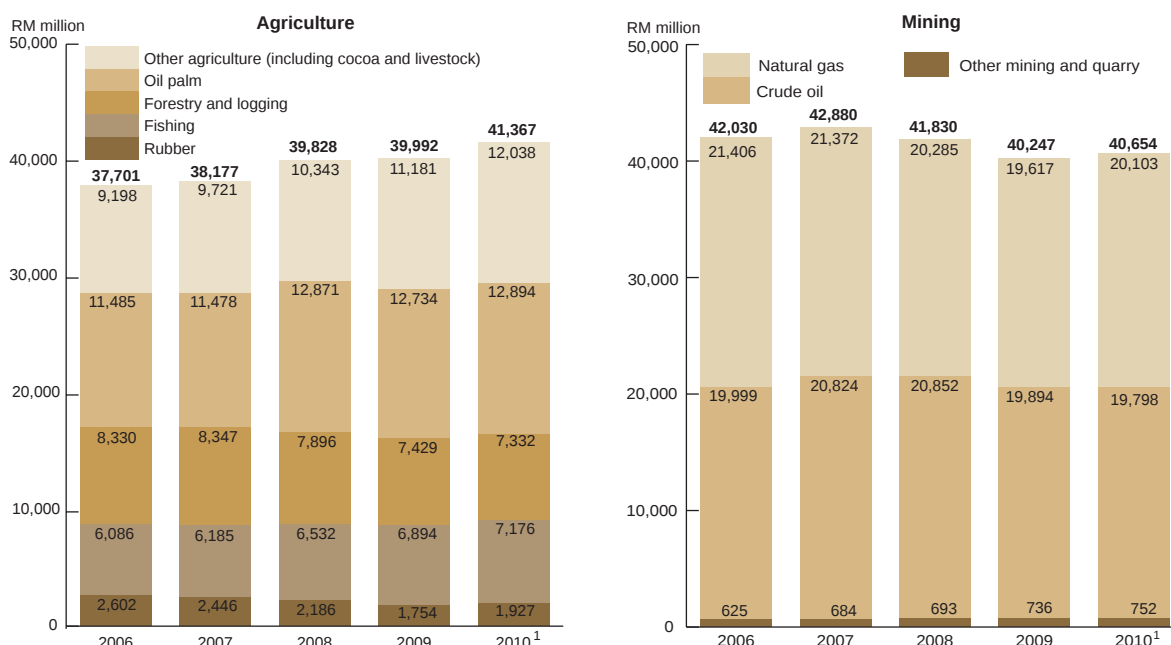
The **livestock sub-sector** continued to grow 12.0% (January – June 2009: 5.9%), boosted by higher production of poultry and cattle. The increase in the number of producers and farming capacity as well as higher productivity contributed to the expansion in production of livestock. Furthermore, Government assistance under the Food Security Programme, *Skim Transformasi Usahawan Ternakan*, Contract Farming, Satellite Farming and Feedlot Farming, which focus on large-scale production is expected to increase cattle output. To date, there are 534 feedlot farming and 71 satellite farming established in Johor, Kedah, Negeri Sembilan, Pahang, Perak and Terengganu. The sub-sector is expected to grow 9.5% in 2010 (2009: 7.2%), supported by the ongoing implementation of various programmes and incentives.

The **other agriculture sub-sector** rose 7.5% (January – June 2009: 8.2%), backed by higher output of *padi*, fruits and vegetables. For the year, the sub-sector is expected to grow 6.6% (2009: 9.0%), largely driven by higher output of fruits. Apart from rising domestic and external demand, the increase in output of these food crops was primarily supported by expansion in cultivated areas under the TKPM scheme. As at end-June 2010, a total of 53 TKPM were established covering 4,692 hectares.

Average yield per hectare for *padi* is expected to improve to 4.0 tonnes (2009: 3.7 tonnes per hectare), boosted by higher productivity, particularly from the granary areas. Efforts have been taken to enhance *padi* productivity, including upgrading and improving drainage and irrigation infrastructure as well as the use of new high-yield varieties such as MR219 and

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 and Ministry of Finance, Malaysia.

MR220. Through these efforts, the Government aims to reach 71.4% self-sufficiency level (SSL) for rice in 2010 (2009: 70.4% SSL). The opening of new *padi* land in Sarawak, particularly in Betong, Kuching, Sibu and Sri Aman is expected to increase *padi* planted areas to 629,559 hectares in 2010 (2009: 615,859 hectares).

Mining Sector

Higher output of natural gas...

Growth of the **mining sector** turned around 2.0% in the first half of 2010 (January – June 2009: -4.4%), largely driven by higher production of natural gas which offset the lower production of crude oil. With the trend expected to continue during the second half of the year, the sector is estimated to grow 1.0% in 2010 (2009: -3.8%).

During the first eight months, **crude oil** production (including condensates) contracted 3.8% to 637,019 barrels per day (bpd) (January – August 2009: -4.6%; 662,137 bpd). Besides unplanned shutdowns for repair and maintenance works on oil facilities, the decline was also due to compliance with production limits set under the National Depletion Policy, which sets annual production at an average of 650,000 bpd. Currently, Peninsular Malaysia accounts for 42.4% of total crude oil output with 270,425 bpd, while Sarawak 30.7% (195,510 bpd) and Sabah 26.9% (171,084 bpd). For the year, crude oil production is envisaged to decline 2.6% to 641,400 bpd (2009: -4.5%; 658,845 bpd), partly due to *Petroleum Nasional Berhad* (PETRONAS) Reservoir Management Plan programme.

PETRONAS continues its exploration activities to build up national reserves and spur local oil and gas-related industries. As a result, a new oil field (*Anjung Kecil*) was discovered in

TABLE 3.10

Production and Reserves of Crude Oil and Natural Gas
2009 – 2010

			Change (%)	
	2009	2010 ¹	2009	2010 ¹
Crude oil				
Production ² (‘000 barrels per day)	658.8	641.4	-4.5	-2.6
Reserves (billion barrels)	5.52	5.80	1.1	5.1
Reserves/production (years)	22	24		
Natural gas				
Production ³ (‘000 million standard cubic feet) (mmscf)	2,119.1	2,229.1	-1.7	5.2
Reserves (trillion cubic feet)	87.9	88.6	-0.1	0.8
Reserves/production (years)	36	38		

¹ Estimate.

² Including condensates.

³ Excluding flaring and reinjection.

Note: Total may not add up due to rounding.

Source: PETRONAS.

offshore Sarawak in 2010. There were 68 oil producing fields as at end-December 2009. Crude oil reserves stood at 5.80 billion barrels as at 1 January 2010 and are estimated to last 24 years (1 January 2009: 5.52 billion barrels; 22 years) based on current production level.

In contrast, production of **natural gas** expanded 4.8% to 1,469,665 million standard cubic feet (mmscf) (January – August 2009: -2.8%; 1,402,324 mmscf) following stronger domestic demand from the petrochemical industry as well as higher exports, especially to Japan, ROK, Taiwan and China. Total production for the year is projected to increase 5.2% to 2,229,074 mmscf (2009: -1.7%;

2,119,118 mmscf) in tandem with the anticipated stronger domestic and external demand as well as expected increase in production from a new gas field in *Kelompok Medan Kumang* in offshore Sarawak. During the first six months, two new gas fields were discovered in offshore Peninsular Malaysia (*Melawati*) and offshore Sarawak (NC8). There is significant potential for higher gas production for the year, due to the development of projects such as Sabah – Sarawak Gas Pipeline, the plant expansion of MLNG DUA as well as plant rejuvenation and revamp in Peninsular Malaysia. As at 1 January 2010, gas reserves stood at 88.6 trillion cubic feet, sufficient to last 38 years (1 January 2009: 87.9 trillion cubic feet; 36 years).

Amid growing global demand, the average prices of West Texas Intermediate (WTI) and *Tapis* Blend rose to USD77.58 per barrel (pb) and USD81.02 pb during the first nine months of 2010 (January – September 2009: USD56.89 pb; USD60.46 pb), respectively. The higher prices were largely due to a weaker dollar and rising demand, particularly from China and India following buoyant economic growth. In addition, supplies from the Organisation of the Petroleum Exporting Countries (OPEC) producers were largely unchanged. The average price of *Tapis* is expected to remain firm averaging USD80.00 pb in 2010 (2009: USD65.42 pb) in tandem with global economic expansion. Going forward, the strength of the US dollar and sustainability of global economic recovery as well as oil production by OPEC will be the major factors in determining the movement of crude oil prices.

Output of **tin** declined 0.9% to 1,176 tonnes (January – June 2009: -6.1%; 1,187 tonnes) as a result of the shutdown of several mines and rising cost of production. With only nine mines in production, tin output is expected to decline 4.6% to 2,300 tonnes for the year (2009: -19.8%; 2,412 tonnes). However, the average price of tin traded on Kuala Lumpur Tin Market (KLTM) rose to USD17,550 per tonne (January – June 2009: USD12,141 per tonne), due to improved global demand.

Construction Sector

Construction activities strengthen further...

Value-added of the **construction sector** strengthened further by 6.3% during the first half of 2010 (January – June 2009: 2.9%). The expansion was largely led by increased civil engineering and non-residential activities following the speedy implementation of construction projects under the Ninth Malaysia Plan (9MP) and the stimulus packages. Underpinned by sustained property demand, particularly for commercial buildings as well as positive business and consumer sentiments, the construction sector is envisaged to expand 4.9% in 2010 (2009: 5.8%).

Activity in the **civil engineering and special trade work sub-sector** continued to gain traction. Among the ongoing major highway projects are Senai – Desaru Expressway (SDE), Skudai – Senai Expressway, Kuala Lumpur – Kuala Selangor Expressway (KLKS) and East-Coast Jabur – Kuala Terengganu (Phase 2) Expressway. In addition, the construction of a

coastal highway from Johor Bahru to Nusajaya and upgrading of Jalan Skudai and Jalan Abu Bakar in Iskandar Malaysia under the corridor development projects, further boosted growth of the sub-sector. The ongoing projects under the second stimulus package, which include maintenance and upgrading of public buildings, roads and bridges also supported growth. As at end-September 2010, a total of 119,203 projects worth RM17.9 billion were implemented under the two stimulus packages. The sub-sector also benefited from the implementation of projects under the NKRA on rural infrastructure. As at end-August 2010, a total of 518.8 kilometres of rural roads were completed, while 11 water treatment plants are under construction.

Construction activity in the **residential sub-sector** moderated following the completion of several high-end properties, particularly condominiums and apartments. In addition, the performance of the sub-sector in the first half of 2010 was

TABLE 3.11

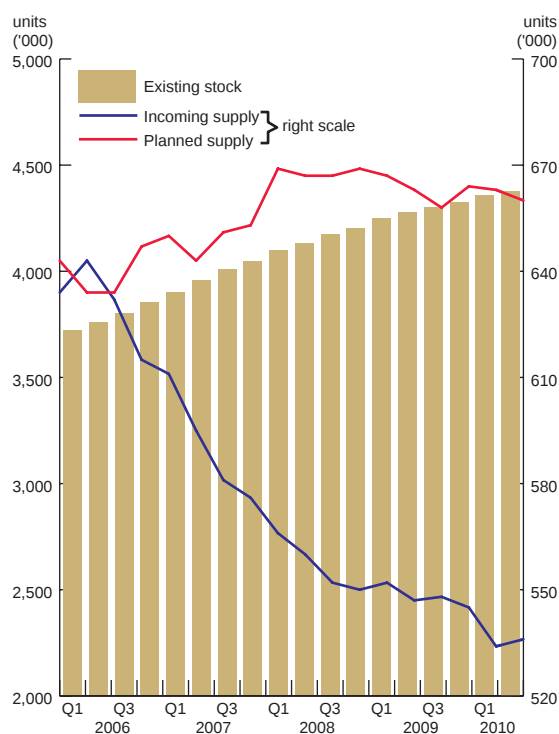
Major Ongoing Construction Projects

	Allocation (2010) RM million
Construction, maintenance and upgrading of rural roads	1,200.0
Electrified Double Track Seremban - Gemas	551.0
Pahang - Selangor Raw Water Transfer	284.3
Bengoh Kuching Dam	160.7
Electrified Double Track Ipoh - Padang Besar	151.0
East Coast Jabur - Kuala Terengganu (Phase 2) Expressway	33.0
Upgrading of Kota Kinabalu Airport (Phase 2)	27.0
Kuala Lumpur - Kuala Selangor Expressway	15.0
Upgrading of Kuching Airport	11.7

Source: Ministry of Finance, Malaysia.

CHART 3.6

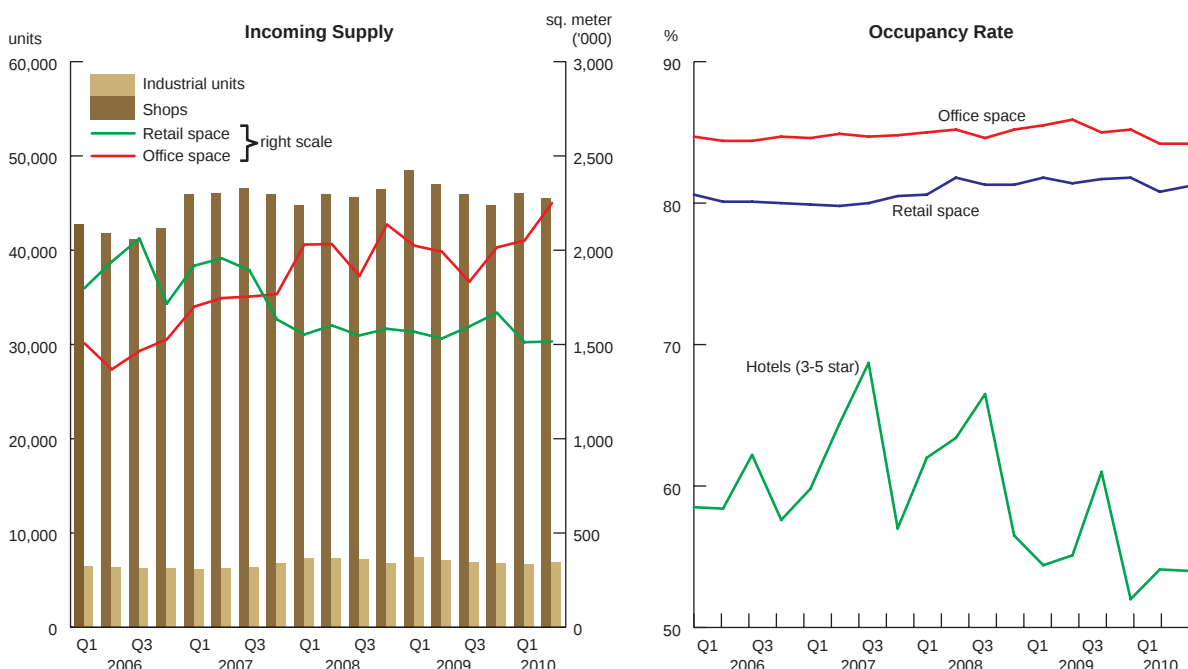
Supply Indicators of Residential Property



Source: National Property Information Centre (NAPIC).

CHART 3.7

Supply Indicators of Non-Residential Property



Source: National Property Information Centre (NAPIC).

affected by the delay in launching new projects during the economic downturn in 2009 when developers were more cautious. However, following the economic recovery, coupled with attractive financing packages and affordable interest rates, housing starts recorded an increase of 3.2% in the second quarter of 2010 compared with the preceding quarter. In addition, the take-up rate of newly launched residential units improved to 19.5% (January – June 2009: 12.3%). Despite slower housing construction activity, high-end landed properties located in preferred areas were well-received with 100% take-up rate during launches. The aggressive promotion of MM2H programme also contributed to the strong take-up of high-end properties. With the strong domestic economic performance coupled with the buoyant secondary housing market, potential house buyers, particularly in the Klang Valley, Penang and Selangor are shifting from a wait-and-see attitude in 2009 to ready-to-commit in the second half of 2010.

In line with the Government's objective to provide affordable houses for the low-and medium-income groups, a total of 2,733 units of *Rumah Mesra Rakyat* under the Home Ownership for the People (HOPE) project were completed as at end-June 2010. In addition, as at end-August 2010, 4,482 low-cost houses for the rural poor and hardcore poor were built, while another 12,144 units are under construction.

On the supply side, the number of new sales and advertising permits as well as approvals to build houses increased 15.9% and 13.2% (January – August 2009: -9.1%; -11.3%) respectively, indicating developers were more bullish on the housing market. This was further supported by the findings of a survey undertaken by the Real Estate and Housing Developers' Association (REDHA) in July 2010, whereby developers are confident that property prices may increase up to 20% in the second half of 2010. Similarly, loans approved by the banking system for the

construction sector rose 52.0% (January – July 2009: -34.5%), indicating the pick-up in construction activity during the second half of the year.

Growth in the **non-residential sub-sector** increased strongly, driven primarily by ongoing construction of commercial properties, particularly purpose-built offices. In addition, private projects in the five growth corridors, including Johor Premium Outlet and Lido Boulevard in Iskandar Malaysia as well as Kota Kinabalu City Waterfront and South China Place in Sabah Development Corridor contributed to the sub-sector. Construction of new purpose-built offices expanded significantly to 334,181 square metres (sm) (January – June 2009: 62,493 sm), while the occupancy rate remained high at 84.2%, reflecting strong business sentiment. During the first half of 2010, shopping complexes under construction increased to 1.48 million sm (end-June 2009: 1.44 million sm). In addition, the completion of 20 new shopping complexes contributed an additional 249,817 sm of retail space, resulting in the existing stock of retail space increasing to 10.32 million sm as at end-June 2010 (end-December 2009: 10.07 million sm). Demand for retail space in shopping complexes remained strong, with the average occupancy rate at 81.2% in the first half of 2010 (January – June 2009: 81.4%), reflecting retailers' confidence in consumer spending.

Construction of leisure properties improved further in line with the growth of the tourism sector. As at end-June 2010, 86 hotels were under construction, offering 21,884 rooms (end-June 2009: 82 hotels; 21,110 rooms). Construction starts involved seven hotels with a total of 589 rooms, of which three were in Perak, two in Johor as well as one each in Kelantan and Sarawak. The average occupancy rate of three-to-five star hotels remained at 54.0%, on account of steady tourist arrivals.

Property transaction activity turned buoyant during the first six months of 2010 with volume expanding strongly by 19.0% to 184,675 transactions (January – June 2009: -9.5%; 155,190 transactions). Meanwhile, transaction value surged 48.0% to RM50.6 billion (January – June 2009: -26.5%; RM34.1 billion), reflecting rising property prices,

particularly in the Klang Valley, Penang and Selangor. Residential properties continued to dominate market activity, accounting for 59.8% of total transactions, followed by agricultural (22.1%), commercial (10.3%), development (5.3%) and industrial (2.5%).

Domestic Demand Performance

Vibrant domestic economic activities...

Domestic demand is envisaged to rebound 6.9% (2009: -0.5%) in 2010. Growth is expected to be supported by the uptrend in **private sector expenditure** of 8.1% (2009: -2.7%), benefiting from strong domestic economic activities and regional demand. Meanwhile, **public sector expenditure** is expected to grow 3.8% (2009: 5.2%), supported by high capital outlay by Non-Financial Public Enterprises (NFPEs).

Private investment is envisaged to rebound 15.2% (2009: -17.2%) in line with the firm recovery in the Asian region, reinforced by improved business confidence. The revived business optimism is reflected in the Business Conditions Index (BCI) which soared to 119.6 points in the second quarter of 2010, above the 100-point threshold for the fifth consecutive quarter (Q1 2009: 61.1 points). In addition, the Business Expectations Survey conducted by the Department of Statistics, Malaysia (DOSM) indicated private sector capital outlay grew significantly by 46.6% in the first half of 2010 (January – June 2009: -37.3%). The services sector contributed the largest share to total capital outlay at 47.2%, followed by mining and electricity (25.4%) as well as manufacturing (21.1%). The pick-up in private investment is also reflected in key investment indicators. Among others, imports of intermediate and capital goods recorded double-digit growth of 30.8% and 18.5% (January – July 2009: -29.1%; -11.0%), respectively. Business activity turned more vibrant as reflected in the 15.5% growth in total loans disbursed by the banking system to the non-household sector (January – July 2009: -4.5%) and the 24.8% increase in sales of commercial vehicles (January – July 2009: -4.2%).

TABLE 3.12

Gross Domestic Product (GDP) by Aggregate Demand 2009 – 2011

(at constant 2000 prices)

	Change (%)			Share of GDP (%)			Contribution to GDP growth (percentage point)		
	2009	2010 ¹	2011 ²	2009	2010 ¹	2011 ²	2009	2010 ¹	2011 ²
GDP	-1.7	7.0	5.0-6.0	100.0	100.0	100.0	-1.7	7.0	5.0-6.0
Domestic demand³	-0.5	6.9	5.8	89.1	89.0	89.4	-0.5	6.1	5.2
Private expenditure	-2.7	8.1	7.0	63.6	64.2	65.2	-1.7	5.1	4.5
Consumption	0.7	6.7	6.3	53.5	53.4	53.8	0.4	3.6	3.4
Investment	-17.2	15.2	10.2	10.1	10.8	11.3	-2.1	1.5	1.1
Public expenditure	5.2	3.8	2.8	25.6	24.8	24.2	1.2	1.0	0.7
Consumption	3.1	0.2	4.6	14.3	13.4	13.3	0.4	0.0	0.6
Investment	8.0	8.3	0.6	11.2	11.4	10.9	0.8	0.9	0.1
Change in stocks				-2.7	1.1	1.2	-1.9	3.9	0.1
External sector	5.0	-22.6	1.7	13.6	9.8	9.5	0.6	-3.1	0.2
Exports ⁴	-10.4	11.6	6.7	107.4	112.0	113.3	-12.3	12.5	7.5
Imports ⁴	-12.3	16.6	7.2	93.8	102.2	103.8	-12.9	15.5	7.3
GDP (RM billion, current value)	679.7	775.0	838.3						
Change (%)	-8.3	14.0	8.2						

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.

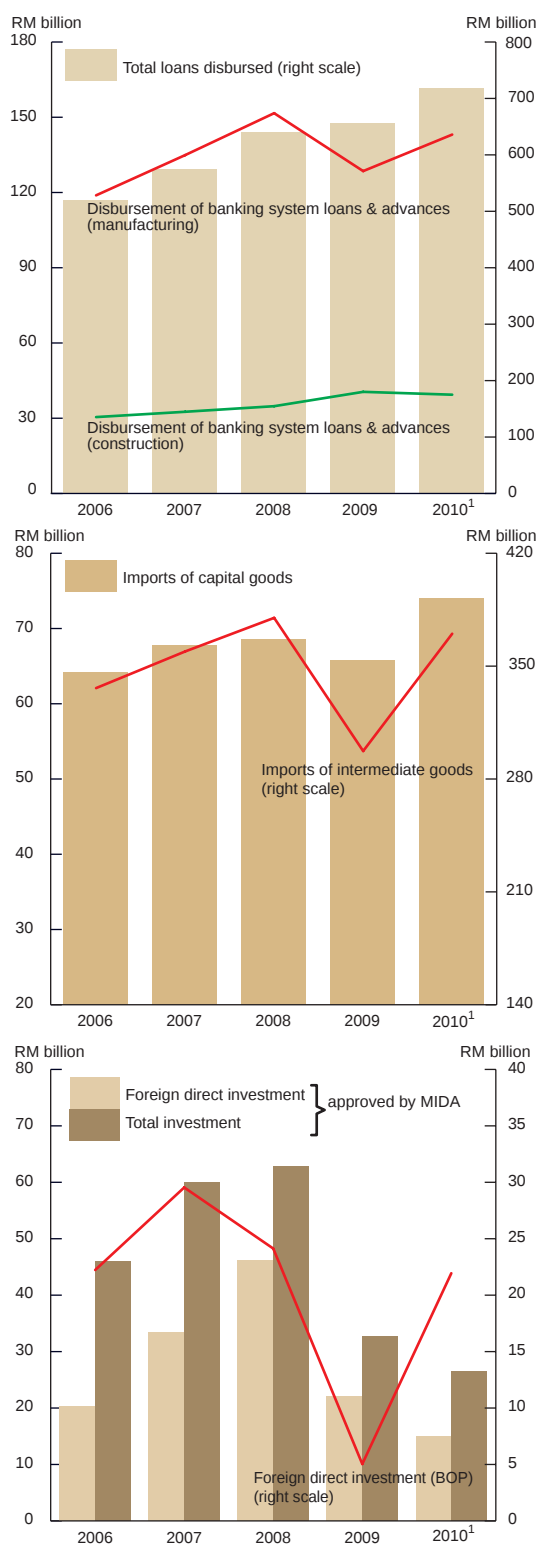
In line with the improving domestic economy, the Malaysian Industrial Development Authority (MIDA) approved 545 investment projects totalling RM16.6 billion during the first seven months of 2010 (January – July 2009: 451 projects; RM18.4 billion), involving RM9.6 billion proposed foreign investment. These include E&E projects, which accounted for RM3.8 billion, food manufacturing (RM1.8 billion) and basic metal products (RM1.7 billion). The three largest foreign direct investors during the period were Singapore with RM3.0 billion, followed by Japan (RM1.3 billion) and the US (RM917.8 million). In terms of location, Selangor attracted the largest approved investments with RM3.9 billion, followed by Johor (RM2.7 billion) and Penang (RM2.2 billion). New investments accounted for 55.7% or RM9.2 billion, while the

remaining were expansion and diversification of existing operations. Given the improving business environment, coupled with strong regional growth, the manufacturing sector is expected to gain RM40 billion investment this year, surpassing the Third Industrial Master Plan (IMP3) target of RM27.5 billion annually.

In terms of inflows, FDI fell to USD1.4 billion in 2009 (2008: USD7.3 billion) following a 37.1% drop in global FDI, as investors were more cautious during the economic downturn. The significant drop in FDI was also attributed to an increase in profits repatriated to parent companies. In addition, as Malaysia is focusing on more sizable and high-impact investments, low value-added and assembly-type investments are moving to

CHART 3.8

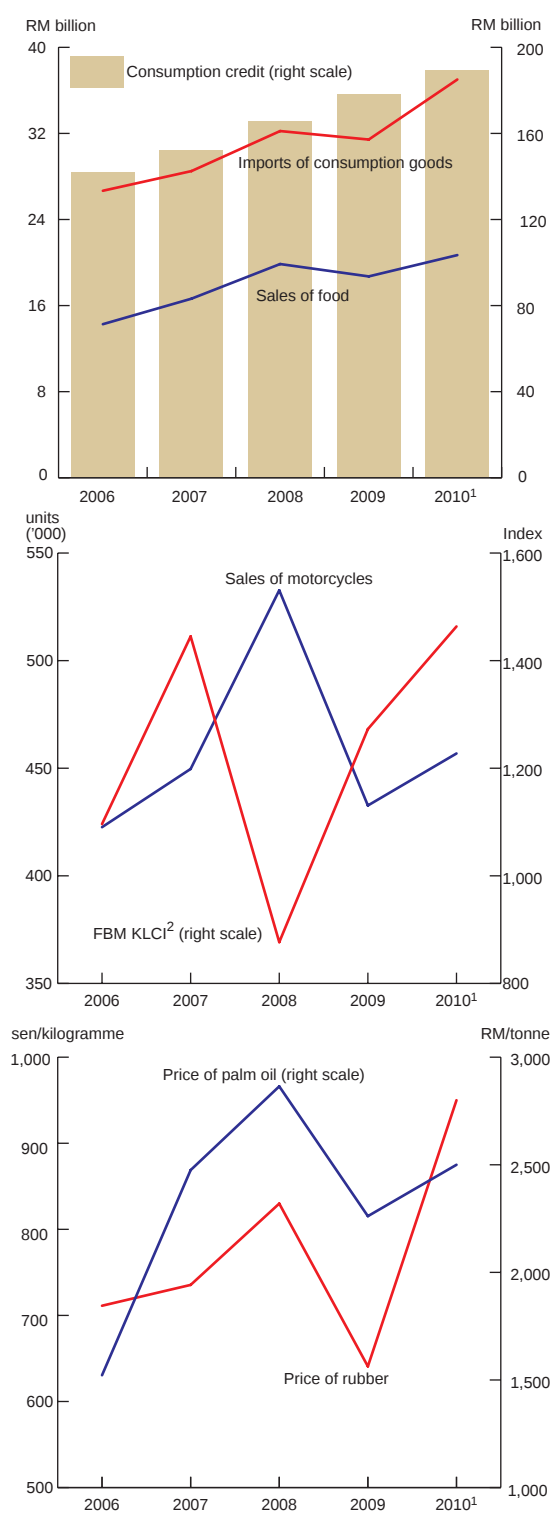
Private Investment Indicators



¹ Estimate.

CHART 3.9

Private Consumption Indicators



¹ Estimate.

² As at 30 September 2010.

other low-labour cost countries in the region. Despite a significant drop of 81.1% in FDI last year, inflows rose to USD3.3 billion in the first half of 2010, surpassing the entire investments for 2009, supported by prompt policy responses to spur domestic economic activities and strong economic fundamentals.

The Government continues to take measures to promote private sector-led growth, including reviewing business regulations, restructuring selected government agencies, introducing competition legislation, strengthening public-private partnership, privatising government-owned companies, removing market distortions and liberalising the services sector. In addition, several initiatives undertaken by the Government, including the Government Transformation Programme (GTP), Economic Transformation Programme (ETP) and New Economic Model (NEM), aim among others, to attract more domestic and foreign investments as well as stimulate private sector activities.

With these new approaches, the private sector will spearhead economic growth, while the Government will be the facilitator and provide a conducive business environment to enhance private investment, thereby boosting the nation's competitiveness. In response to these initiatives, Malaysia improved its ranking in the 2010 World Competitiveness Yearbook to 10th place from 18th position in 2009. The AT Kearney FDI Confidence Index for 2010 also ranked Malaysia as among the top 20 investment destinations. The improvement in rankings reflect better business climate and augurs well for efforts to attract domestic and foreign investments.

Private consumption is expected to increase at a higher pace of 6.7% (2009: 0.7%), mainly on account of rising household disposable incomes following firm commodity prices and healthy labour market conditions amid the strong economic recovery. The sharp increase in rubber prices averaging RM9.79 per kilogramme and continued high palm oil prices averaging RM2,530 per tonne during the first seven months, boosted incomes and purchasing power of rural households, benefiting about 265,000 rubber smallholders

and 160,000 oil palm smallholders. Furthermore, moderate inflation, easy access to financing and salary adjustments for selected schemes in the public service also contributed to higher consumption spending. This trend was supported by major consumption indicators, such as sales of passenger cars and imports of consumption goods which recorded double-digit growth of 16.1% and 14.1% (January – July 2009: -9.1%; -6.7%), respectively. Other indicators such as consumption credit disbursed and credit card spending also increased strongly by 14.4% and 13.0% (January – July 2009: 7.7%; 6.2%), respectively. In addition, the Consumer Sentiments Index (CSI) remained firm at 110.4 points (Q1 2010: 114.2 points), reflecting positive consumer confidence.

Public consumption is anticipated to increase marginally by 0.2% (2009: 3.1%) in 2010, following a reduction in allocation for supplies and services. This is in line with prudent spending measures instituted by the Government to reduce non-critical expenditure as well as enhance further value-for-money in the procurement of goods and services. Nevertheless, emolument expenditure is projected to increase further following the recent salary adjustments for selected schemes in public service.

Public investment is anticipated to expand 8.3% (2009: 8.0%), as the Government expedite implementation of projects towards the tail-end of 9MP as well as spending the remaining RM5 billion allocated under the second stimulus package to be completed before year-end. In addition, the Government has provided additional allocation under the NKRAs for socio-economic development programmes and projects, particularly to further improve public transport, upgrade rural infrastructure, alleviate poverty, reduce crime and provide essential services such as education and health.

Capital expenditure of NFPEs, in particular PETRONAS, *Tenaga Nasional Berhad* (TNB) and *Telekom Malaysia Berhad* (TM) is also expected to increase in 2010. The bulk of PETRONAS expenditure will continue to focus on exploration and production. TNB capital spending is largely

TABLE 3.13

Savings-Investment Gap**2007 – 2011**

(at current prices)

	2007	2008	2009	2010 ¹	2011 ²
	RM million				
Public sector					
Savings	103,841	80,879	65,161	57,328	53,425
Gross capital formation	61,816	64,834	71,670	78,998	80,810
Surplus/Deficit	42,025	16,045	-6,509	-21,670	-27,385
Private sector					
Savings	136,753	191,583	145,443	209,253	235,769
Gross capital formation ³	76,587	78,115	26,796	83,773	94,192
Surplus/Deficit	60,166	113,468	118,647	125,480	141,577
Overall					
Gross national savings	240,594	272,462	210,604	266,581	289,194
(% of GNP)	38.3	38.0	31.7	35.6	35.7
Gross capital formation ³	138,403	142,949	98,466	162,770	175,002
(% of GNP)	22.0	19.9	14.8	21.7	21.6
Surplus/Deficit	102,191	129,513	112,138	103,811	114,192
(% of GNP)	16.3	18.1	16.9	13.8	14.1

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.

for further improving electricity generation, transmission and distribution system, while TM expenditure is mainly to expand HSBB as well as improve telecommunication access, core network and support system.

of GNI (2009: -31.1%; RM98.5 billion; 14.8%). Hence, the **savings-investment gap** in 2010 is expected to record a surplus of RM103.8 billion or 13.8% of GNI (2009: RM112.1 billion; 16.9%), enabling the nation to finance investments primarily from domestic sources.

National Resource Position

Savings-investment surplus remains high...

Gross National Savings (GNS) is anticipated to rebound 26.6% in 2010 (2009: -22.7%) in line with the expected increase in nominal national income at 12.8% (2009: -7.3%). Consequently, the share of GNS is envisaged to remain high at 35.6% of GNI (2009: 31.7%). The bulk of GNS share will be from the private sector, accounting for 78.5% (2009: 69.1%). Meanwhile, total investment expenditure (including change in stocks) is projected to increase significantly by 65.3% to RM162.8 billion, accounting for 21.7%

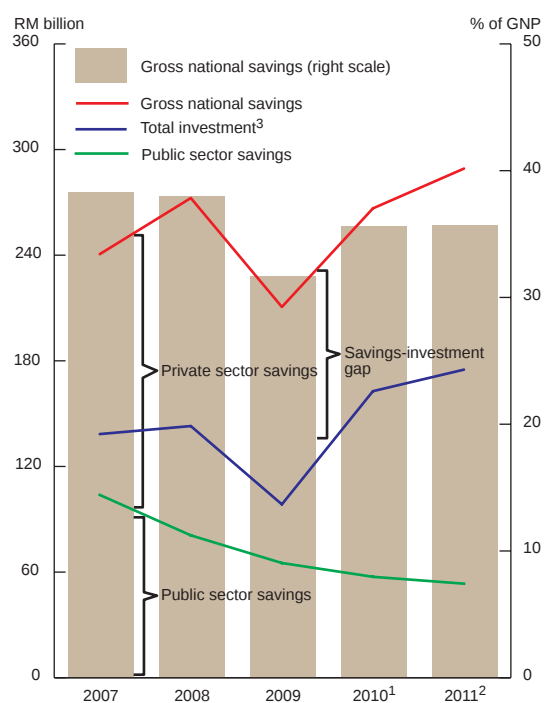
External Sector

Trade Performance

Trade to surpass one trillion ringgit...

Amid the improved global economy and strong intra-Asia trade, coupled with robust domestic activities, total trade is expected to expand 18.7% to RM1,173 billion in 2010 (2009: -16.5%; RM988.2 billion). Exports of goods are forecast to increase 16.5% to RM644.8 billion, supported by strong demand of manufactured goods and firm commodity

CHART 3.10

Savings-Investment Gap

¹ Estimate.
² Forecast.
³ Including change in stocks.

TABLE 3.14

**External Trade
2009 – 2010**

	RM million		Change (%)	
	2009	2010 ¹	2009	2010 ¹
Total trade	988,235	1,173,470	-16.5	18.7
Gross exports	553,295	644,764	-16.5	16.5
of which:				
Manufactured goods	427,765	498,373	-13.6	16.5
Agriculture goods	48,367	60,402	-24.8	24.9
Mineral goods	57,602	70,515	-33.6	22.4
Gross imports	434,940	528,706	-16.3	21.6
of which:				
Capital goods	65,767	74,019	-4.1	12.5
Intermediate goods	297,341	370,094	-21.5	24.5
Consumption goods	31,427	37,009	-2.4	17.8
Trade balance	118,355	116,058	-17.4	-1.9

¹ Estimate.

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

prices, while imports are estimated to expand at a faster pace of 21.6% to RM528.7 billion. Consequently, the trade surplus is expected to narrow marginally, but remains large at RM116.1 billion, equivalent to 15.0% of GDP (2009: RM118.4 billion; 17.4%).

Export Performance

Strong rebound in exports...

Malaysia's exports are envisaged to expand strongly by 16.5% (2009: -16.5%) in 2010, in tandem with the improved global economy and robust regional trade performance. The rebound was supported by sturdy growth in manufactured exports and higher receipts of primary commodities. During the first seven months of 2010, exports increased significantly by 24.0% to RM371.3 billion (January – July

2009: -23.5%; RM299.3 billion), driven by higher demand for manufactured goods and major commodities. However, for the remaining months, export earnings are expected to increase moderately following the slower pace of economic growth in the advanced economies.

Exports of manufactured goods are estimated to expand 16.5% in 2010 (2009: -13.6%), accounting for 77.3% of total exports, attributed to the increase in demand, particularly for E&E products. Export earnings from agriculture commodities are expected to increase 24.9% to RM60.4 billion (2009: -24.8%; RM48.4 billion), following higher export volume and prices for major commodities. Meanwhile, exports of mineral products are envisaged to rebound 22.4% to RM70.5 billion (2009: -33.6%; RM57.6 billion), supported by higher export prices and shipments of crude petroleum and liquified natural gas (LNG).

TABLE 3.15

**Gross Exports
January – July**

	RM million		Change (%)		Share (%)	
	2009	2010	2009	2010	2009	2010
Manufactured goods	230,081	283,353	-21.2	23.2	76.9	76.3
Agriculture goods	26,637	35,680	-32.3	34.0	8.9	9.6
Mineral goods	32,006	42,630	-35.5	33.2	10.7	11.5
Others	10,595	9,596	103.1	-9.4	3.5	2.6
Gross exports	299,319	371,259	-23.5	24.0	100.0	100.0

Source: Department of Statistics, Malaysia.

Exports of Manufactured Goods***Manufacturing exports turned around sharply...***

Exports of manufactured goods rebounded 23.2% to RM283.4 billion during the first seven months of 2010 (January – July 2009: -21.2%; RM230.1 billion), bolstered by strong demand from ASEAN countries as well as exports to major destinations, particularly China, Japan and the US. Growth was broad-based, with the E&E and non-E&E sub-sectors contributing 51.6% and 48.4% to export receipts, respectively.

Export earnings of **E&E** rose 22.5% (January – July 2009: -20.2%), supported by the favourable performance of electronic equipment and parts (26.2%), semiconductors (20.2%) as well as machinery and electrical products (20.1%). Growth was driven mainly by demand for consumer electronic products, such as personal computers, disc storage systems, 3G cell phones and tablet computers in the Asia-Pacific region, particularly from China, India, Japan and the US. Of significance, export receipts from LED and photovoltaics surged 280.3%, on account of increasing demand for energy-saving devices in advanced economies.

Non-E&E exports posted strong growth of 23.9% (January – July 2009: -22.1%), with most sub-sectors registering favourable performance. Exports

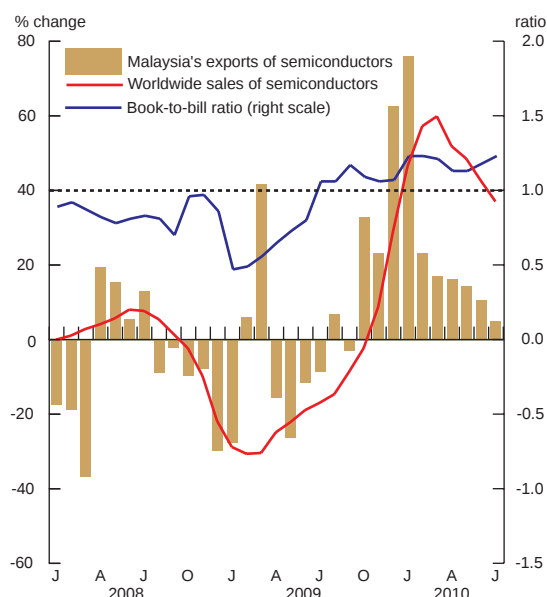
of **chemicals, chemical and plastic products** rose sharply by 31.3% (January – July 2009: -26.2%), led by organic as well as inorganic chemicals which expanded 43.2% and 23.9%, respectively. Exports of medical and pharmaceutical products grew significantly by 71.8% in line with rising health awareness worldwide and increasing per capita consumption of healthcare products. Similarly, shipments of plastic products accelerated 36.3%, spurred by higher demand for packaging materials and components of the E&E sub-sector as well as the automotive and telecommunication industries.

Export receipts from **petroleum products** grew significantly by 33.7% (January – July 2009: -44.1%) following higher external demand, particularly from China, India, Japan and ROK to support the industrial, transportation and petrochemical sectors in these countries. Strong performance was also recorded in refined petroleum and residual petroleum products which grew 32.9% and 84.3%, respectively. Meanwhile, export earnings of petroleum gases and other gaseous hydrocarbon as well as liquefied propane and butane increased 27.3% and 22.0%, respectively.

Receipts of **iron, steel and metal products** rebounded 16.5% (January – July 2009: -24.3%), with Singapore, Thailand and Vietnam being the major export markets. This positive development was in line with rising construction-related activities undertaken in these countries. Consequently,

CHART 3.11

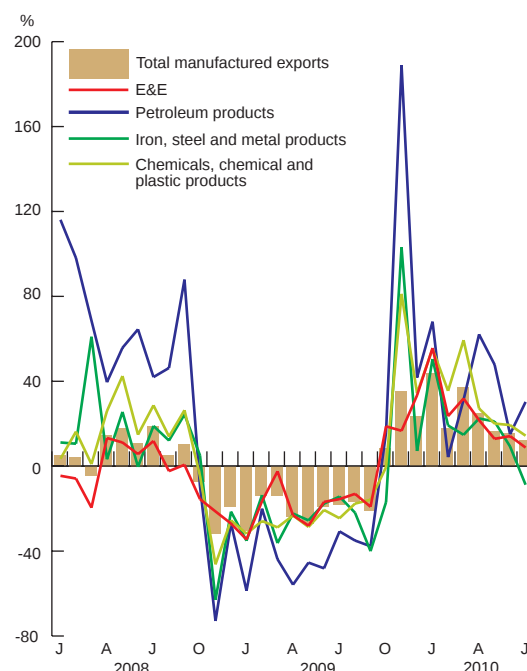
Malaysia's Exports of Semiconductors, Worldwide Sales of Semiconductors and the Book-to-Bill Ratio



Source: Department of Statistics, Malaysia, Semiconductor Industry Association (SIA) and Semiconductor Equipment and Materials International (SEMI).

CHART 3.12

Performance of Selected Manufactured Exports (% annual change)



Source: Department of Statistics, Malaysia.

TABLE 3.16

Exports of Manufactured Goods January – July

	RM million		Change (%)		Share (%)	
	2009	2010	2009	2010	2009	2010
Electronics, electrical machinery and appliances	119,356	146,200	-20.2	22.5	51.9	51.6
Semiconductors	47,902	57,565	-9.5	20.2	20.8	20.3
Electronic equipment and parts	46,419	58,558	-27.2	26.2	20.2	20.7
Machinery and electrical products	25,035	30,076	-24.0	20.1	10.9	10.6
Non-electrical and electronics	110,725	137,153	-22.1	23.9	48.1	48.4
Chemicals, chemical and plastic products	20,643	27,110	-26.2	31.3	9.0	9.6
Petroleum products	12,589	16,830	-44.1	33.7	5.5	5.9
Iron, steel and metal products	13,270	15,457	-24.3	16.5	5.8	5.5
Machinery and equipment	10,778	12,784	-19.6	18.6	4.7	4.5
Wood products	7,035	8,032	-18.0	14.2	3.1	2.8
Textiles, apparel and footwear	5,417	5,446	-14.2	0.5	2.4	1.9
Food, beverages and tobacco	9,437	10,129	-11.3	7.3	4.1	3.6
Rubber products	6,943	9,233	-6.1	33.0	3.0	3.3
Transport equipment	5,597	6,295	-0.1	12.5	2.4	2.2
Non-metallic mineral products	3,047	2,809	5.2	-7.8	1.3	1.0
Other manufactured goods	15,969	23,029	-17.6	44.2	6.9	8.1
Total	230,081	283,353	-21.2	23.2	100.0	100.0

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

exports of fabricated metals grew 18.0% (January – July 2009: -27.4%).

Export earnings of **rubber products** grew strongly by 33.0% (January – July 2009: -6.1%), driven by demand for rubber gloves which increased 29.4%. This was on account of rising hygiene and healthcare awareness as well as more stringent health-related procedures in emerging countries. Similarly, export receipts from rubber tyres expanded 26.1%, mainly due to growing demand from the automotive industry in the region, particularly China and India.

Exports of **food, beverages and tobacco** increased 7.3% (January – July 2009: -11.3%), mainly to Indonesia, Singapore, Thailand and the US. Export receipts from food products expanded 7.2%, while beverages 13.1% following continuous efforts by manufacturers to meet increasing demand for quality products from global markets. Meanwhile, exports of tobacco increased marginally by 0.1%.

Exports of **M&E** improved 18.6% (January – July 2009: -19.6%), backed by strong demand for specialised machinery in specific industries (34.6%) as well as power generating machinery and equipment (22.3%). Exports of **transport equipment** increased 12.5% (January – July 2009: -0.1%) following higher shipments to Sri Lanka and the UK, particularly road vehicles (39.6%). In addition, exports of completely knocked down (CKD) motor vehicles to China also boosted exports of road vehicles. Exports of other transport equipment contracted 5.9%.

Exports of **wood products** rebounded 14.2% (January – July 2009: -18.0%), boosted by higher demand for veneer and plywood (19.7%) particularly from Japan. In addition, higher demand for rubber wood products from Australia, Europe, Japan, the Middle East and the US, due to competitively priced wooden furniture also contributed to the sub-sector's encouraging performance. Meanwhile, exports of **textiles, apparel and footwear** grew marginally by 0.5% (January – July 2009: -14.2%), due to stiff competition from low-cost producers in the

region, especially from China and Thailand. Shipments of **non-metallic mineral products** contracted 7.8% (January – July 2009: 5.2%), on account of lower demand from Indonesia, Japan and ROK.

Exports of Primary Commodities

Firm prices support exports...

During the first seven months of 2010, export earnings from primary commodities, which comprised agriculture and mineral products rebounded 33.5% to RM78.3 billion (January – July 2009: -34.1%; RM58.6 billion). This was on account of increased export volume and higher export prices of major commodities, mainly crude petroleum, LNG, palm oil and rubber. Given that demand and prices of major commodities are envisaged to remain stable throughout the year, **export earnings** are expected to accelerate 23.5% to RM130.9 billion in 2010 (2009: -29.9%; RM106.0 billion).

Export earnings from **agriculture commodities** turned around significantly by 34.0% to RM35.7 billion (January – July 2009: -32.3%; RM26.6 billion) following increasing exports of palm oil and rubber. Similarly, earnings from **mining commodities** bounced back 33.2% to RM42.6 billion (January – July 2009: -35.5%; RM32.0 billion), attributed to stronger demand and firmer prices for crude oil and natural gas.

During the first seven months of 2010, exports of **palm oil** increased 25.9% to RM25.9 billion (January – July 2009: -28.7%; RM20.6 billion). Export volume increased 8.7% to 10.1 million tonnes (January – July 2009: 10.6%; 9.3 million tonnes) following stronger demand from major markets, particularly Pakistan, the EU and the US. China remains the highest importer for the ninth consecutive year with shipments of 2.3 million tonnes or 21.3% of total palm oil exports. These four markets accounted for 5.3 million tonnes or 48.9% of total palm oil exports. Demand for palm oil to Pakistan expanded 10.9% to 1.2 million tonnes,

TABLE 3.17

Primary Commodity Exports January – July

	2009	2010	Change (%)	
			2009	2010
Agriculture				
Palm oil¹				
Volume ('000 tonnes)	9,292	10,099	10.6	8.7
Unit Value (RM/tonne)	2,215	2,565	-35.5	15.8
Value (RM million)	20,581	25,903	-28.7	25.9
Palm kernel oil				
Volume ('000 tonnes)	607	567	11.0	-6.5
Unit Value (RM/tonne)	2,471	3,339	-42.3	35.1
Value (RM million)	1,500	1,895	-36.0	26.4
Saw logs				
Volume ('000 cubic metres)	2,222	2,722	-13.1	22.5
Unit Value (RM/cubic metres)	496	472	2.3	-4.7
Value (RM million)	1,101	1,286	-11.1	16.7
Sawn timber				
Volume ('000 cubic metres)	939	1,198	-27.6	27.6
Unit Value (RM/cubic metres)	1,281	1,115	-0.3	-12.9
Value (RM million)	1,203	1,336	-27.8	11.0
Rubber				
Volume ('000 tonnes)	370	506	-37.1	36.8
Unit Value (sen/kilogramme)	572	981	-34.1	71.5
Value (RM million)	2,114	4,962	-58.5	134.7
Pepper				
Volume ('000 tonnes)	7	7	-2.2	5.2
Unit Value (RM/tonne)	11,458	13,632	-12.5	19.0
Value (RM million)	81	101	-14.4	25.1
Cocoa				
Volume ('000 tonnes)	7	17	47.1	154.0
Unit Value (RM/tonne)	8,500	11,700	4.9	37.6
Value (RM million)	57	198	55.9	249.1
Total agriculture (RM million)	26,637	35,680	-32.3	34.0
Mining				
Crude petroleum				
Volume ('000 tonnes)	9,544	10,264	-6.6	7.5
Unit Value (RM/tonne)	1,289	1,882	-51.9	46.0
Value (RM million)	12,304	19,320	-55.1	57.0
Liquefied natural gas				
Volume ('000 tonnes)	13,238	13,455	-5.9	1.6
Unit Value (RM/tonne)	1,443	1,646	-4.1	14.1
Value (RM million)	19,100	22,145	-9.7	15.9
Tin				
Volume ('000 tonnes)	14,167	20,658	-15.4	45.8
Unit Value (RM/tonne)	42,433	56,422	-33.7	33.0
Value (RM million)	601	1,166	-43.9	93.9
Total mining (RM million)	32,005	42,630	-35.5	33.2
Total exports (RM million)	58,642	78,311	-34.1	33.5

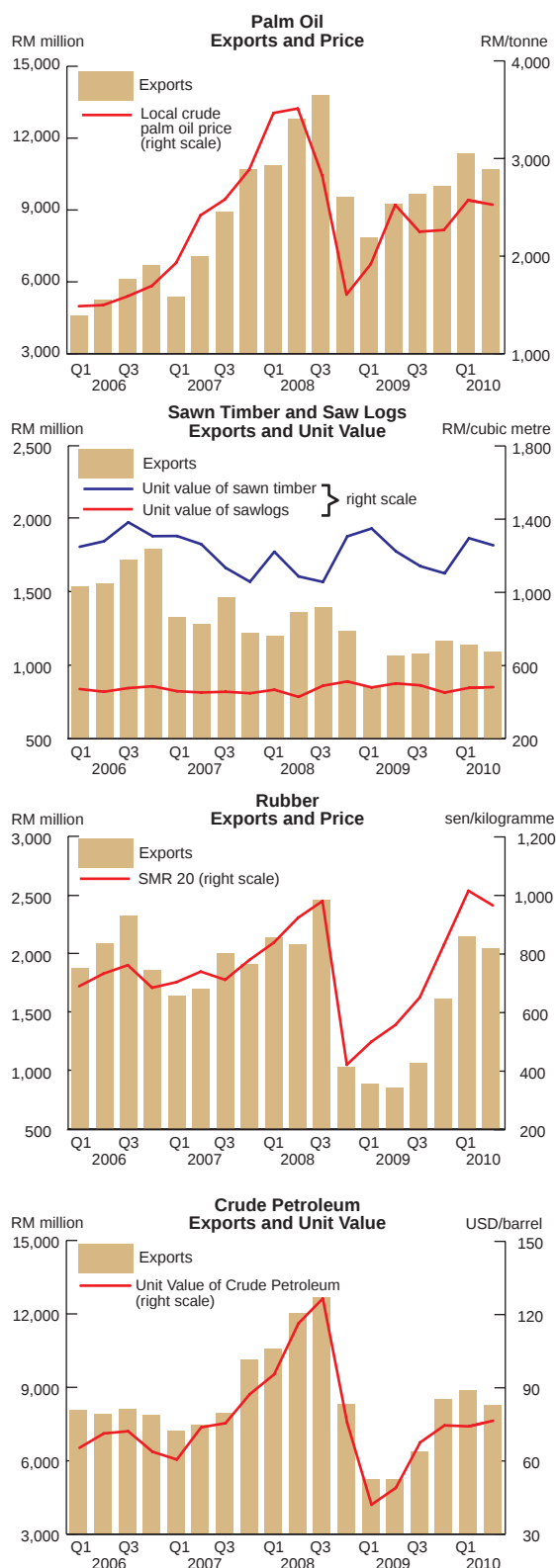
¹ Includes crude palm oil, processed palm oil and stearin.

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

CHART 3.13

Primary Commodity Exports



boosted by the 10% Margin of Preference for Malaysian palm oil under the Malaysia-Pakistan Closer Economic Partnership Agreement (MPCEPA). Exports to the EU market increased 12.6%, partly attributed to lower production of rapeseed oil, while exports to the US were buoyed by higher demand for palm oil in the food industry. Export price of palm oil increased to RM2,565 per tonne (January – July 2009: RM2,215 per tonne) following higher crude oil prices and tighter supply of global vegetable oils. Nevertheless, prices of palm oil remain competitive compared with other vegetable oils. As at end-August 2010, CPO price stood at USD905 per tonne, lower than soyabean oil and rapeseed oil by USD97 per tonne and USD108 per tonne, respectively. Exports of palm oil are projected to increase 17.2% to RM43.1 billion in 2010 (2009: -21.8%; RM36.8 billion), driven by higher demand and strong prices.

Export volume of **rubber** surged 36.8% to 506,066 tonnes during the first seven months of 2010 (January – July 2009: -37.1%; 369,815 tonnes), on account of higher demand from global automotive industries, especially in China, Germany and ROK. Consequently, export price of rubber increased to RM9.81 per kilogramme (January – July 2009: RM5.72 per kilogramme). Firm export prices and higher volume boosted export earnings by 134.7% to RM5.0 billion (January – July 2009: -58.5%; RM2.1 billion).

Higher export earnings were recorded for **crude petroleum**, with impressive growth of 57.0% to RM19.3 billion (January – July 2009: -55.1%; RM12.3 billion), attributed to higher volume and export prices. In tandem with high demand from major importing countries such as India, Thailand, Australia, ROK and Indonesia, export volume increased 7.5% to 10.3 million tonnes (January – July 2009: -6.6%; 9.5 million tonnes), while export prices rose to RM1,882 per tonne (January – July 2009: RM1,289 per tonne).

Export earnings of **LNG** rose 15.9% to RM22.1 billion (January – July 2009: -9.7%;

RM19.1 billion), on account of higher export price and volume at RM1,646 per tonne and 13.5 million tonnes, respectively (January – July 2009: RM1,443 per tonne; 13.2 million tonnes). LNG was mainly exported to Japan, ROK, Taiwan and China, accounting for 99% of total exports.

Import Performance

Imports turn around significantly...

Gross value of imports is anticipated to rebound 21.6% in 2010 (2009: -16.3%), due to strong economic recovery and strengthening of the ringgit as well as improved purchasing power. Imports of intermediate goods are envisaged to increase 24.5% (2009: -21.5%), while imports of capital goods are expected to rise 12.5% (2009: -4.1%), on account of increasing manufacturing activities and capacity expansion. Consumption goods are estimated to increase 17.8% in 2010 (2009: -2.4%), mainly from higher imports of consumer goods and transport equipments. During the first seven months of 2010, gross imports registered strong growth of 30.0% to RM301.9 billion, reflecting higher import volume and prices (January – July 2009: -24.4%; RM232.2 billion).

Imports of **intermediate goods** increased significantly by 30.8% during the first seven months of 2010 (January – July 2009: -29.1%). This was mainly contributed by imports of inputs for the electronics industry, particularly electronic integrated circuits and parts which increased 43.8%. Imports of intermediate inputs for the manufacture of photovoltaic cells and LED also surged 65.3%. Similarly, imports of primary and processed materials for food and beverages industry expanded 22.3% following strong domestic consumption.

In line with the strong recovery in economic activities and higher demand for capital investment, imports of **capital goods** surged 18.5% (January – July 2009: -11.0%). Reflecting the strong investment in E&E industry, imports of

capital goods for LED and liquid crystal devices as well as manufactured of computers and parts grew 28.3% and 26.5%, respectively. Likewise, roll-out of new services and upgrade of mobile networks by telecommunication operators resulted in higher imports of equipment and parts for cellular and wireless networks which increased 80.6%. Meanwhile, imports of aircrafts rose 161.5%, reflecting the fleet expansion of local airlines to service new markets following improved connectivity.

Imports of **consumption goods** rose 14.1% (January – July 2009: -6.7%) with all sub-categories registering positive growth. The increase was contributed by higher private consumption spending following improved consumer confidence, better employment prospects and higher disposable income. This was reflected in higher imports of food and beverages as well as other consumer goods which increased 13.3% and 14.2%, respectively (January – July 2009: 1.1%; -12.1%).

TABLE 3.18

Gross Imports by End Use January – July

	RM million		Change (%)		Share (%)	
	2009	2010	2009	2010	2009	2010
Capital goods	35,725	42,344	-11.0	18.5	15.4	14.0
Capital goods (except transport equipment)	30,444	37,392	-14.0	22.8	13.1	12.4
Transport equipment (industrial)	5,281	4,952	11.5	-6.2	2.3	1.6
Intermediate goods	158,402	207,140	-29.1	30.8	68.2	68.6
Food and beverages, primary and processed mainly for industry	7,730	9,452	-24.1	22.3	3.3	3.1
Industrial supplies, primary and processed	57,336	77,228	-28.0	34.7	24.7	25.6
Fuel and lubricants primary, processed, others	14,587	21,409	-46.8	46.8	6.3	7.1
Parts and accessories of transport equipment	7,553	7,384	-3.8	-2.2	3.3	2.4
Parts and accessories of capital goods (except thermionic valves and tubes)	29,928	32,529	-22.1	8.7	12.9	10.8
Thermionic valves and tubes	41,268	59,138	-31.0	43.3	17.8	19.6
Consumption goods	17,587	20,062	-6.7	14.1	7.6	6.6
Food and beverages, primary and processed, mainly for household consumption	7,652	8,666	1.1	13.3	3.3	2.9
Transport equipment (non-industrial)	260	348	-6.1	33.8	0.1	0.1
Other consumer goods	9,676	11,048	-12.1	14.2	4.2	3.7
Durables	1,989	2,528	-22.1	27.1	0.9	0.8
Semi-durables	2,692	3,224	-20.8	19.8	1.2	1.1
Non-durables	4,995	5,297	-1.3	6.0	2.2	1.8
Others (including dual use goods)	6,889	11,332	-43.7	64.5	3.0	3.8
Imports for re-exports	13,636	21,013	8.3	54.1	5.9	7.0
Total	232,239	301,890	-24.4	30.0	100.0	100.0

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

Other imports (including dual-use goods) registered robust growth of 64.5% (January – July 2009: -43.7%), mainly attributed to higher demand for fuel and lubricants, processed motor spirit (96.4%) as well as transport equipment and passenger cars (70.3%). **Imports for re-exports** grew significantly by 54.1% (January – July 2009: 8.3%), contributing 7.0% to total imports.

Direction of Trade

More diversified markets...

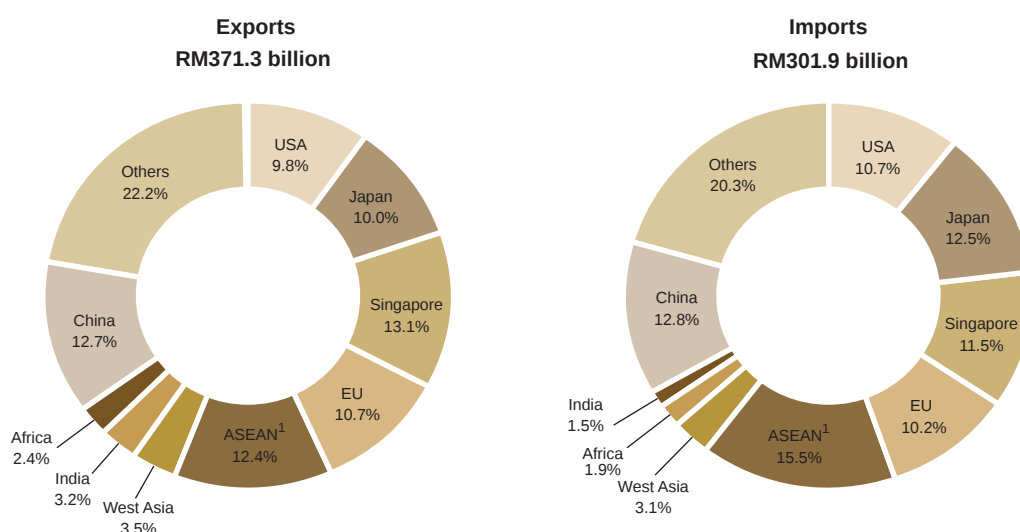
Malaysia's total trade rebounded 26.6% to RM673.1 billion during the first seven months of 2010 (January – July 2009: -23.9%; RM531.6 billion). With exports constituting 55.2% of total trade, a trade surplus of RM69.4 billion was recorded (January – July 2009: RM67.1 billion). China, Singapore, Japan, the US and Thailand

remained the major trading partners, accounting for 52.4% of total trade. Trade with ASEAN (excluding Singapore) continued to expand strongly by 32.9%, accounting for 13.8% of total trade. Meanwhile, trade with the EU, expanded 20.6% to RM70.7 billion (January – July 2009: -25.9%; RM58.6 billion), despite the sovereign debt crisis. With increasing intra-regional trade, exports are gradually diversifying away from advanced economies. Exports to the US and the EU have been on a declining trend, with the share decreasing from 18.6% and 14.7% in 1997 to 10.9% and 10.8% in 2009, respectively. In contrast, share of exports to China increased to 12.2% (RM67.2 billion) in 2009 (1997: 2.4%; RM5.3 billion).

China has become Malaysia's largest trading partner with 12.7% of total trade during the first seven months of 2010. Total trade with China expanded significantly by 30.3% to RM85.7 billion

CHART 3.14

Direction of External Trade January – July 2010 (% share)



¹ Not including Singapore.

Source: Department of Statistics, Malaysia.

(January – July 2009: -14.0%, RM65.8 billion), partly due to the increasingly integrated supply chain network between the two countries. Exports to China rebounded 40.0% (January – July 2009: -11.4%), accounting for 12.7% of Malaysia's total exports. The main exports included electronic integrated circuits, palm oil as well as parts and accessories for machines. Imports from China surged 20.2% (January – July 2009: -16.5%), mainly contributed by parts and accessories for machines, data processing machines as well as television broadcast receivers. With exports outpacing imports, the trade surplus with China widened to RM8.3 billion (January – July 2009: RM1.4 billion).

Singapore was Malaysia's second largest trade partner, accounting for 12.4% of total trade and registered a trade surplus of RM14.1 billion (January – July 2009: RM16.9 billion). Trade rebounded 26.5% to RM83.5 billion (January – July 2009: -29.7%; RM66.1 billion). Malaysia's exports to Singapore increased 17.7%, while imports registered strong growth of 41.2% (January – July 2009: -28.2%; -32.0%). The main export items to Singapore comprised mainly petroleum spirit as well as parts and accessories for machines, while major import items included motor spirits and parts of electronic integrated circuits.

Malaysia's trade with **the US** expanded 12.9% (January – July 2009: -26.2%), accounting for 10.2% of total trade. Exports rebounded 7.0% (January – July 2009: -32.5%), constituting 9.8% of total receipts during the first seven months of 2010. These comprised mainly E&E products with a share of 59.1%, rubber products (5.6%), palm oil (5.5%), optical and scientific equipment (5.3%) as well as wood products (4.4%). Likewise, imports from the US surged 20.2% (January – July 2009: -16.3%) and contributed 10.7%, with E&E products constituting 52.2%, machinery, appliances and parts (11.1%) as well as chemicals and chemical products (8.8%). Consequently, the trade surplus narrowed to RM3.8 billion (January – July 2009: RM6.9 billion).

Total trade with **Japan**, which accounted for 11.1% of total trade, expanded 27.2% to RM74.9 billion (January – July 2009: -24.3%; RM58.9 billion). This was due to strong expansion in imports at 30.9% (January – July 2009: -25.0%), registering a trade deficit of RM0.9 billion (January – July 2009: trade surplus of RM1.0 billion). Manufactured goods, such as parts of electronic integrated circuits, metals as well as electrical apparatus remained the main imports from Japan. Export earnings from Japan rose 23.6% (January – July 2009: -23.6%), due to increase in major export items, including LNG, television and plywood.

Total trade with **ASEAN** (excluding Singapore) expanded strongly by 32.9% (January – July 2009: -20.5%), accounting for 13.8% of total trade. Exports grew strongly by 29.8%, while imports rose 36.0% (January – July 2009: -19.0%; -21.9%), registering a trade deficit of RM0.7 billion (January – July 2009: trade surplus of RM1.1 billion). Trade with Thailand and Indonesia recorded strong growth of 34.5% and 26.9%, respectively. Exports to Thailand were supported by demand for E&E products and crude petroleum, while exports to Indonesia were driven by chemicals and chemical products as well as E&E products. Meanwhile, major imports from Thailand included E&E products and transport equipment, while imports from Indonesia were mainly palm oil and manufactured of metal products.

Total trade with the **EU** rose 20.6% to RM70.7 billion (January – July 2009: -25.9%; RM58.6 billion). Exports surged 24.7%, while imports increased 15.6% (January – July 2009: -26.6%; -25.0%), hence expanding the trade surplus to RM9.0 billion (January – July 2009: RM5.2 billion). Among the EU countries, Germany was the leading trading partner, accounting for 30.4% of total trade with EU, followed by the Netherlands (20.3%) and the UK (11.1%). Meanwhile, exports to the Netherlands, Malaysia's largest export market in EU, rose 29.2%.

TABLE 3.19

Direction of External Trade January – July

	RM million						Change (%)				Share (%)			
	Exports		Imports		Trade Balance		Exports		Imports		Exports		Imports	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
China	33,584	47,008	32,171	38,665	1,413	8,343	-11.4	40.0	-16.5	20.2	11.2	12.7	13.9	12.8
Singapore	41,468	48,816	24,587	34,727	16,881	14,089	-28.2	17.7	-32.0	41.2	13.9	13.1	10.6	11.5
Japan	29,970	37,028	28,929	37,880	1,041	-852	-23.6	23.6	-25.0	30.9	10.0	10.0	12.5	12.5
United States	33,845	36,222	26,938	32,388	6,907	3,834	-32.5	7.0	-16.3	20.2	11.3	9.8	11.6	10.7
North East Asia (not including China & Japan)	35,083	45,184	25,779	37,528	9,304	7,656	-19.6	28.8	-33.0	45.6	11.7	12.2	11.1	12.4
Hong Kong SAR	15,244	19,027	5,839	7,470	9,405	11,557	-10.6	24.8	-29.5	27.9	5.1	5.1	2.5	2.5
Republic of Korea	12,158	14,570	10,527	16,390	1,631	-1,820	-25.8	19.8	-27.5	55.7	4.1	3.9	4.5	5.4
Taiwan	7,603	11,512	9,398	13,650	-1,795	-2,138	-24.8	51.4	-39.8	45.2	2.5	3.1	4.0	4.5
ASEAN (not including Singapore)	35,561	46,159	34,461	46,873	1,100	-714	-19.0	29.8	-21.9	36.0	11.9	12.4	14.8	15.5
Thailand	16,010	21,068	13,862	19,100	2,148	1,968	-18.0	31.6	-19.5	37.8	5.3	5.7	6.0	6.3
Indonesia	9,652	10,987	12,296	16,875	-2,644	-5,888	-19.1	13.8	-10.5	37.2	3.2	3.0	5.3	5.6
Philippines	3,644	5,663	2,021	5,909	1,623	-246	-35.2	55.4	-59.6	192.4	1.2	1.5	0.9	2.0
European Union (27)	31,931	39,826	26,682	30,832	5,248	8,994	-26.6	24.7	-25.0	15.6	10.7	10.7	11.5	10.2
Germany	7,399	9,530	10,069	11,966	-2,670	-2,436	-16.0	28.8	-21.8	18.8	2.5	2.6	4.3	4.0
Netherlands	9,645	12,462	1,655	1,878	7,990	10,584	-26.4	29.2	-30.7	13.5	3.2	3.4	0.7	0.6
United Kingdom	4,105	4,277	3,465	3,566	640	711	-29.6	4.2	-22.6	2.9	1.4	1.2	1.5	1.2
South Asia	15,267	19,287	4,988	5,019	10,279	14,268	-22.9	26.3	-26.2	0.6	5.1	5.2	2.1	1.7
India	9,806	11,757	4,617	4,453	5,188	7,304	-29.2	19.9	-26.9	-3.6	3.3	3.2	2.0	1.5
Pakistan	3,321	4,044	243	374	3,078	3,670	-5.4	21.8	-3.9	53.7	1.1	1.1	0.1	0.1
West Asia	12,029	12,966	8,376	9,483	3,653	3,483	-18.1	7.8	-38.6	13.2	4.0	3.5	3.6	3.1
United Arab Emirates	5,843	7,102	3,482	4,088	2,361	3,014	-12.4	21.5	-23.9	17.4	2.0	1.9	1.5	1.4
Saudi Arabia	1,631	1,720	2,488	2,792	-857	-1,072	-14.4	5.4	-42.4	12.2	0.5	0.5	1.1	0.9
Iran	1,187	1,442	563	614	624	828	-9.3	21.4	-59.6	9.1	0.3	0.4	0.2	0.2
Australia	11,066	14,508	5,374	5,399	5,691	9,108	-26.3	31.1	-16.1	0.5	3.7	3.9	2.3	1.8
New Zealand	992	1,779	959	1,236	34	542	-58.7	79.3	-44.5	29.0	0.3	0.5	0.4	0.4
Africa	6,909	8,922	2,502	5,816	4,407	3,106	-6.8	29.1	-26.2	132.5	2.3	2.4	1.1	1.9
Rest of the World	11,614	13,554	10,493	16,043	1,121	-2,489	-25.6	16.7	-9.7	52.9	3.9	3.7	4.5	5.3
Total	299,319	371,259	232,239	301,890	67,080	69,369	-23.5	24.0	-24.4	30.0	100.0	100.0	100.0	100.0

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

Balance of Payments

Continued surplus...

Amid the global recovery, Malaysia's overall **balance of payments** (BOP) position is expected to remain favourable on the back of a strong current account surplus and improved net outflow in the financial account. The **current account** surplus is expected to narrow to RM103.8 billion or 13.8% of GNI in 2010 (2009: RM112.1 billion; 16.9%), on account of the faster pace of imports of goods and larger net outflow in the income account.

For the year, the **goods account** is expected to record a surplus of RM145.9 billion (2009: RM141.7 billion) in line with strong expansion in global trade. Gross receipts are projected to increase 16.6% to RM646.1 billion (2009:

-16.6%; RM554.1 billion), supported by stronger exports, mainly to the ASEAN region as well as higher commodity prices. Gross payments are expected to increase 21.3% to RM500.2 billion (2009: -16.5%; RM412.3 billion), due to higher import of intermediate and capital goods, which constituted 84.0% of total imports.

In 2010, the **services account** is estimated to post a marginal surplus of RM0.5 billion (2009: RM4.7 billion) following higher gross payments in the transportation account. Travel receipts, with a share of 55.0% remained the largest contributor to earnings in the services accounts. Travel receipts are expected to increase 7.7% to RM59.9 billion (2009: 9.1%; RM55.6 billion), due to higher tourist arrivals. Well-promoted tourism products such as homestay programme, eco-tourism and MICE are expected to attract 24.0 million visitors in 2010. In line with the

TABLE 3.20

Current Account of the Balance of Payments 2010 – 2011 (RM million)

	2010 ²			2011 ³		
	Receipts	Payments	Net	Receipts	Payments	Net
Balance on goods and services	754,973	608,625	146,348	823,627	663,494	160,133
Goods	646,053	500,156	145,897	707,428	547,825	159,603
Services	108,920	108,469	451	116,199	115,669	529
Transportation	17,731	39,494	-21,763	19,415	41,896	-22,480
Travel	59,879	27,125	32,754	62,872	28,503	34,369
Other services	31,000	41,075	-10,075	33,533	44,432	-10,899
Government transactions <i>n.i.e.</i> ¹	310	775	-465	377	838	-461
Income	41,993	67,114	-25,121	45,425	72,599	-27,174
Compensation of employees	4,499	6,749	-2,250	4,867	7,300	-2,433
Investment income	37,494	60,365	-22,871	40,558	65,298	-24,740
Current transfers	4,499	21,915	-17,416	4,867	23,634	-18,767
Balance on current account	801,465	697,654	103,811	873,919	759,727	114,192
<i>% of GNI</i>			<i>13.8</i>			<i>14.1</i>

¹ Not including elsewhere.

² Estimate.

³ Forecast.

Note: Total may not add up due to rounding.

Source: Ministry of Finance, Malaysia.

Government's efforts to enhance Malaysia as a regional education hub, the number of foreign students is expected to reach the targeted 80,000 students in 2010, mainly from China, Indonesia and the Middle East. Meanwhile, foreign patients seeking treatment in Malaysia are also expected to increase, mainly from Indonesia and other ASEAN countries. On the payment front, travel outflows are expected to accelerate 18.5% to RM27.1 billion (2009: 2.0%; RM22.9 billion), attributed mainly to Malaysian residents travelling abroad for business, leisure and education. The trend reflects the growth in business activities as well as improving disposable income. In addition, the number of Malaysians performing pilgrimage in 2010 is projected to increase 3.2% to 36,060 (2009: -1.3%; 34,941). Consequently, the net inflow of the *travel account* is estimated to remain stable at RM32.8 billion (2009: RM32.7 billion).

The strong expansion in trade is expected to widen the deficit in the *transportation account* to RM21.8 billion in 2010 (2009: -RM17.0 billion). Outflows on transportation are envisaged to increase 21.3% to RM39.5 billion (2009: -14.1%; RM32.6 billion), due to continued reliance on foreign shipping companies and rising transportation costs, including higher fuel and freight charges. Gross receipts are anticipated to rise 14.3% to RM17.7 billion (2009: -31.0%; RM15.5 billion), supported by improved earnings from air travel following expanded regional connectivity and competitive air fares. Apart from domestic airlines, cargo handling and charter services provided by domestic shipping companies will be the main contributors to transportation account receipts.

In line with the recovery of the global economy, the *other services account* is envisaged to register net outflow of RM10.1 billion (2009: -RM10.4 billion), due to higher royalties, licence fees as well as increase in charges for construction and installation services. Payments for insurance and financial services are projected to increase on account of larger external trade transactions resulting in higher demand for foreign support services. The other component in the services account, *Government transactions*, which include

transactions of Malaysia's diplomatic and military representations abroad as well as foreign governments, diplomatic and military representations in Malaysia, are expected to register a deficit of RM0.5 billion (2009: -RM0.6 billion).

In 2010, the **income account** is estimated to experience a higher deficit of RM25.1 billion (2009: -RM14.6 billion). The larger deficit is mainly due to higher repatriation of profits and dividends accruing to foreign investors, reflecting the increasing investment income of multinational companies (MNCs) operating in Malaysia, particularly in the E&E sector. Gross payments on *investment income* are expected to expand 24.4% to RM60.4 billion (2009: -17.1%; RM48.5 billion), accounting for 89.9% of outflows in the income account. However, a significant portion of earnings is anticipated to be retained in Malaysia for reinvestment and capacity expansion. Meanwhile, gross receipts on investment income are envisaged to grow 6.0% to RM37.5 billion (2009: -0.4%; RM35.4 billion), as a result of higher profits and dividends accruing to Malaysian companies investing abroad. The bulk of the earnings are from the oil and gas, financial and manufacturing sectors. *Compensation of employees*, which include salaries and other benefits earned by residents working abroad and non-residents working in Malaysia, are expected to register a deficit of RM2.3 billion (2009: -RM1.5 billion).

Net outflow in the **current transfers account** is expected to narrow to RM17.4 billion (2009: -RM19.6 billion). Gross payments, which mainly comprise remittances by foreign workers, are expected to contract 6.1% to RM21.9 billion (2009: 23.5%; RM23.3 billion). Total remittances are expected to remain small and constitute 3.1% (2009: 4.0%) of the current account payments in 2010.

The **financial account** is expected to improve in 2010 following better investor confidence, resulting in higher inflows of FDI and portfolio investment. Net outflow of other investment is also expected to narrow. During the year, FDI inflows are projected to increase, supported by the Government's continuous efforts to provide

a conducive business environment and gradual global revival of capital expenditure, particularly in the technology-related sector. Similarly, *Direct Investment Abroad* (DIA) by Malaysian companies is expected to increase, mainly for market expansion and to benefit from economies of scale. The scope of Malaysia's investments is broad-based, largely in oil and gas, services, agriculture and manufacturing. Most companies investing abroad are making profits and increasingly repatriating earnings to Malaysia.

Portfolio investment, another component in the financial account, is expected to record net inflow, spurred by Malaysia's strong economic fundamentals and better prospects for corporate earnings in Malaysia. In addition, the issuance of Global Sukuk USD1.25 billion in June 2010 and higher purchases of domestic bonds by foreign investors, will contribute to higher inflows for the year. Meanwhile, the *other investment*, especially

from deposit placements, extension of trade credit by Malaysian exporters and net repayments of external loans by the official sector, is estimated to register lower net outflow.

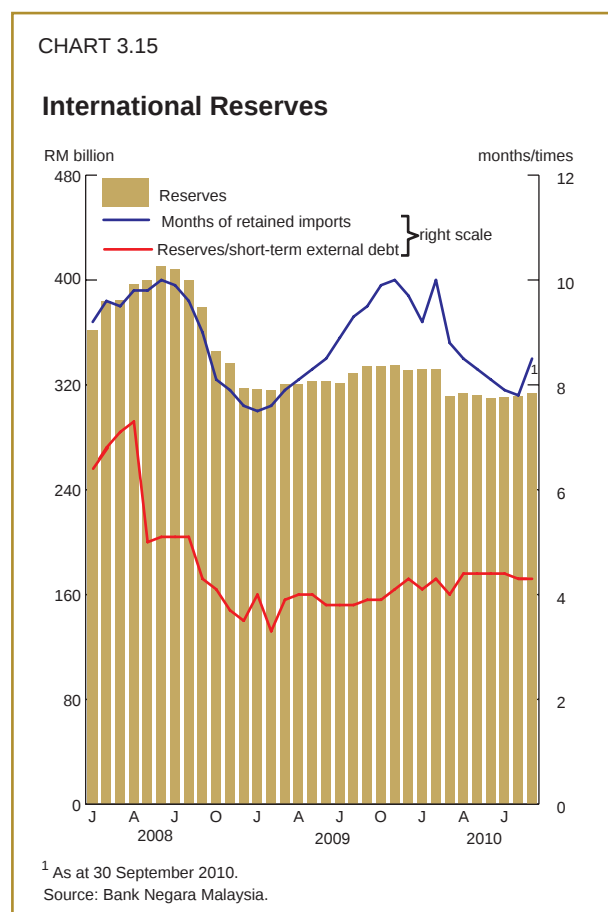
The **international reserves** position remained strong at RM310.8 billion or USD100.7 billion as at end-September 2010 (end-December 2009: RM331.3 billion or USD96.7 billion). The level is adequate to finance 8.5 months of retained imports and is 4.3 times the short-term external debt.

Prices

Inflation remains benign...

Headline inflation, as measured by the annual change in the **Consumer Price Index (CPI)**, rose 1.5% during the first eight months of 2010 (January – August 2009: 1.3%). The increase in the CPI was largely contributed by price increases in the food and non-alcoholic beverages; housing, water, electricity, gas and other fuels; as well as transport groups, contributing 1.1 percentage point to the CPI increase. During the period, subsidy rationalisation involving bread, sugar as well as petrol, diesel and LPG also contributed to the CPI increase. Inflation for 2010 is expected to remain benign at between 2.0% – 2.5%.

Prices in the **food and non-alcoholic beverages group** increased 2.2% (January – August 2009: 5.9%), contributing 0.7 percentage point to the CPI increase. The price increase was contributed mainly by food items, including vegetables which rose 7.5%, meat (2.9%) as well as fish and seafood (1.4%) (January – August 2009: 1.7%; 6.2%; 7.6%). This was due to higher demand on account of the festive season and school breaks as well as supply constraints caused by unfavourable weather conditions and labour shortage. Meanwhile, despite the upward revision in the retail price of sugar by 20 sen in January and another 25 sen in July, the impact on sugar-related products in the CPI was minimal, contributing only 0.2 percentage point to the increase in the food at home sub-group during the period.



Housing, water, electricity, gas and other fuels, the second largest group in the CPI basket, rose 1.0% (January – August 2009: 1.5%), contributing 0.2 percentage point to the CPI increase. Items with notable price increases included service charges for maintenance and repair of dwellings (3.4%), followed by actual rental paid by tenants (1.3%). The price of LPG which was increased by 10 sen to RM1.85 per kilogramme in July 2010, also contributed to the price increase in this group.

Prices in the **transport group** increased 1.3% (January – August 2009: -9.3%), contributing 0.2 percentage point to the CPI increase, following the price adjustment in July 2010 of petrol RON97 to RM2.10 per litre (2009: RM1.80 per litre), RON95 to RM1.85 per litre (2009: RM1.75 per litre) and diesel to RM1.75 per litre (2009: RM1.70 per litre). The price hike led to higher prices in passenger transport on road (5.2%), repair and maintenance for personal transport

(2.3%) as well as fuel and lubricants in personal transport equipment (1.7%).

Meanwhile, prices in the **clothing and footwear** as well as **communication groups** continued to fall 1.7% and 0.3% (January – August 2009: -0.8%; -0.5%), respectively following aggressive marketing and stiff competition among retailers. In the clothing and footwear group, the price decline was contributed mainly by the garments sub-group (-1.4%), while price decrease in the communication group was contributed by telephone and telefax equipment (-7.5%).

The CPI increased 1.6% in urban areas and 1.4% in rural areas (January – August 2009: 1.1%; 1.5%), due mainly to higher prices of food and non-alcoholic beverages. In terms of income category, the CPI for those with income less than RM1,500 and those with income less than RM1,000 rose 1.7% and 1.8% (January –

TABLE 3.21

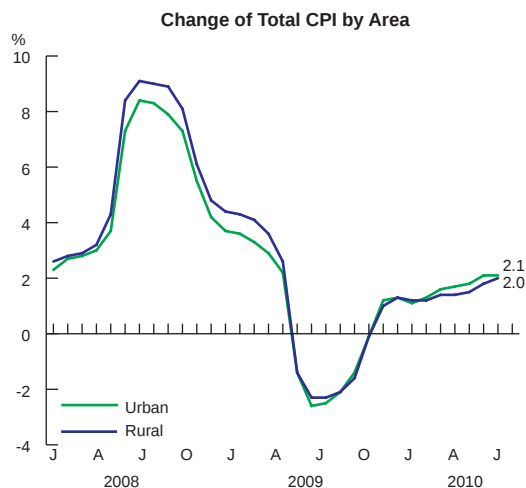
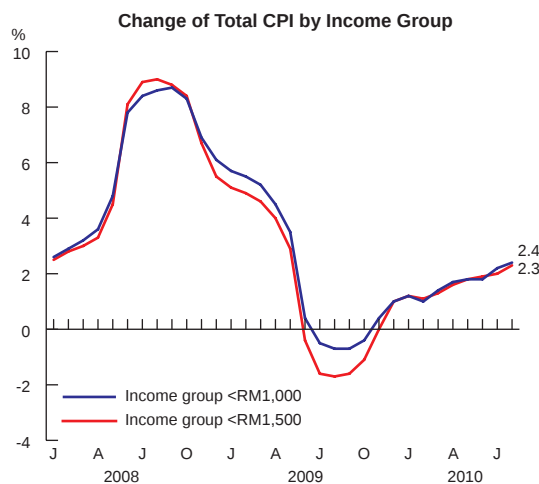
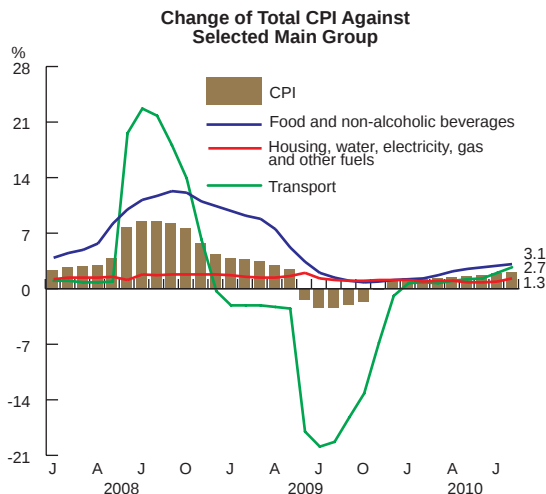
Consumer Price Index (CPI)
January – August
(2005 = 100)

Group	Weight	Change (%) 2010	Contribution to PPI Growth (%) 2010
Food and non-alcoholic beverages	31.4	2.2	47.7
Alcoholic beverages and tobacco	1.9	3.0	4.3
Clothing and footwear	3.1	-1.7	-2.8
Housing, water, electricity, gas and other fuels	21.4	1.0	13.6
Furnishings, household equipment and routine household maintenance	4.3	0.7	1.8
Health	1.4	1.6	1.3
Transport	15.9	1.3	12.7
Communication	5.1	-0.3	-1.0
Recreation services and culture	4.6	2.3	6.4
Education	1.9	1.7	2.0
Restaurants and hotels	3.0	1.7	3.5
Miscellaneous goods and services	6.0	2.8	10.5
Total	100.0	1.5	100.0

Source: Department of Statistics, Malaysia.

CHART 3.16

CPI in Malaysia (% annual change)



Source: Department of Statistics, Malaysia.

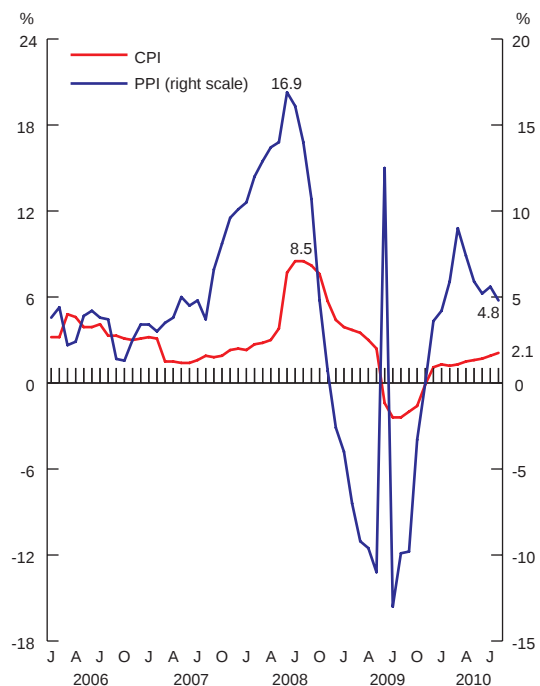
August 2009: 2.2%; 2.9%), respectively, also on account of higher prices of food and non-alcoholic beverages.

The **Producer Price Index (PPI)**, a measure of change in the prices of commodities charged by domestic producers and those paid by importers, rose 6.0% during the first eight months of 2010 (January – August 2009: -9.6%). The PPI increase was attributed to firmer commodity prices in tandem with the global economic recovery.

The **PPI for local production** increased 8.2% (January – August 2009: -13.8%), accounting for 91.4% to total PPI. This was mainly due to the 20.4% price increase in mineral fuels and lubricants, accounting for 53.7% of the PPI increase for local production. This was followed by crude materials, inedible as well as animal and vegetable oils and fats, which rose 21.3% and 12.7%, contributing 21.1% and 11.3%, respectively, to the total increase.

CHART 3.17

CPI and PPI Trends (% annual change)



Source: Department of Statistics, Malaysia.

TABLE 3.22

Producer Price Index (PPI)**January – August**(2005 = 100)¹

	Weight	Change (%) 2010	Contribution to PPI Growth (%) 2010
Domestic economy	100.0	6.0	100.0
Food	5.4	2.3	2.4
Beverages and tobacco	0.9	-0.4	-0.1
Crude materials, inedible	5.4	18.9	19.6
Mineral fuels, lubricants etc.	17.4	16.9	49.5
Animal and vegetable oils and fats	4.2	11.9	10.2
Chemicals	7.0	3.3	3.6
Manufactured goods	10.9	1.3	2.3
Machinery and transport equipment	42.9	1.6	11.0
Miscellaneous manufactured articles	5.4	0.9	0.7
Miscellaneous transactions and commodities	0.5	17.1	1.2
Local production	66.4	8.2	91.4
Imports	33.6	1.6	8.6

¹ Effective January 2010, the PPI base year was revised from 2000 to 2005.

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

Meanwhile, the **imports component** rose 1.6% (January – August 2009: 0.2%), accounting for 8.6% of total PPI. The main contributors to the increase in the PPI for imports were machinery and transport equipment (68.8%) as well as miscellaneous transactions and commodities (14.2%).

force is projected to increase steadily by 1.3% to reach 12.2 million workers (2009: 0.8%; 12.1 million). As a result, the **unemployment rate** is expected to remain low at 3.6% of the labour force in 2010 (2009: 3.7%).

Labour Market

Labour market stabilises...

Labour market conditions are expected to remain favourable in 2010 in tandem with the improvement in the overall economic environment. All economic sectors are expected to generate more job opportunities and lower lay-offs. **Total employment** is estimated to increase substantially by 1.3% to 11.8 million workers (2009: 0.4%; 11.6 million), with new employment opportunities anticipated at 152,800 jobs. Likewise, the **labour**

TABLE 3.23

Labour Market Indicators

	('000)		Change (%)	
	2009	2010 ¹	2009	2010 ¹
Labour force	12,061.1	12,216.8	0.8	1.3
Employment	11,620.5	11,773.3	0.4	1.3
Unemployment	440.6	443.5	3.7 ²	3.6 ²

¹ Estimate.² Percentage of labour force.

Source: Economic Planning Unit, Malaysia.

The overall **labour force participation rate** is expected to remain high at 63.5% in 2010 (2009: 63.1%). In terms of gender, both male and female participation rates are envisaged to increase marginally to 79.8% and 46.5% (2009: 79.5%; 46.0%), respectively. Participation of the younger workforce, especially those in the 25 – 34 age group represents the largest proportion, accounting for 31.4% of the total workforce, followed by the 35 – 44 age group at 25.8%. The age dependency ratio (65 years and above) is expected to increase to 6.9% (2009: 6.8%). The number of workforce with tertiary education is projected to increase steadily by 24.2% (2009: 23.4%), reflecting rising intake of students at this level in the past few years. With the continued expansion of the domestic economy, employment opportunities are expected to increase in all economic sectors. The services sector is anticipated to remain the largest employer, constituting 53.6% of total employment in 2010 (2009: 53.5%), followed by manufacturing (27.8%), agriculture

(11.8%), construction (6.5%) and mining (0.4%).

The favourable labour market conditions are also reflected by the increasing number of vacancies and lower retrenchments. In the first six months of 2010, **job vacancies** reported via jobsmalaysia increased by 992,035 (January – June 2009: 539,872). The manufacturing and services sectors constitute the bulk of vacancies, accounting for 40.0% and 30.4%, respectively. The demand for professional jobs, which comprise legal officers, managers and senior officials, professionals, technicians and associate professionals increased markedly by 55.8% to 136,275 vacancies (January – June 2009: 10.5%; 87,494). Likewise, the share of vacancies for professionals remained high at 13.7% (January – June 2009: 16.2%). Vacancies for graduates were at 73,183, with most job offerings in the services sector which accounted for 84.5%, particularly in the finance, real estate and business services as well as education.

TABLE 3.24

Employment by Sector

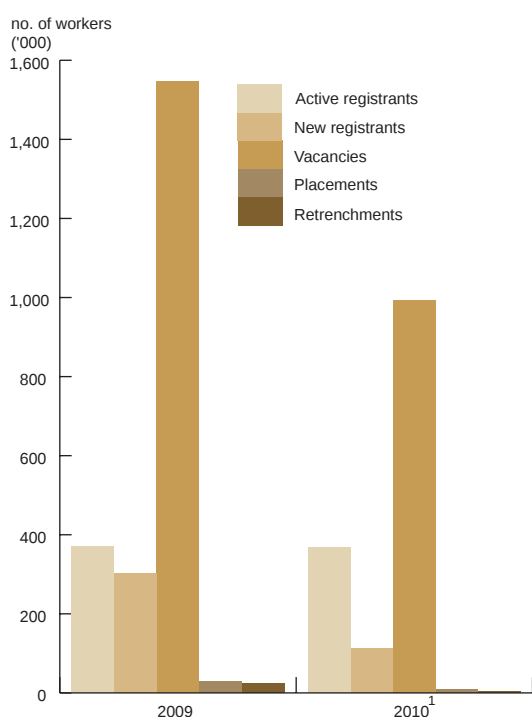
	('000)		Change (%)		Share (%)	
	2009	2010 ¹	2009	2010 ¹	2009	2010 ¹
Agriculture	1,390.8	1,389.7	0.0	-0.1	12.0	11.8
Mining	42.5	43.3	-0.7	1.9	0.4	0.4
Manufacturing	3,209.9	3,267.6	-3.8	1.8	27.6	27.8
Construction	762.4	765.4	0.5	0.4	6.6	6.5
Services	6,214.9	6,307.3	2.8	1.5	53.5	53.6
Utilities (electricity, water and gas)	97.7	99.0	0.1	1.3	0.8	0.8
Transport, storage and communication	675.5	682.7	0.3	1.1	5.8	5.8
Wholesale and retail trade, accommodation and restaurant	2,137.2	2,178.5	0.6	1.9	18.4	18.5
Finance, insurance, real estates and business services	817.0	832.0	0.6	1.8	7.0	7.1
Government services	1,247.9	1,249.5	11.2	0.1	10.7	10.6
Other services	1,239.6	1,265.6	2.0	2.1	10.7	10.7
Total	11,620.5	11,773.3	0.4	1.3	100.0	100.0
Primary	1,433.3	1,433.0	0.0	0.0	12.3	12.2
Secondary	3,972.3	4,033.0	-3.0	1.5	34.2	34.3
Tertiary	6,214.9	6,307.3	2.8	1.5	53.5	53.6

¹ Estimate.

Source: Economic Planning Unit, Malaysia.

CHART 3.18

Job Market Indicators

¹ January – June.

Source: Ministry of Human Resources, Malaysia.

The number of **active job seekers** rose 16.9% to 368,877 during the first six months of 2010 (January – June 2009: 65.8%; 315,442). Of the total job seekers, 55.4% were in the 20 – 24 age group, followed by 21.5% in the 25 – 29 age group, 13.0% in the above 30 age group and the remainder in the 15 – 19 age group. In terms of qualification, 49.8% were degree and diploma holders, while 33.6% were with *Sijil Pelajaran Malaysia* (SPM) qualification. The Government continued to assist new job seekers through the Job Placement Programme and career fairs nationwide.

As a result of the favourable economic performance, the number of **retrenched workers** declined to 3,573 (January – June 2009: 20,060) during the first half of 2010. General workers in the manufacturing sector accounted for about half of the total retrenchments. Within the manufacturing sector, the medical, precision

and optical instruments, watches and clocks sub-sector, recorded the highest retrenchments with 302 workers.

The Government is planning to adopt a minimum wage policy based on current labour market conditions, in line with the objective of transforming Malaysia into a high-income nation by 2020. In addition, the Government will continue to encourage the adoption of Productivity-Linked Wage System (PLWS) among companies in Malaysia, especially the small and medium enterprises (SMEs). The implementation of PLWS will enhance productivity through reduction in costs to increase the nation's competitiveness.

As at end-February 2010, total registered **foreign workers** fell to 1.8 million (end-December 2009: 1.9 million) due to the Government's efforts to further reduce dependency on low-skilled foreign workers. The manufacturing sector accounted for 38.2% of foreign workers, followed by construction (16.0%) and plantations (14.2%). Indonesia accounted for 50.9% of the total foreign workforce due to its geographical proximity as well as cultural and language similarities, followed by Bangladesh (17.0%), Nepal (9.7%), Myanmar (7.8%), India (6.3%) and Vietnam (4.2%).

As at end-July 2010, a total of 31,371 **expatriates** (end-December 2009: 32,138) were employed in the country, particularly in the services (64.8%) and the manufacturing (22.2%) sectors. The majority of the expatriates were from India (17.8%; 5,586), China (10.2%; 3,198) and Japan (7.0%; 2,195).

The Government will continue to attract high-skilled expatriates to work in Malaysia during the 10MP period. This is in line with the effort to promote knowledge and innovation-based high-income economy, specifically in the technical and professional services. Going forward, the Government will simplify processes and procedures which include reducing the number of application stages and turnaround time for making decision as well as to establish a Talent Corporation to attract, motivate and retain high-skilled human capital.

Productivity-Linked Wage System

Introduction

Employees in advanced countries generally enjoy higher wages as a result of a remuneration system that rewards productivity. In Malaysia, wages have largely remained stagnant and are comparatively lower than some regional economies, as well as not truly reflecting employee and company performance. To enable workers to enjoy higher wages necessitates a remuneration system that rewards employees' performance based on productivity and takes into account their basic needs, while providing flexibility for variance according to economic conditions. Therefore, a Productivity-Linked Wage System (PLWS) is ideal for promoting higher wages and productivity in line with Malaysia's objective to transform into a fully developed and high-income nation by 2020.

Productivity-Linked Wage System

PLWS, as a link between wages and productivity, ensures that increases in employees' wages commensurate with the level of productivity. It promotes continuous improvements in productivity as well as skills enhancement and quality to sustain competitiveness, while ensuring employees receive a fair share for their contributions through profit-sharing schemes.

The system comprises fixed and variable components. The fixed component, which consists of basic wage and annual increment, takes into account the cost of living and provides income stability. Meanwhile, the variable component comprises, among others, bonuses and incentives that are subject to productivity and profitability.

Benefits of PLWS

The implementation of PLWS will benefit the following stakeholders:

Employee

- Benefits from a fair share of the company's improved performance and profitability;
- Motivated to attain higher productivity leading to higher wages;
- Takes the opportunity to enhance skills and knowledge; and
- Enjoys job stability.

Employer

- Enhances competitiveness;
- Increases ability and flexibility to withstand economic shocks;
- Reduces the need to retrench employees in difficult times;
- Encourages continuous improvements in work processes; and
- Improves industrial relations through greater transparency.

Nation

- More innovative products and quality services;
- Improves comparative advantage;
- Broadens market acceptance and penetration; and
- As a stepping stone towards becoming a high-income nation.

Key Success Factors for PLWS

The successful implementation of PLWS at all levels depends on the commitment of the top management. A fair and equitable measurement system should be developed through close collaboration between employers and employees. As such, employers should share information with employees to establish mutual trust between both parties. When setting up a wage structure, the employer should take into consideration the livelihood and welfare of workers to ensure that their basic needs are met. A feedback mechanism is essential and should be put in place to allow for suggestions and further improvements. In addition, employers should commit to invest in developing a quality workforce.

Features of PLWS in Selected High-Income Economies

In pursuit of establishing PLWS for Malaysia, the Government through Malaysia Productivity Corporation (MPC), has looked into various wage structures of high-income economies (HIEs) implementing the system as a benchmark.

TABLE 1

Wage Structure of Selected HIEs Implementing PLWS

No.	Country	Wage Structure	Components	
			Fixed	Variable
1.	Republic of Korea	• Fixed payment • Variable payment	• Annual increment • Basic wage (Minimum wage)	• Company performance incentives - o Sales incentive - o Productivity incentive - o Profit sharing - o Employee performance • Team performance
2.	Taiwan	• Fixed payment • Variable payment	• Minimum wage • Fixed bonus • Fixed allowance	• Organisation performance - o Variable bonus - o Profit sharing • Employee performance/ Individual competence - o Commissions - o Sales incentive - o Performance bonus - o Management incentive

No.	Country	Wage Structure	Components	
			Fixed	Variable
3.	Singapore	- Fixed basic salary - Monthly variable component (MVC) - Annual variable component (AVC)	- Basic wage and increments negotiable subject to Employment Act and its regulations - MVC recommended at 10% of wages. Allows companies to adjust wages during economic shocks - AVC comprises annual wage supplement and other annual bonuses	- Performance incentive - Stock options - Company profitability - Individual performance and productivity
4.	United Kingdom	- Fixed payment (60%) - Variable payment (40%)	- Minimum basic wage - Fixed annual increment	- Individual performance - Team-based performance - Individual skills or competencies - Profit-related - Employee share ownership

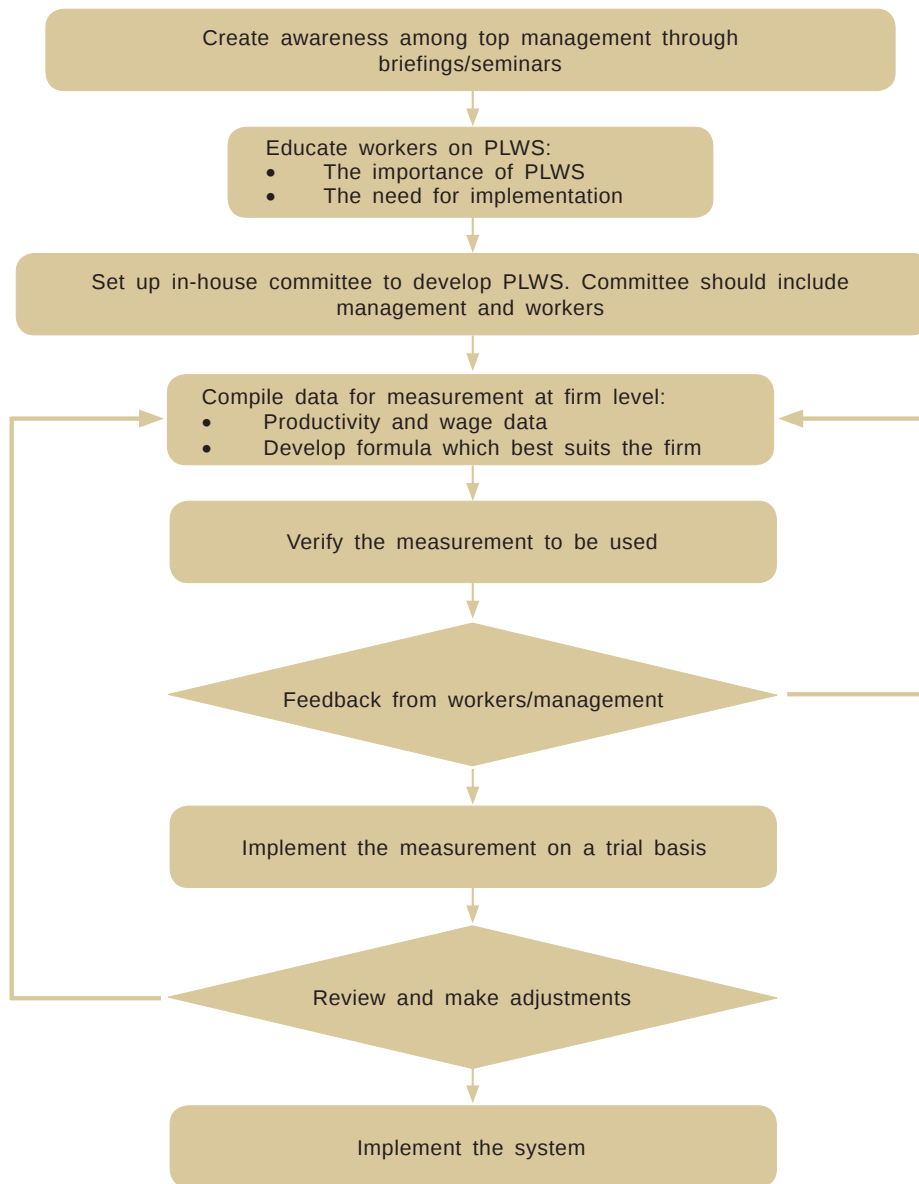
Source: Malaysia Productivity Corporation.

Government Initiatives on PLWS

The Government through MPC has taken various initiatives to assist firms in adopting PLWS. Efforts to create awareness on the benefits of PLWS include promotional activities such as briefings, advisory services, seminars and workshops as well as publications. The PLWS Application Tools (i-PLWS), has been developed to provide basic information on the wage system and helps firms to design their own PLWS. As at end-June 2010, the number of organisations that have implemented PLWS by sector are services (54,665), manufacturing (9,019), construction (5,022), agriculture (3,536) and others (599).

CHART 1

Malaysia Productivity Corporation PLWS Implementation Flow Chart



Source: Malaysia Productivity Corporation.

The Way Forward

PLWS promotes a culture of creativity and innovation, the vital elements to transform Malaysia into a fully developed and high-income nation by 2020. The Government, through MPC will thus continue to encourage companies to adopt PLWS. In this regard, various initiatives will be taken to intensify PLWS implementation, such as developing model companies and assisting them in managing the system, conducting information sharing sessions with industries as well as providing internet-based PLWS. In addition, the tripartite collaboration between the Government, employers and employees will be strengthened further to accelerate the adoption of PLWS.

Prospects for 2011

Malaysian Economy

Growth remains sturdy...

The Malaysian economy is projected to expand between 5.0% to 6.0% in 2011 (2010: 7.0%), mainly driven by domestic demand and supported by a favourable external sector. The strong economic fundamentals will continue to propel the growth momentum of domestic demand. Private investment activity, which turned positive in 2010, is envisaged to contribute significantly to economic growth. This is in line with the expected commencement of 52 Private Finance Initiatives (PFIs) over the 10MP period as well as the implementation of private sector projects under the NKEAs. Private consumption is expected to strengthen in view of low unemployment and increasing disposable household income. Growth prospects are also premised on firm prices of major commodities which will spur rural household spending in 2011. With the private sector spearheading growth, public expenditure is expected to moderate, reflecting the Government's commitment towards prudent fiscal management.

On the supply side, growth is expected to be broad-based with positive contribution from all sectors in the economy, with the services sector remaining the major contributor to GDP. The manufacturing sector is expected to expand in line with strong investment and consumption activities. The agriculture sector is projected to increase, supported by higher output and firm prices of commodities. In addition, the mining sector is envisaged to grow, on account of higher natural gas production. The construction sector is also expected to grow stronger with the expansion of non-residential properties and the revival of residential construction activities as well as acceleration of major civil engineering projects.

Hence, nominal GNI per capita is expected to rise 6.1% to RM27,950 (2010: 10.5%; RM26,355). In terms of PPP, per capita income is expected to increase 13.7% to reach USD16,028 (2010: 19.7%; USD14,102).

Sectoral Outlook

Broad-based growth...

In 2011, value-added of the **services sector** is envisaged to expand 5.3% (2010: 6.5%), supported by steady domestic economic and trade-related activities. All sub-sectors are expected to register growth, led by the wholesale and retail trade, communication as well as finance and insurance sub-sectors. The contribution of the sector is expected to remain at 57.3% of GDP. The services sector is set for higher growth with the roll-out of programmes and initiatives under the seven services-related NKEAs, namely financial, wholesale and retail, information and communications technology (ICT), tourism, health, education and business services.

Value-added of the **manufacturing sector** is expected to expand further by 6.7% (2010: 10.8%), in tandem with better economic conditions. The export-oriented industries are projected to grow at a steady pace, supported by strong intra-regional trade. The E&E and M&E sub-sectors are envisaged to lead growth. Domestic-oriented industries are anticipated to expand in line with resilient consumer spending and sustained business confidence. The outlook for the construction-related materials sub-sector is encouraging with the civil-engineering segment expected to benefit from various infrastructure projects outlined in the 10MP.

The **agriculture sector** is expected to continue to grow 4.5% in 2011 (2010: 3.4%), contributed by the commodity and non-commodity sub-sectors. Production of CPO is estimated to increase 3.4% to 18.4 million tonnes (2010: 1.3%; 17.8 million tonnes) following higher FFB yields due to increased matured areas, particularly in Sabah and Sarawak. The expected higher OER of 20.7% (2010: 20.4%) will also contribute to the strong production of CPO. Similarly, rubber production is projected to increase 8.5% to 1,020,000 tonnes (2010: 9.7%; 940,000 tonnes), as firm rubber prices will encourage tapping among the smallholders. The non-commodity sub-sector, mainly livestock, other agriculture

and fishing will continue to record favourable growth, following ongoing implementation of High Impact Projects (HIPs) such as ZIA, TKPM and Feedlot Farming as well as Integrated Agriculture Development Project. The special focus on high-value agriculture activities during the 10MP period, such as swiftlet farming, aquaculture, ornamental fish, herbs and spices as well as downstream activities for palm oil and rubber are expected to further spur growth of the sector.

The **mining sector** is expected to grow 2.9% in 2011 (2010: 1.0%), due to higher production of natural gas. Natural gas output is projected to increase further by 6.1% to 2,364,840 mmscf (2010: 5.2%; 2,229,074 mmscf), on account of robust performance of domestic petrochemical industries as well as higher global demand, particularly from China and India. In addition, two new projects, namely *Kelompok Medan Tangga Barat* and *Kelompok Medan Kumang* in offshore Terengganu and Sarawak, respectively, are expected to further boost gas output. In contrast, production of crude oil is envisaged to decline 1.3% to 633,100 bpd (2010: -2.6%; 641,400 bpd), due to scheduled plant maintenance activities and implementation of the Reservoir Management Plan by PETRONAS to sustain long-term crude oil production.

The **construction sector** is envisaged to expand 4.4% in 2011 (2010: 4.9%), supported by the acceleration of ongoing projects such as KLIA 2, the Second Penang Bridge, SKVE (Package 3), Sabah – Sarawak Gas Pipeline and the LRT extensions. In addition, development projects in the five growth corridors as well as implementation of new projects under the 10MP, which include PFI projects such as Electrified Double Track from Gemas – Johor Bahru, West Coast Banting – Taiping Expressway, Guthrie – Damansara Expressway, Elevated Ampang – Pandan – Cheras Expressway, ITT in Gombak and the 300MW Gas-Fired Power Plant in Sabah. Meanwhile the residential sub-sector is envisaged to recover with developers more-than-ready to launch new projects in tandem with better buying sentiment and improved economic conditions.

Domestic Demand

Private investment spearheads growth...

Domestic demand is expected to record strong growth of 5.8% (2010: 6.9%), supported by greater dynamism of the private sector, with expenditure accelerating 7.0% (2010: 8.1%). With various measures taken to enhance competitiveness and productivity, growth will be driven by private investment, expanding 10.2% (2010: 15.2%). In addition, smart and effective public-private partnerships as well as the establishment of a RM20 billion Facilitation Fund under the 10MP are expected to provide further impetus to growth in private investment. Private consumption is estimated to expand 6.3% (2010: 6.7%), benefiting from higher income and better employment prospects following broad-based economic growth.

Meanwhile, public sector expenditure is expected to expand, albeit at a slower pace of 2.8% (2010: 3.8%). With the private sector leading the economy, public investment is estimated to register marginal growth of 0.6% (2010: 8.3%). Meanwhile, public consumption is expected to expand 4.6% (2010: 0.2%).

National Resource Position

Strong national resource position...

In line with strong domestic economic performance projected in 2011, national income in current prices is envisaged to expand 8.2% (2010: 12.8%). The **savings-investment gap** is anticipated to register a significant surplus of RM114.2 billion, accounting for 14.1% of GNI in 2011 (2010: RM103.8 billion; 13.8%). The favourable position is attributed to a higher GNS estimated at 35.7% of GNI, expanding 8.5% to RM289.2 billion (2010: 35.6%; 26.6%; RM266.6 billion), with the private sector remaining the largest contributor. Total investment expenditure (including change in stocks) is expected to increase to RM175.0 billion, contributing 21.6% to GNI

(2010: RM162.8 billion; 21.7%). The projected surplus in the national resource position provides ample liquidity in the financial system to finance domestic economic activities.

External Sector

Surplus in current account...

The external position is expected to strengthen, on account of strong economic and global trade performance in 2011. The BOP position will continue to remain strong, supported by higher current account surplus and improved net outflow in the financial account. Receipts of the **goods account** are projected to expand 9.5% to RM707.4 billion (2010: 16.6%; RM646.1 billion), while gross payments are envisaged to increase 9.5% to RM547.8 billion (2010: 21.3%; RM500.2 billion).

The performance of the **services account** is expected to remain stable at RM0.5 billion (2010: RM0.5 billion) following higher net travel receipts of RM34.4 billion (2010: RM32.8 billion), which will offset the deficit in other services accounts. In contrast, net outflow of the **income account** is projected to register RM27.2 billion (2010: -RM25.1 billion) as foreign MNCs continue to repatriate accrued earnings, including interest, profits and dividends. In addition, net outflow in the **current transfers account** is estimated at RM18.8 billion (2010: -RM17.4 billion). Nevertheless, the surplus in the goods and services account is more than sufficient to offset the net outflows in the income and current transfers accounts. Hence, the **current account** is projected to record a higher surplus for the 14th consecutive year, amounting to RM114.2 billion or 14.1% of GNI (2010: RM103.8 billion; 13.8%).

