

3 Economic Performance and Prospects



Economic Performance and Prospects

Overview

Economy continues to expand

The Malaysian economy continued to expand despite the more challenging external environment. Real Gross Domestic Product (GDP) registered a growth of 4.4% during the first half of 2011. The moderation was due to slowing exports following the weaker-than-expected United States (US) economic performance, deepening euro sovereign debt crisis, global supply chain disruptions resulting from earthquake and tsunami in Japan as well as rising global inflation. The moderation was also partly attributed to the high-base effect as GDP grew at a strong pace of 9.5% during the same period in 2010. However, the growth momentum is expected to pick up in the second half of the year on the back of resilient private consumption and strong private investment. Growth will also be supported by the acceleration of public infrastructure projects and sustained strong exports of commodities and resource-based manufactured goods. Against this backdrop, the Malaysian economy is projected to grow 5% – 5.5% in 2011 (2010: 7.2%).

On the demand side, growth will be supported by sustained consumer spending reinforced by strong investment activities. Consumer spending is expected to post a strong growth backed by increasing household income and stable employment conditions. Sustained high agriculture commodity prices will also support rural household expenditure. Meanwhile, private investment is envisaged to strengthen further boosted by business opportunities from the implementation of the Economic Transformation Programme (ETP) initiatives and continuous investment in the technology-related, services and resource-based industries. Strong inflows of foreign direct investment (FDI) in the first half of 2011 (RM21.2 billion) are expected to continue with the implementation of several key initiatives

by the Government such as tax incentives and liberalisation measures to attract investment, particularly in the oil and gas as well as services sectors. Public expenditure is envisaged to remain supportive of economic activities with expansion in capital spending by the Non-Financial Public Enterprises (NFPEs).

On the supply side, all sectors are expected to post positive growth, except mining due to lower production of crude oil. In tandem with robust private consumption, the services sector is envisaged to grow strongly led by the wholesale and retail trade, finance and insurance, real estate and business services as well as communication sub-sectors. Despite the contraction in output of electrical and electronics (E&E) and transport equipment in the first half of 2011, the manufacturing sector is expected to record positive growth supported by strong output of construction-related materials and resource-based industries. Meanwhile, the agriculture sector, which contracted in the first quarter of 2011, is expected to expand in the second half of 2011 driven by higher output of palm oil and rubber as well as food commodities. Growth in the construction sector will be underpinned by higher construction activities in the residential segment and acceleration of public civil engineering projects in the second half of the year.

The balance of payments (BOP) is expected to remain strong in 2011, with a larger current account surplus at RM89.3 billion or 10.9% of Gross National Income (GNI) supported by a surplus in the goods account. The trade surplus is anticipated to remain large, backed by higher exports and firm commodity prices although imports will continue to increase in line with strong domestic consumption and investment activity. In the financial account, the steady inflows of FDI are expected to continue, reflecting investors' confidence in the strong fundamentals of the Malaysian economy as well as the Government's economic transformation initiatives.

TABLE 3.1

Gross Domestic Product (GDP) by Sector
2010 – 2012
 (at constant 2000 prices)

	Change (%)			Share of GDP (%)			Contribution to GDP growth (percentage point)		
	2010	2011 ¹	2012 ²	2010	2011 ¹	2012 ²	2010	2011 ¹	2012 ²
Agriculture	2.1	4.7	4.1	7.3	7.3	7.2	0.2	0.3	0.3
Mining	0.2	-2.4	2.5	7.0	6.5	6.3	0.0	-0.2	0.2
Manufacturing	11.4	4.5	4.5	27.6	27.5	27.2	3.0	1.3	1.2
Construction	5.1	3.4	7.0	3.3	3.2	3.2	0.2	0.1	0.2
Services	6.8	6.4	6.5	57.7	58.4	58.9	3.9	3.7	3.8
Less: Undistributed FISIM³	5.8	6.4	6.2	4.1	4.2	4.2	0.2	0.3	0.3
Add: Import duties	9.6	13.2	1.6	1.3	1.4	1.3	0.1	0.2	0.0
GDP	7.2	5.0–5.5	5.0–6.0	100.0	100.0	100.0	7.2	5.0–5.5	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 the expansion of economic activities in 2011, national income as measured by the GNI is estimated to expand 10.9% to RM820.2 billion with per capita income rising 9.7% to RM28,725 (2010: 11.1%; RM739.5 billion; 9.7%; RM26,175). Consequently, nominal per capita income in terms of purchasing power parity (PPP) is envisaged to increase 17.1% to USD16,529 in 2011 (2010: 5.2%; USD14,110).

Sectoral Performance

Services Sector

Services sector drives growth

In the first half of 2011, the **services sector** grew 6.4% (January – June 2010: 8%) supported by sturdy domestic consumption and investment activity. The implementation of the Tenth Malaysia

Plan (10MP) and ETP initiatives also contributed to the favourable performance of the sector. With these developments, the sector is expected to increase 6.4% and remain the key driver of growth, accounting for 58.4% of GDP in 2011 (2010: 6.8%; 57.7%). The **intermediate services** group is envisaged to grow 6.5% (2010: 7.2%) supported by the finance and insurance as well as real estate and business services sub-sectors. Meanwhile, the **final services** group is anticipated to expand 6% (2010: 6.8%) driven by the wholesale and retail trade as well as accommodation and restaurant sub-sectors.

The **wholesale and retail trade sub-sector** grew 7.1% (January – June 2010: 9.2%) supported by strong consumer spending amid favourable labour market conditions and sustained disposable income. This was reflected in the higher distributive trade index which increased 15.9% to 151.3 points (January – June 2010: 13.4%; 130.5

TABLE 3.2

**Services Sector Performance
2010 – 2012**

(at constant 2000 prices)

	Change (%)			Share of GDP (%)		
	2010	2011 ¹	2012 ²	2010	2011 ¹	2012 ²
Intermediate services						
Transport and storage	6.9	5.1	6.7	3.8	3.8	3.8
Communication	8.5	7.9	7.9	4.2	4.4	4.5
Finance and insurance	6.4	6.3	6.8	11.7	11.8	12.0
Real estate and business services	7.8	6.8	5.7	5.5	5.6	5.6
Final services						
Utilities (electricity, water and gas)	8.2	3.1	4.8	3.0	3.0	2.9
Wholesale and retail trade	8.0	7.4	6.9	13.6	13.9	14.1
Accommodation and restaurant	5.0	6.0	6.9	2.4	2.5	2.5
Other services	4.0	4.4	5.7	5.9	5.8	5.8
Government services	5.8	7.6	5.6	7.5	7.7	7.7
Total	6.8	6.4	6.5	57.7	58.4	58.9

¹ Estimate.² Forecast.

Note: Total may not add up due to rounding.

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

points), with wholesale and retail trade indices increasing 19.2% and 7.8% (January – June 2010: 13.8%; 10.3%), respectively. During the first seven months of 2011, other consumption indicators such as imports of consumption goods and credit card spending increased 12.8% and 11.8% (January – July 2010: 13.4%; 15.9%), respectively. However, sales of motor vehicles declined 3% (January – July 2010: 16.2%) on account of supply chain disruptions following the devastating March earthquake and tsunami in Japan.

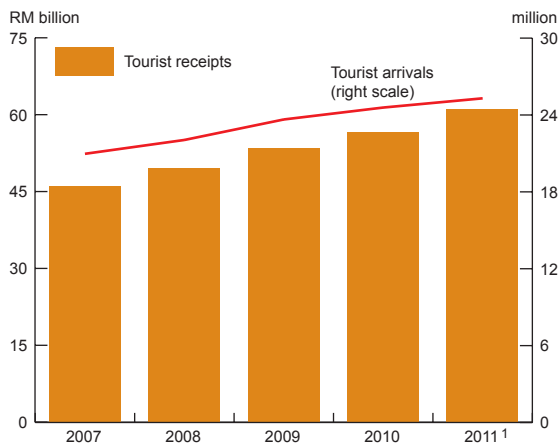
Growth of the sub-sector is anticipated to remain encouraging with ongoing efforts by the Government to increase its contribution to the economy. Major initiatives include increasing the number of large format stores such as hypermarkets, superstores and departmental stores. As at end-August 2011, a total of 166 foreign

hypermarkets, superstores and departmental stores (end-August 2010: 148) were operating in Malaysia. Meanwhile, the Government has introduced the Retail Shop Transformation (TUKAR) programme. Under the programme, selected large format retailers will assist small retailers to improve their premises and layout which include attractive product display shelves, enhanced lighting and point-of-sales system to manage product inventory. As at end-August 2011, a total of 258 shops have been modernised under TUKAR programme, while the remaining 242 shops are expected to be completed by year-end. To ease the burden of the rakyat in urban areas, the Government has launched Kedai Rakyat 1Malaysia on a mini-market format, which provides 250 grocery items at lower prices. In tandem with these developments, the sub-sector is expected to grow 7.4% in 2011 (2010: 8%).

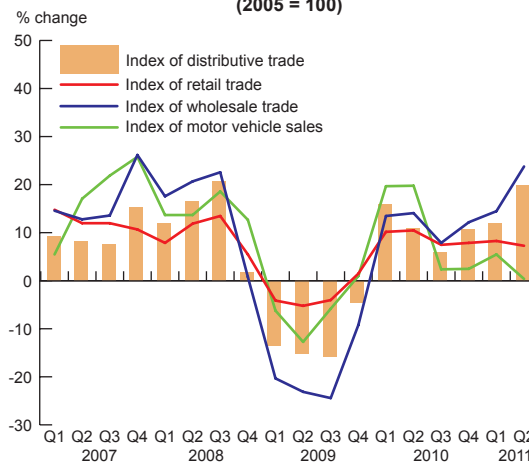
CHART 3.1

Selected Indicators for Services Sector

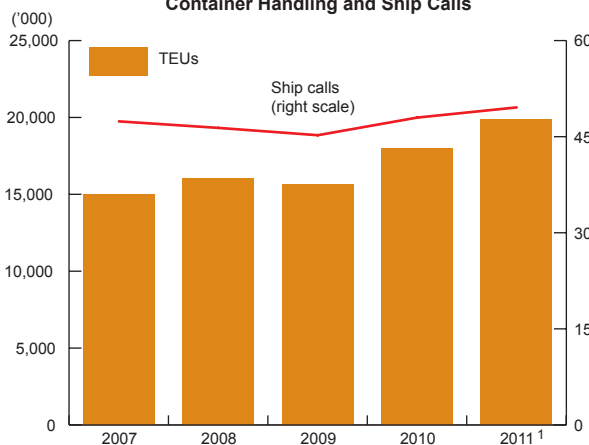
Tourist Arrivals and Receipts



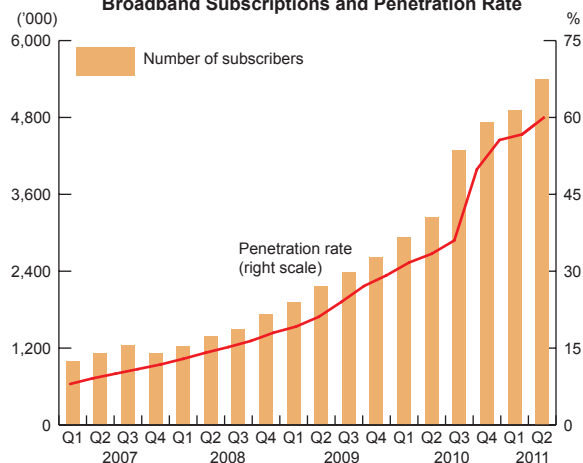
Distributive Trade Value Index (2005 = 100)



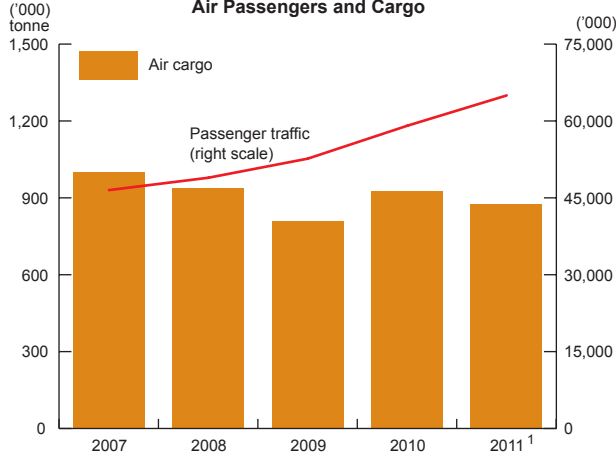
Container Handling and Ship Calls



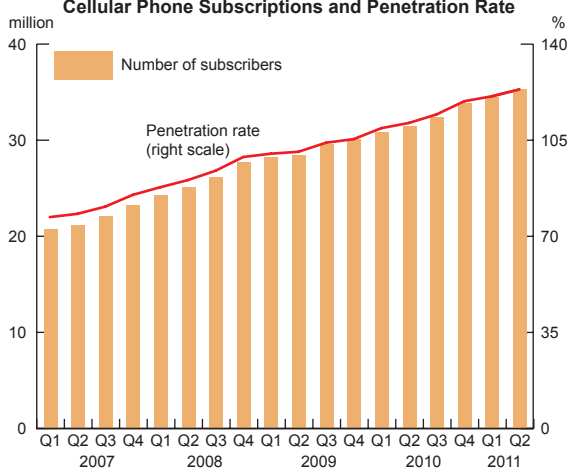
Broadband Subscriptions and Penetration Rate



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.

The **accommodation and restaurant sub-sector** increased 4.9% (January – June 2010: 5.7%) supported by the entry of international hotel groups and aggressive expansion of restaurants, particularly fast food outlets. As at end-June 2011, the total supply of hotel rooms increased 3.6% to 171,130 (end-June 2010: 3.5%; 165,247), of which 18.5% were in Kuala Lumpur. The average hotel occupancy rate reached 51.3% (January – June 2010: 54.7%), with the highest rate of 69.4% recorded in Kuala Lumpur (January – June 2010: 75.4% in Pahang). For the whole year, the sub-sector is expected to grow 6% (2010: 5%) attributed to strong domestic consumption and higher travel-related activity. Tourist expenditure on accommodation as well as food and beverages is expected to reach RM29.2 billion (2010: RM27.1 billion), constituting 30.7% and 17.2% of total tourist receipts, respectively.

In line with efforts to position Malaysia as a luxury shopping destination and attract investment in principal luxury brands, the Government has waived the import duty for 300 goods such as handbags, perfumes, shoes and apparel. Furthermore, the opening of the Johor Premium Outlet in Kulaijaya in November 2011, which will offer a wide selection of branded items at discounted prices, is expected to attract more domestic and foreign shoppers. With these initiatives, tourist spending on shopping is expected to increase to RM17.5 billion (2010: RM16.2 billion). Subsequently, total tourist expenditure is envisaged to increase further with average per capita expenditure amounting to RM2,411 in 2011 (2010: RM2,299).

The tourism industry is expected to remain a resilient and high-yield industry supported by aggressive promotional activities through new advertising modes such as social media and mobile advertisements. In 2011, tourist arrivals are projected to reach 25.3 million (2010: 24.6 million). Meanwhile, continuous efforts are undertaken to increase market share in the growing global Meetings, Incentives, Conventions and Exhibitions (MICE) industry. The number of MICE visitors is expected to increase to 1.3 million, generating RM10.8 billion receipts (2010: 1.28 million; RM10.6 billion). The Government

has also intensified the promotion of the Malaysia My Second Home (MM2H) programme to attract more foreigners to stay and invest in Malaysia. Since its inception in 2002 up to end-August 2011, the MM2H programme has attracted 16,102 participants, mainly from China (2,653), Bangladesh (1,967) and the United Kingdom (UK) (1,728).

The **finance and insurance sub-sector** is expected to expand 6.3% in 2011 (2010: 6.4%) supported by higher demand for financing from households and businesses. In the first seven months of 2011, loan applications, approvals and disbursements grew 23.1%, 20.1% and 8.2% (January – July 2010: 18.8%; 19%; 15.1%), respectively. Loan disbursements were largely for working capital, accounting for RM235.8 billion or 79% of total disbursements to the business sector (January – July 2010: RM225.5 billion; 80.2%). Similarly, Islamic financing rose 16.8% to RM246.8 billion and accounted for 23.3% of total outstanding loans of the banking system as at end-July 2011 (end-July 2010: 26%; RM211.3 billion; 22.5%). Growth of the sub-sector was also supported by higher insurance activity due to greater demand for investment-linked products coupled with growing bancassurance and takaful business. During the first seven months of 2011, net premiums comprising new business and business in force of life insurance grew 4.6% to RM12.7 billion (January – July 2010: 12.9%; RM12.2 billion), while gross direct premiums of general insurance rose 7.1% to RM8.4 billion (January – July 2010: 9.2%; RM7.9 billion). The move to require all foreign workers in Malaysia to have medical insurance coverage effective 1 January 2011 is expected to further boost the insurance industry.

The **real estate and business services sub-sector** is expected to increase 6.8% in 2011 (2010: 7.8%) bolstered by strong real estate and equity market as well as shared services and outsourcing (SSO) activities. The sub-sector expanded 8.2% during the first six months of 2011 (January – June 2010: 8.2%), with the number of transacted properties increasing 18.1% to 214,764 (January – June 2010: 17.1%; 181,780) and value rising 29.7% to RM64.8 billion

(January – June 2010: 46.2%; RM49.9 billion). Loans approved for the purchase of residential properties increased 18.8% to RM55.9 billion (January – July 2010: 26.8%; RM47 billion), reflecting sustained demand during the period. Meanwhile, the volume and value of transactions in the equity market rebounded strongly by 40.2% to 187.7 billion units (January – July 2010: -14.9%; 133.9 billion) and 34.3% to RM270.9 billion (January – July 2010: 16.6%; RM201.7 billion), respectively. The FTSE Bursa Malaysia Kuala Lumpur Composite Index closed at 1,447.27 points as at end-August 2011 with market capitalisation of RM1,241.9 billion (end-August 2010: 1,422.49 points; RM1,122.1 billion).

In the SSO industry, the A.T. Kearney's 2011 Global Services Location Index ranked Malaysia as the third best location behind India and China for outsourcing businesses out of 50 countries. The industry has attracted investment from multinational corporations and large firms to establish regional offices, contact centres, information technology services and back-office support. This encouraging performance was largely attributed to the pool of young, trainable and multilingual workforce as well as cost advantage in Malaysia. During the first six months of 2011, 59 new regional establishments were approved (January – June 2010: 97), with total proposed investment of RM142 million and creating 610 employment opportunities (January – June 2010: RM165.1 million; 640). This has resulted in the number of regional establishments to reach 3,005 as at end-June 2011 (end-2010: 2,946), comprising 1,727 representative offices, 824 regional offices, 222 international procurement centres, 205 operational headquarters and 27 regional distribution centres. These establishments are engaged in various industries such as E&E, finance, chemicals, oil and gas as well as information and communication technology (ICT).

In addition, 119 companies were awarded the Multimedia Super Corridor Malaysia (MSC Malaysia) status during the first eight months of 2011 (January – August 2010: 120) bringing the total to 2,857 (end-August 2010: 2,640). These

companies were mainly involved in industries such as infotech, creative multimedia and SSO. As at end-August 2011, there were a total of 22 MSC Malaysia cybercities and cybercentres (end-August 2010: 19) operating nationwide. The expansion of MSC Malaysia areas is expected to further boost the business services segment.

The **communication sub-sector** is expected to record a robust growth of 7.9% in 2011 (2010: 8.5%) propelled by higher demand for cellular, broadband and third generation (3G) services. As at end-June 2011, the cellular phone segment posted a strong growth of 12.1% to 35.3 million subscriptions with a penetration rate of 123.5% (end-June 2010: 10.2%; 31.5 million; 111.3%). Growth was spurred by increased affordability and consumer preference for data subscription packages amid intensified competition among service providers. As of end-June 2011, the cellular market remained highly concentrated in the prepaid segment (81%) compared with postpaid (19%) translating to 28.4 million and 6.8 million subscribers (end-June 2010: 25 million; 6.5 million), respectively. Growth in the cellular segment was further supported by higher 3G subscriptions, which led to the 3G subscriber base expanding 24.1% to 9.8 million as at end-June 2011 (end-June 2010: 30.1%; 7.9 million). Going forward, the cellular market is expected to remain competitive with the offering of enhanced smartphone devices and applications coupled with attractive bundling packages by service providers.

As at end-June 2011, total broadband subscriptions rose 66.9% to 5.4 million with a household penetration rate of 60.1% (end-June 2010: 49.8%; 3.2 million; 36%) driven by continuous improvement of network quality and expedited rollout of the High Speed Broadband (HSBB) project. A total of 107,550 customers have subscribed to the HSBB services in the Klang Valley, Iskandar Malaysia and Northern Corridor Economic Region as at end-June 2011. By end-2012, Telekom Malaysia Berhad (TM) is expected to widen HSBB access to 1.3 million premises in several identified areas. Meanwhile, the number of wireless hotspot locations increased six-fold to

16,851 locations as at end-June 2011 (end-June 2010: 34.2%; 2,677), particularly in shopping complexes, food outlets and education institutions. These hotspots remained largely concentrated in Selangor, Kuala Lumpur, Sarawak and Pulau Pinang, accounting for 60% of total hotspots nationwide. The number of wireless users is expected to continue to grow, particularly with the emergence of diverse internet-enabled devices such as tablet computers and smartphones.

As part of efforts to promote broadband uptake, the Government has subsidised broadband netbook packages for 100,000 first-year university students from low-income families for a two-year period, starting 1 January 2010. By end-October 2010, all 100,000 packages were fully subscribed. As at end-June 2011, a total of 99,367 students continued to subscribe to this package, while the rest have upgraded to higher speed broadband packages such as Streamyx and UniFi. As for broadband service providers, the Government has extended the tax incentive application period for last-mile infrastructure deployment as well as import duty and sales tax exemption on broadband equipment until 2012.

Several projects continued to be implemented to expand broadband infrastructure to communities in rural and suburban areas under the Universal Service Provision (USP) fund. As at end-June 2011, a total of RM962 million from the USP fund has been utilised to implement initiatives such as Kampung Tanpa Wayar (KTW), Community Broadband Centres (CBCs) and 1Malaysia Netbook projects in underserved areas. There were 246 CBCs and 1,272 KTW as at end-June 2011, with the remaining 1,828 KTW to be implemented in phases by end-2012. Furthermore, a total of 257,457 netbooks with broadband access have been distributed under the 1Malaysia Netbook programme to students from low-income families in rural areas. Under the 10MP, the Government targets to achieve 75% broadband household penetration rate by 2015.

With regard to postal services, total mail volume handled by Pos Malaysia Berhad (PMB) contracted 9.1% to 565.3 million items during the first half of 2011 (January – June 2010: -4.3%; 621.9 million),

particularly due to increasing usage of electronic communication at a lower cost. In contrast, total courier volume recorded a double-digit growth of 12.6% to 8.4 million items (January – June 2010: 3.8%; 7.5 million) due to higher demand from businesses and individuals as well as increased online retail purchases supported by extended business hours at selected PosLaju outlets in the Klang Valley. In an effort to streamline operations and increase automation, PMB has launched the National Mail Centre which merged four mail processing centres into a single facility to cater for the Klang Valley. To further enhance efficiency, PMB will further consolidate the remaining 28 mail processing centres to seven by 2015. Furthermore, PMB has established partnerships with RHB Bank Berhad and Malayan Banking Berhad to provide shared banking services at over 400 Pos Malaysia outlets nationwide.

As for broadcasting services, Astro All Asia Networks (ASTRO) has 3 million subscribers with a household penetration rate of 48% as at end-June 2011 (end-June 2010: 2.9 million; 49%). Growth was largely driven by continuous service upgrading and offerings of wide-ranging content and packages. ASTRO has embarked on several initiatives to further improve its business, including introduction of an additional 18 high definition channels, offerings of Personal Video Recording and Video on Demand as well as delivery of Internet Protocol Television service via broadband. In line with the significant investment in content development and upgrading of broadcasting infrastructure, the growth momentum of broadcasting services is expected to remain upbeat in the second half of the year.

In the first half of 2011, the **transport and storage sub-sector** expanded 4.5% (January – June 2010: 8.5%) spurred by sturdy consumption as well as travel and trade-related activities. Continuous capacity expansion, improved efficiency and productivity as well as competitive pricing by industry players in the sea, air and land transport segments also contributed to the improved performance of the sub-sector. In line with sustained economic activity, the sub-sector is expected to grow 5.1% in 2011 (2010: 6.9%).

Port activity remained robust during the first seven months of 2011 attributed to improved trade performance, especially in the Asian region. Container throughput at major ports (Port Klang, Tanjung Pelepas (PTP), Penang, Kuantan, Johor, Bintulu and Kuching) grew significantly by 10% to 11.4 million twenty-foot equivalent units (TEUs) (January – July 2010: 19.6%; 10.3 million TEUs). Growth was also supported by enhanced port infrastructure and facilities coupled with increased productivity and provision of efficient port services at competitive prices.

Port Klang and PTP, the leading container ports in the country, continued to be ranked among the world's top 20 container ports. According to Containerisation International (CI), Port Klang and PTP maintained their ranking at 13th and 17th positions, respectively in terms of total TEUs handled in 2010. Meanwhile, during the first seven months of 2011, Port Klang and PTP handled 5.5 million and 4.3 million TEUs (January – July 2010: 5.1 million TEUs; 3.7 million TEUs), accounting for 48.7% and 38.1% of total container throughput (January – July 2010: 49.7%; 36.1%), respectively. In 2011, total container throughput is expected to rise 10.6% to 19.9 million TEUs (2010: 14.7%; 18 million TEUs) following steady external trade performance, particularly in the Asian region.

The number of ship calls at major ports rose 4.9% to 28,939 ships during the first seven months of 2011 (January – July 2010: 5.9%; 27,577 ships), with Port Klang accounting for the largest share at 36.6% of total ship calls, followed by PTP 16.2% (January – July 2010: 37.1%; 13.6%). The better performance was due to various initiatives undertaken to attract more main line operators to the ports. These include upgrading of port infrastructure to accommodate mega vessels, provision of efficient facilities and services to ensure speedy turnaround time as well as strategic partnerships with shipping lines. The outlook of the global shipping industry is, however, anticipated to moderate, particularly due to rising fuel costs and lower freight rates following the oversupply of vessels and softer demand, especially in advanced economies.

In the air transport segment, the number of passengers on five domestic airlines (Malaysia Airlines System (MAS), AirAsia, Firefly, MASWings and AirAsia X) recorded a growth of 15.9% to 22 million passengers (January – July 2010: 20.2%; 19 million) attributed to sustained demand, particularly from budget travellers as well as network expansion to popular destinations. The favourable performance was also supported by capacity expansion, innovative promotional activities and competitive fares. Likewise, passenger traffic at all airports in the country increased 12.7% to 37.8 million (January – July 2010: 16%; 33.5 million). However, total air cargo handled at all airports declined 1.4% to 525 million tonnes (January – July 2010: 21.3%; 532 million tonnes) largely due to slower global demand for E&E products. Total air cargo handled by MASkargo and AirAsia also contracted 11.2% to 272 million tonnes (January – July 2010: 51.2%; 306 million tonnes).

The air transport industry is expected to remain challenging due to volatile fuel prices and moderating global economic prospects. As a result, the airline operators have embarked on a fleet upgrading exercise to purchase fuel-efficient and low-maintenance aircrafts as well as improve efficiency and upgrade facilities in an effort to reduce operating cost and enhance yield. Meanwhile, the comprehensive collaboration framework between MAS and AirAsia in August 2011 is expected to augur well for the growth of the airline industry. The collaboration allows the two airlines to leverage on their core strengths and enhance competitiveness vis-à-vis cost savings in aircraft purchase, cargo and catering services as well as training. Furthermore, the expected completion of KLIA2, the new low-cost carrier terminal, in 2013 is envisaged to further position Malaysia as the leading hub for travellers in the region.

The land transport segment continued to record positive growth driven by ongoing Government initiatives under the National Key Result Area (NKRA) to improve urban public transport in the Klang Valley, which targets to increase the modal share to 21% in 2011 (2010: 17%). In

the first seven months of 2011, total ridership on urban rail services (Ampang Line, Kelana Jaya Line, KL Monorail, Express Rail Link and KTM Komuter) expanded 9.5% to 108.1 million passengers (January – July 2010: 3.7%; 98.8 million). Major capacity and service enhancements of KTM Komuter include delivery of the first set of Electric Multiple Units in September 2011, provision of new facilities for the disabled in 10 additional stations as well as upgrading of the ticketing system in 53 stations.

Keretapi Tanah Melayu Berhad (KTMB) intercity passengers increased significantly by 8.2% to 2.6 million (January – July 2010: 21.3%; 2.4 million), raising revenue by 38.8% to RM65.8 million (January – July 2010: 13.9%; RM47.4 million) partly due to higher demand for the Electric Train Service (ETS) between Ipoh – Kuala Lumpur – Seremban. KTMB has also introduced Koc 1Rakyat on the ETS for the Ipoh – Kuala Lumpur route with discounted fares from 1 July until 31 December 2011. Furthermore, the ongoing Seremban – Gemas and Ipoh – Padang Besar electrified double-tracking projects are expected to boost passenger and cargo demand upon completion by 2012 and 2013, respectively. Meanwhile, KTMB freight revenue rose 5.5% to RM71.2 million (January – July 2010: 6.6%; RM67.5 million) largely attributed to higher shipment of construction-related materials.

Ridership on RapidKL bus services contracted 11% to 53.2 million passengers (January – July 2010: 0.5%; 59.8 million) while revenue declined 8.6% to RM74.8 million (January – July 2010: 27.8%; RM81.8 million) largely due to the modal shift to rail services. In contrast, ridership on RapidPenang bus services rose sharply by 24% to 18.3 million passengers (January – July 2010: 20%; 14.7 million) due to improved service efficiency and reliability which included introducing new routes and displaying travel schedules at bus stops.

The number of vehicles on tolled highways increased 9.8% to 881.3 million (January – July 2010: 8.4%; 802.6 million) attributed to higher

usage during the school holidays and festive seasons as well as provision of discounted toll rates. Meanwhile, the opening of the new Kuala Lumpur – Kuala Selangor Expressway (LATAR) in June 2011 has shortened journey time and provides an alternative route to the city centre for residents from Kuala Selangor, Ijok, Sungai Buloh, Rawang and Selayang.

The **utilities sub-sector** is expected to expand 3.1% in 2011 (2010: 8.2%) mainly due to higher electricity consumption in the industrial and commercial segments. During the first seven months of 2011, electricity generation and sales rose 2.6% and 2.7% (January – July 2010: 10.7%; 13.6%), respectively. The industrial segment accounted for 43.9% of total electricity consumption, followed by the commercial (33.8%) and household (20.8%) segments. Maximum demand for electricity peaked at 15,476 megawatts (MW) in May 2011 (January – July 2010: 15,072 MW in May). Meanwhile, water supply to consumers increased 4.2% to 14,648 million litres per day (mld) (January – July 2010: 4.2%; 14,060 mld). As of September 2011, five states have participated in the water asset restructuring programme aimed at ensuring sustainability and efficiency of water supply. Meanwhile, negotiations with Kelantan and Perak are expected to be concluded by end-2011.

Growth of the **other services sub-sector** is expected to sustain at 4.4% in 2011 (2010: 4%) mainly attributed to increased private education and healthcare activities. As at end-June 2011, there were 488 private higher education institutions, comprising 47 private universities and university colleges, five foreign university branch campuses as well as 436 private colleges. Meanwhile, the number of foreign students is expected to increase 7.5% to 93,442 in 2011 (2010: 7.6%; 86,923) supported by vigorous promotion and offerings of quality education at affordable costs. In addition, there were 126 private primary and secondary schools as well as 61 international schools and 15 expatriate schools as at end-July 2011. As for healthcare services, continuous efforts to promote health tourism have benefited the

Improving Public Transport in the Klang Valley – An Update

Introduction

The public transport system in the Klang Valley¹ is facing increased pressure due to a growing population, rapid economic development and rising expectations of the urban community. Although there has been massive investment in public transport infrastructure since the mid-1990s, many people still rely on private transport for their daily activities. This has contributed to traffic congestion, air and noise pollution as well as loss of productivity due to long commuting hours.

According to the August 2011 EIU's Global Liveability Index, which included public transport as one of the indicators, Kuala Lumpur was ranked 78th out of 130 cities, lagging behind other Asian cities such as Osaka (12), Hong Kong (31) and Singapore (51). With population in the Klang Valley expected to reach 10 million in 2020, there is an urgent need to meet the rising demand and expectations of the rakyat. An excellent public transport system is therefore imperative to address transport woes as well as enhance Kuala Lumpur as a liveable city. The key traits of an excellent public transport system include convenience, efficiency, reliability, connectivity, accessibility and safety.

Earlier Initiatives

Since the mid-1990s, the Government has invested significantly in transport infrastructure, particularly to restructure the public transport system in the Klang Valley. Among the earlier initiatives were the introduction of KTM Komuter service in 1995 and two light rail transit systems, namely the Ampang Line (previously known as the Star-LRT) in 1996 and Kelana Jaya Line (previously known as the Putra-LRT) in 1998. Subsequently, a high-speed train connecting Kuala Lumpur International Airport and Kuala Lumpur city centre was launched in 2002, operated by Express Rail Link Sdn. Bhd. (ERL). In addition, the KL Monorail system commenced operation in 2003 covering central business districts in the city centre while the RapidKL bus service was introduced in 2004 to provide a comprehensive bus network in the Klang Valley. Currently, all these services are owned by Syarikat Prasarana Negara Berhad (Prasarana) and operated by Rangkaian Pengangkutan Integrasi Deras Sdn. Bhd. (RapidKL), except for KTM Komuter and the ERL.

Modal Share

Despite these initiatives, the modal share² of public transport in the Klang Valley continued to decline from 20% in 1997 to 12% in 2008 due to growing affluence of the people, easy access to vehicle financing and an inefficient public transport system. In 2010, about 83% or 6 million trips were made through private transport, mostly involving single occupancy vehicles. In contrast, average daily ridership on both urban rail and RapidKL bus grew marginally by 2.6% compared with the 7.5% increase in private vehicle ownership in the Klang Valley in 2010. The number of cars in the Klang Valley is expected to reach 7 million by 2020, unless there is a marked shift to public transport. In addition, a comparison of public transport modal share in the Klang Valley with other cities such as Tokyo, London, Hong Kong and Beijing suggests much scope for improvement. The situation warrants concerted and intensified efforts to further increase the modal share of public transport to 50% and place Kuala Lumpur among the top 20 liveable cities by 2020, as outlined in the Greater KL National Key Economic Area (NKEA).

¹ Klang Valley or Greater Kuala Lumpur has 10 local authorities, comprising Kuala Lumpur, Klang, Kajang, Subang Jaya, Petaling Jaya, Selayang, Shah Alam, Ampang Jaya, Putrajaya and Sepang.

² Modal share is a transport term that describes the number of trips or percentage of travellers using a particular type of transport at any one time.

CHART 1

Rail Infrastructure in the Klang Valley



Source: Syarikat Prasarana Negara Berhad and Keretapi Tanah Melayu Berhad.

Recent Initiatives

The Government has introduced several new initiatives to improve the quality of urban public transport (UPT) service in the Klang Valley, which is one of the major concerns of the rakyat. Thus, the UPT National Key Result Area (NKRA) was launched in 2009, aimed at providing an efficient, reliable and integrated UPT system with adequate facilities and connectivity, which will contribute towards the seamless movement of people. These initiatives cover rail and bus services, supporting infrastructure as well as the establishment of the Land Public Transport Commission (SPAD).

Rail System

▪ KTM Komuter

The Government has purchased 38 sets of six-car Electric Multiple Units (EMUs) valued at RM1.9 billion to alleviate severe congestion in KTM Komuter trains. The first EMU set was delivered in September 2011 and will be operational by year-end. Beginning May 2011, the KTM Komuter service to Seremban was also extended further to Sungai Gadut. In addition, the implementation of a Contactless Smart Card system in 2012 is expected to expedite entry and exit of passengers at KTM Komuter stations.

▪ Light Rail Transit

To address congestion on the Kelana Jaya Line, particularly during peak periods, the Government has purchased 35 new four-car train sets, with 31 already in operation. Another four train sets are at the installation, testing and commissioning stage and will be operational by end-2011. In tandem with rising demand for public transport, efforts are underway to improve connectivity of the Kelana Jaya Line and Ampang Line. These lines will be extended from Kelana Jaya and Sri Petaling to Putra Heights, which will be the interchange station for both lines. The 35-kilometre (km) extension is anticipated to benefit more than two million residents in Subang Jaya – USJ and Kinrara – Puchong areas upon completion by 2014.

▪ Monorail

The capacity of the existing KL monorail will be enhanced to address congestion. A total of 12 four-car train sets will be procured, with the first two sets expected to be delivered by 2012. With the arrival of all train sets, ridership is expected to increase 24% from 22.1 million passengers in 2010 to 27.4 million passengers in 2014.

▪ MY Rapid Transit

Investment in rail facilities has been further intensified with the launch on 8 July 2011 of a mass rapid transit project, now known as MY Rapid Transit (MRT). The MRT project will be the Government's single largest infrastructure investment and serves as the key driver of Greater KL initiatives. The MRT will accelerate transformation of the public transport system in the Klang Valley and contribute towards achieving 50% public transport modal share by 2020. The Sungai Buloh – Kajang Line (SBK) is the first of a network of MRT lines being planned. The SBK line, which stretches 51 km, is expected to serve 1.2 million commuters along 31 stations with an approximate one-way travel time of 90 minutes.

With the expected completion of the SBK Line in 2016, the rakyat would experience a shorter journey time due to improved connectivity and integration. In addition, the provision of feeder buses, park and ride facilities, as well as reorientation of bus routes will allow commuters to plan and experience a convenient and hassle-free journey. Furthermore, as MRT ridership increases and the number of private cars on the road decline, traffic congestion will be reduced. The MRT system is also environment-friendly with lower greenhouse gas emission and fuel consumption. Notably, the MRT will have a significant multiplier impact such as generating economic activity in the Klang Valley and greater development in surrounding areas of the MRT line. The project is expected to generate annual direct gross national income of RM3 billion to RM4 billion from 2011 to 2020 and create 130,000 employment opportunities during the construction period.

CHART 2

Klang Valley MRT: Sungai Buloh – Kajang Line



Source: Land Public Transport Commission.

Bus Services

▪ RapidKL

RapidKL was established in 2004 to provide comprehensive bus services in the Klang Valley, including routes not served by private bus companies. As at end-July 2011, RapidKL's total bus fleet stood at 1,440 buses with an additional 70 new buses by end-2011 to widen the existing route coverage and increase feeder bus service to LRT stations. Furthermore, RapidKL is expected to launch a Fleet Tracking System by end-2011 to reduce waiting and journey time. With this new system, information such as arrival time, fleet number and route will be transmitted digitally to bus stops and depots as well as the control centre.

- **Bus Expressway Transit**

Five Bus Expressway Transit (BET) services were launched in 2010 with the aim of reducing bus journey time to the city centre by optimising the use of highways. In 2011, three new BET services which serve Bukit Beruntung – Pasar Seni, Sri Nilam – Lebu Ampang and Semenyih Sentral – Pasar Seni were launched. The BET services have reduced journey time between 15 and 60 minutes.

Supporting Infrastructure and Systems

- **Integrated Transport Terminals**

Three major integrated transport terminals (ITTs) have been planned to reduce congestion in the city centre. The first ITT in Bandar Tasik Selatan for south-bound buses started operations in January 2011. Meanwhile, another two ITTs will be built, with the ITT in Gombak for east-bound buses expected to be completed by 2013, while the ITT in Sungai Buloh will cater for north-bound buses. These ITTs will serve as intermodal terminals and city hubs for taxi, bus and rail services.

Meanwhile, the 35-year old Puduraya bus terminal was upgraded in 2010, aimed at improving services and public safety. The terminal, which was renamed as Pudu Sentral in August 2011, is now fully air-conditioned and equipped with facilities such as escalators and an improved public address system as well as closed-circuit television (CCTV) cameras for security.

- **Bus Stops and Train Stations**

By end-2011, a total of 634 bus stops will be refurbished to enhance passenger convenience and safety as well as quality of service. In addition, Keretapi Tanah Melayu Berhad will equip 10 Komuter stations with facilities for the disabled as well as provide park and ride facilities at 11 stations. Covered walkways linking LRT stations to commercial centres are also being constructed at key business areas such as Plaza Rakyat, Pasar Seni and Bandaraya stations. An important pedestrian bridge linking KL Sentral to the monorail station at Jalan Tun Sambanthan is being constructed and is expected to be completed by 2012.

- **Integrated Ticketing System**

Prasarana has introduced a new Integrated Ticketing System (ITS) with the aim to integrate ticketing and fare structure for all RapidKL rail and bus services with a single transit card. As at end-June 2011, four LRT stations have been equipped with the ITS. The new system will be fully implemented in all LRT stations by end-November 2011 and will be integrated with the monorail system in early 2012. Subsequently, Prasarana will integrate the ITS with RapidKL buses and KTM Komuter. The ITS will allow commuters to purchase and reload tickets online and reward loyalty points to users.

Establishment of Land Public Transport Commission

SPAD was established as the single agency responsible for planning, regulation and enforcement of land public transport in Peninsular Malaysia. Prior to the establishment of the SPAD, there were 13 agencies directly involved in public transport management. Upon establishment in June 2010, SPAD took over the functions of the Department of Rail, Commercial Vehicle Licensing Board and Licensing Division of the Tourism Ministry. SPAD is currently formulating a 20-year Public Transport Master Plan for the Klang Valley, which is scheduled to be completed by end-2011. The Master Plan includes short, medium and long-term initiatives on four major segments of UPT, namely rail, bus, taxi and transport infrastructure.

Key Performance Indicators

A series of key performance indicators for UPT have been identified to closely monitor the implementation and progress of various initiatives on improving public transport service. Recent data have yielded positive results, indicating that the Government is on track to achieve the NKRA targets. Total average daily ridership on urban rail increased 9.5% to 510,087 passengers during the first seven months of 2011 (January – July 2010: 3.7%; 465,934).

TABLE 1

Urban Public Transport Key Performance Indicators

Key Performance Indicators	2010	2011	
	(%)	End-August (%)	Target (%)
Percentage population within 400 metres of public transport routes	63	63	70
Customer satisfaction survey	48	48	50
Bus peak hour load factor	44	44	56
KTM Komuter load factor	130	140	125
Kelana Jaya Line load factor	80	87	80
Morning peak public transport ridership	236,412	237,905	346,184
Public transport modal share	17	17	21
Road safety index	-	3.0	3.1

Source: Performance Management and Delivery Unit.

Conclusion

The Government will continue to implement people-centric projects and programmes to deliver the best services for the rakyat in line with 1Malaysia: People First, Performance Now concept. Improving the public transport system is a people-centric initiative as well as an imperative to support Malaysia's transformation into a high-income and developed nation. An integrated, efficient and affordable public transport system will benefit the rakyat as well as contribute to higher productivity and economic activity. It will also enhance the nation's competitiveness and attractiveness as an investment destination while establishing Kuala Lumpur among the top 20 global liveable cities. Towards this end, the Government is committed to implementing various planned public transport initiatives, in particular the MRT project as well as ensuring stringent monitoring to achieve public transport modal share of 50% by 2020.

sub-sector. During the first half of 2011, the number of foreign patients grew 26.1% to 255,291 (2010: 22.6%; 202,374), generating revenue of RM229.1 million (2010: RM202.5 million). For 2011, the number of foreign patients is targeted to reach 440,000 with expected revenue of RM431 million (2010: 392,956; RM379 million). Meanwhile, the **government services sub-sector** is expected to grow 7.6% in 2011 (2010: 5.8%) on account of improved productivity and service delivery.

Manufacturing Sector

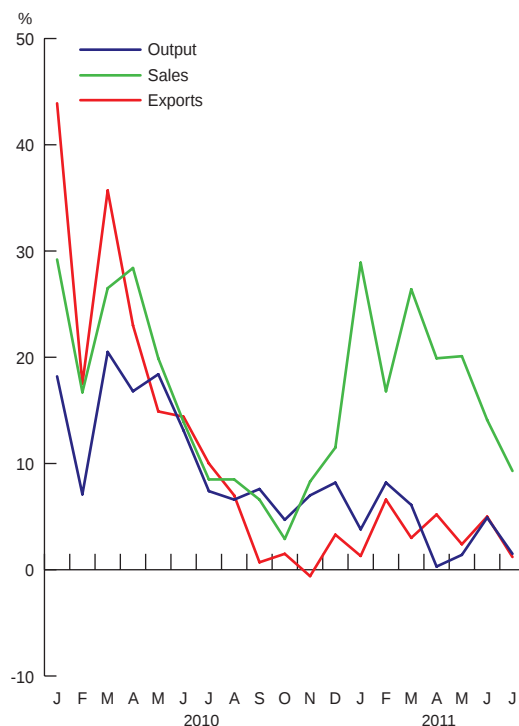
Growth in domestic-oriented industries remains strong

Value-added of the **manufacturing sector** grew at a slower pace of 3.8% during the first six months of 2011 (January – June 2010: 16.5%). The slower growth was due to global supply chain disruptions, high-base effect and a weaker external environment. Output of the sector increased 3.6% (January – July 2010: 14.4%) with sales value of manufactured products expanding 10.8% to RM341 billion (January – July 2010: 18.8%; RM307.7 billion). Output from export-oriented industries grew moderately by 2.7% (January – July 2010: 13.2%) due to the fall in shipments of E&E products following lower external demand from major trading partners. Domestic-oriented industries continued to expand, albeit at a slower pace of 6.6% (January – July 2010: 18.4%) mainly driven by the construction-related, rubber and plastics sub-sectors. The capacity utilisation rate remained stable during the first half of 2011 at about 82% while the average employment and wage bills in the sector expanded 5.8% and 8%, respectively during the same period. The expansion in average employment and wages were driven largely by resource-based and domestic-oriented industries. Value-added of the sector is expected to moderate to 4.5% this year (2010: 11.4%) in tandem with the increasing uncertainty in external demand.

Output of **E&E** contracted 4.9% during the first seven months of 2011 (January – July 2010: 29%) largely due to the global supply chain disruptions and lower global chip sales. Of significance,

CHART 3.2

Performance of Manufacturing Sector (% annual change)



Source: Department of Statistics, Malaysia.

production of semiconductors and other electronic components, the leading export earner in the E&E sub-sector declined 6.3% (January – July 2010: 39.1%), after a strong growth last year. The lower performance was also in line with the Semiconductor Equipment and Materials International's (SEMI) book-to-bill ratio of less than one recorded for eight consecutive months in 2011, indicating lower foundry utilisation and investment by memory chip makers. Lower orders for notebooks and personal computers arising from increased preference for smartphones and media tablets coupled with uncertainties over the US and European economies, adversely affected the sub-sector.

In addition, the growing popularity for solid-state drive (SSD) has affected the output of hard-disk drive (HDD) components manufactured in Malaysia. Similarly, output of office, accounting and computing machinery fell sharply by 31.1% (January – July 2010: -14.8%). The overall

TABLE 3.3

Manufacturing Production Index
January – July
 (2005 = 100)

	Index		Change (%)		Share (%)	
	2010	2011	2010	2011	2010	2011
Export-oriented industries	106.3	109.2	13.2	2.7	76.5	75.9
Electrical and electronic products	99.2	94.3	29.0	-4.9	28.7	26.4
Chemicals and chemical products	119.6	126.2	16.2	5.6	18.7	19.0
Petroleum products	106.1	116.0	-10.8	9.3	15.0	15.9
Wood and wood products	85.5	79.6	20.0	-7.0	3.5	3.1
Off-estate processing	106.4	113.1	2.1	6.3	3.5	3.6
Rubber products	146.3	168.9	25.6	15.4	3.3	3.7
Paper products	124.8	144.2	18.7	15.6	2.4	2.7
Textiles, apparel and footwear	80.7	92.6	-0.4	14.8	1.4	1.5
Domestic-oriented industries	131.8	140.5	18.4	6.6	23.5	24.1
Non-metallic mineral and other related products	115.7	147.1	20.7	27.1	3.1	3.8
Fabricated metal products	163.3	204.5	14.7	25.2	4.2	5.0
Basic metals	113.1	115.8	29.4	2.4	2.5	2.5
Transport equipment	137.0	124.1	36.6	-9.4	5.3	4.7
Food products	132.3	135.4	3.1	2.4	5.0	4.9
Beverages	134.4	151.4	29.2	12.6	1.6	1.7
Tobacco products	92.3	90.2	-1.0	-2.3	0.3	0.3
Others	126.3	107.5	4.9	-14.8	1.4	1.2
Total	111.3	115.4	14.4	3.6	100.0	100.0

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

performance of the E&E sub-sector was, however, cushioned by the machinery and equipment sub-sector, which increased 19.5% during the period (January – July 2010: 43.7%) largely driven by higher production of air conditioning, refrigerating and ventilating machinery (15.6%) as well as manufacture of machine tools (40.6%). The E&E sub-sector is expected to moderate in the second half of 2011, due to the increasingly uncertain external environment.

Production of **chemicals and chemical products** rose 5.6% (January – July 2010: 16.2%). While output of basic chemicals contracted 8.2% (January – July 2010: 11.1%), other chemical and plastic products recorded a positive growth of 30% and 20.7% (January – July 2010: 59.9%;

1.7%), respectively. Meanwhile, **petroleum** output turned around by 9.3% (January – July 2010: -10.8%) underpinned by strong output of gasoline (52.3%), fuel oil (46.8%), diesel and gas (29.2%) as well as liquefied petroleum gas (2.1%). The expansion reflected strong domestic demand in the transportation sector.

Production of **wood and wood products** contracted 7% (January – July 2010: 20%) largely due to slower output of wooden and cane furniture (-15.6%) as well as veneer sheets and plywood (-7.3%). However, the sub-sector is expected to rebound when Japan's reconstruction efforts gain momentum and new housing projects start in the Middle East after the month of Ramadhan.

TABLE 3.4

Growth of the E&E Sub-sector
January – July
 (2005 = 100)

	Change (%)		Share (%)	
	2010	2011	2010	2011
Total E&E	29.0	-4.9	28.7	26.4
Semiconductors and other electronic components	39.1	-6.3	12.2	11.0
Audio visual and communication apparatus	69.3	6.6	5.3	5.4
Office, accounting and computing machinery	-14.8	-31.1	5.5	3.7
Electrical machinery and apparatus	53.3	6.6	3.0	3.1
Domestic appliances	12.9	15.4	0.3	0.3
Machinery and equipment	43.7	19.5	2.5	2.8

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

Output of **rubber products** increased 15.4% (January – July 2010: 25.6%) supported by continuous demand for rubber gloves (21.5%) as well as rubber tyres and tubes (10.5%). Growth was also attributed to improved manufacturing process which increased output efficiency despite high latex prices. Demand for rubber gloves remained resilient, particularly in the medical and healthcare industry. Meanwhile, production of rubber tyres and tubes continued to grow, albeit at a moderate pace, due to slower sales of transport vehicles in the region. Nevertheless, the sub-sector is expected to remain resilient supported by continuous improvements in medical and healthcare standards in emerging markets as well as demand from niche markets such as the oil and gas sector for rubber hoses.

Production of **textiles, apparel and footwear** grew 14.8% (January – July 2010: -0.4%) led by higher output of wearing apparel (31.5%)

TABLE 3.5

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

	Change (%)		Share (%)	
	2010	2011	2010	2011
Construction-related materials				
of which:				
Glass and glass products	72.9	35.1	0.8	1.1
Hydraulic cement	-7.2	10.0	1.0	1.0
Structural metal products, tanks, reservoirs and steam generators	-15.6	47.2	1.4	2.0
Wire, wire products and metal fasteners	19.4	6.2	0.7	0.7
Basic iron and steel	35.5	8.5	1.5	1.6
Basic precious and non-ferrous metals	21.3	-6.8	1.0	0.9

Note: Total may not add up due to rounding.

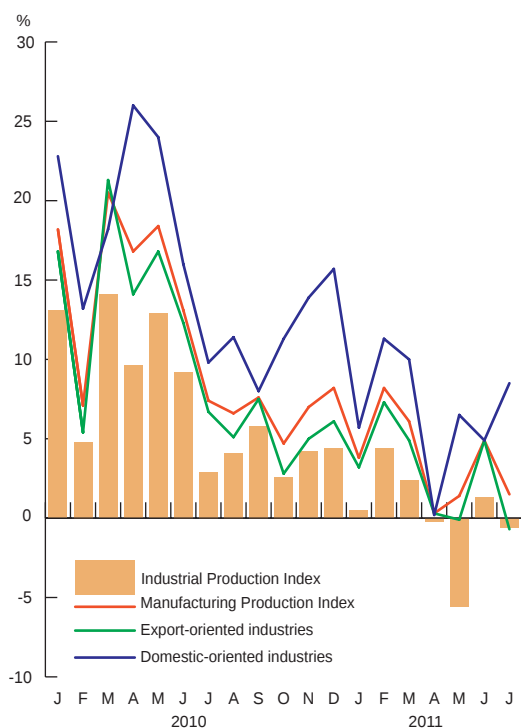
Source: Department of Statistics, Malaysia.

and footwear (23%). This was attributed to greater demand, particularly from Turkey, the Middle East and emerging economies such as China for high quality garments as a result of rising affluence and household income. The local industry players' ability to produce quality designs and diversification of product lines to cater to different market segments as well as market under their own labels are expected to help sustain the growth of this sub-sector. In addition, the upcoming 2012 Olympic Games is anticipated to boost demand for sports attire and strengthen the sub-sector's growth further.

On the domestic front, output of **construction-related materials** as a group grew strongly by 20% (January – July 2010: 20.1%) following robust housing construction activities and aided by ongoing implementation of civil engineering projects. Production of non-metallic minerals and fabricated metal products remained strong,

CHART 3.3

Output of Manufacturing Sector (% annual change)



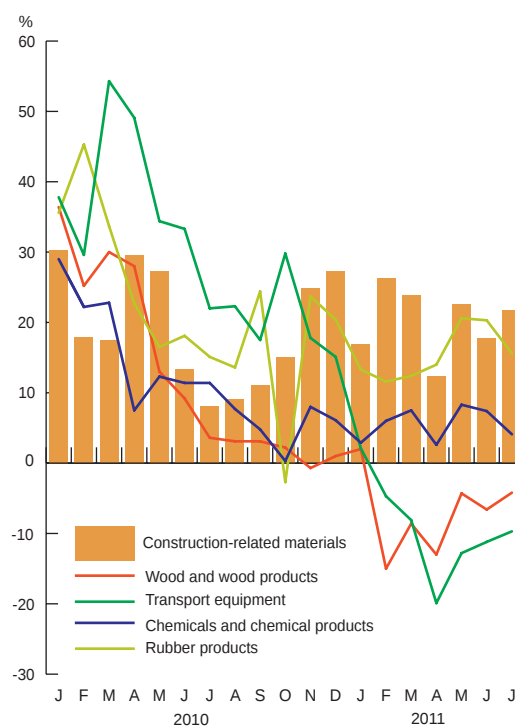
Source: Department of Statistics, Malaysia.

expanding 27.1% and 25.2% (January – July 2010: 20.7%; 14.7%), respectively. In particular, refractory ceramics (66.5%), glass and glass products (35.1%), hydraulic cement (10%) and structural metal products (47.2%) grew steadily despite higher prices. The sub-sector is expected to remain robust with the commencement of the 10MP projects, acceleration in implementation of the ETP and Government Transformation Programme (GTP) projects as well as the construction of Penang Second Bridge, KLIA2 and housing projects under Program Perumahan 1Malaysia (PR1MA) in the second half of the year.

The manufacture of **transport equipment** shrank 9.4% (January – July 2010: 36.6%) as a result of supply chain disruptions caused by the earthquake and tsunami in Japan. Given that many of the automotive manufacturers are practicing just-in-time inventory management,

CHART 3.4

Performance of Selected Sub-sectors (% annual change)



Source: Department of Statistics, Malaysia.

shortage of automotive parts and accessories, particularly engines, electronic and resin-based components, forced automakers to scale down production. Consequently, the production of motor vehicles as well as parts and accessories for motor vehicles and engines contracted sharply by 13% and 11%, respectively. This was also reflected in the total industry volume (TIV) of new motor vehicles registered during the second quarter of 2011 which declined 9.7% to 138,771 units, mainly caused by a drop in sales of passenger vehicles. However, production of passenger vehicles are expected to improve in the second half of 2011 with the normalisation of the supply of automotive components and the launching of new and face-lifted models.

Production of **food** rose 2.4% (January – July 2010: 3.1%) driven by the manufacture of refined palm oil (1.7%), processed and

preserved fish products (8.1%) as well as other food products (16.8%) such as bakery, chocolate and sugar confectionery. Growth of the sub-sector was, however, affected by lower manufacture of dairy products (-39.7%). Production of **beverages** increased 12.6% (January – July 2010: 29.2%) while **tobacco** declined 2.3% (January – July 2010: -1%) in line with efforts to replace tobacco planting with more remunerative crops.

Going forward, the manufacturing sector is expected to be driven by higher value-added activities. In this regard, further tax and non-tax incentives will be provided to encourage manufacturers to move up the value chain. The new growth initiatives in the manufacturing sector such as solar and medical devices would be important drivers of growth apart from helping to diversify the manufacturing base and contributing to the resilience of the sector.

Moving Up the Value Chain: Solar and Medical Device Industries in Malaysia

The Need to Move Up the Value Chain

- Malaysia is facing intense competition from regional producers who are in a better position to compete in prices.
- Moving up the value chain is central to the nation's productivity agenda to help Malaysia become a fully developed and high-income economy by 2020.

Why Solar and Medical Device Industries?

- Spin-offs from the semiconductor industry and multinational corporations (MNCs) business where Malaysia has a strong base and expertise.
- Attracted significant inflows of FDI.
- Significant upside potential and opportunities for future development.

Solar Industry

- The solar industry is relatively new to Malaysia. It is concentrated among a select few world-class multinational players, and has experienced tremendous growth recently.
- Malaysia has established itself as an important global player in the photovoltaic (PV) industry.
- Malaysia has shown substantial progress in claiming market share for wafer, cell and module production and is expected to supply 10% of these components globally.
- Malaysia has attracted several global players in PV manufacturing since 2008.

Medical Device Industry

- The medical device industry is more mature and heterogeneous comprising many home-grown local firms with varying degrees of internal capability and external competitiveness.
- Malaysia's medical device industry can be categorised into three groups:
 - a. Group 1: Mature companies producing consumable products, such as latex and rubber gloves or rubber tubes that are utilised in blood transfusion or dialysis equipment.
 - b. Group 2: Companies that produce relatively complex orthopedic equipment or other devices utilising locally developed high precision machinery.
 - c. Group 3: MNCs that import most of the components necessary to assemble complex devices for exports.
- For the past five years, medical device companies have been growing at a faster rate than pharmaceutical companies globally.

Realising that small and medium enterprises (SMEs) play a significant role in the economy, the Government has put in place various strategies and incentives to encourage SMEs to undertake high-value added activities such as innovation, design, research and development (R&D). A key strategy implemented

in 2011 was the introduction of the Green Lane Policy (GLP) for SMEs. Under this policy, eligible innovative SMEs will be entitled to four main incentives, namely, soft loans, tax benefits, priority in Government procurement and Minister of Finance (Incorporated) (MOF Inc.) companies' procurement programmes.

Green Lane Policy

The Green Lane Policy (GLP) is aimed to fast track and facilitate certified innovative small and medium enterprises (SMEs) in obtaining soft loan, tax, Government procurement and Minister of Finance (Incorporated) (MOF Inc.) companies incentives. It is also part of the Government efforts in building an enabling environment to promote innovation.

To enjoy the GLP incentives and privileges, SME companies must be certified by any one of the following organisations:

- i. SME Corporation Malaysia (through the 1-InnoCERT¹ certification);
- ii. Malaysia Technology Development Corporation (MTDC);
- iii. Malaysia Biotechnology Corporation (BiotechCorp); or
- iv. Multimedia Development Corporation (MDeC).

The GLP incentives offered for qualified SME companies are as follows:

- i. Soft Loan Incentive
 - 2% annual interest rate subsidy subject to a maximum of RM200,000 per year or a cumulative amount of RM1,000,000 for five years for each company.
- ii. Tax Incentive
 - Stamp duty exemption (Section 80(1) Stamp Act 1949) on loan agreement instruments for Soft Loan Incentive; and
 - Tax deduction (Section 154(1) Income Tax Act 1967) on expenditure incurred to obtain 1-InnoCERT certification.
- iii. Government Procurement Incentive
 - Approval as MOF registered manufacturing company without on-site inspection;
 - Bonus mark awarded for technical evaluation;
 - Priority given to participate in offset programme; and
 - Consideration to be listed in the Central Contract / Panel Contract System.
- iv. MOF Inc. Companies Incentive
 - Goods/services offered will be given priority treatment in MOF Inc. procurement subject to Government procurement terms set by MOF.

Details of qualifying criteria can be found in the Treasury Circular No. 7/2011 *Garis Panduan bagi Pemberian Insentif di bawah Polisi Laluan Hijau* accessible at <http://www.treasury.gov.my/pekeliling/pp/pp072011.pdf>.

¹ 1-Innovation Certification for Enterprise Rating and Transformation.

Agriculture Sector

Stronger growth expected

Value-added of the **agriculture sector** expanded 3.4% in the first half of 2011 (January – June 2010: 4.9%) driven by higher crude palm oil (CPO) and rubber production. The production of livestock, fruits and vegetables also expanded strongly. Measures to increase food production through the implementation of high impact projects such as Aquaculture Industrial Zone (AIZ) and Permanent Food Production Park (PFPP) have contributed to higher activity in the agriculture sector. With the implementation of Government initiatives to expand new sources of growth, particularly edible bird nests (EBN), seaweed, ornamental fish and herbal products, the sector is expected to contribute strongly in increasing rural household income and employment.

For 2011, value-added of the agriculture sector is envisaged to expand 4.7% (2010: 2.1%).

Value-added of the **oil palm sub-sector** rose 7.6% during the first half of 2011 (January – June 2010: 0.3%) following higher production of CPO. Production of CPO surged 8.2% to 12 million tonnes during the first eight months of 2011 (January – August 2010: 1.8%; 11.1 million tonnes) on account of increased fresh fruit bunches (FFB) yield per hectare and matured areas in Sabah and Sarawak. Average FFB yield increased to 12.52 tonnes per hectare (January – August 2010: 11.76 tonnes per hectare) following improved weather conditions in the second quarter. However, the oil extraction rate (OER) contracted marginally to 20.26% (January – August 2010: 20.41%) due to lower yields from new matured areas and heavy rainfall in the early part of the year.

Expanding Production of Edible Bird Nests

Rationale

The annual global market for edible bird nests (EBN) or swiftlet nests is RM10.2 billion, of which Malaysia is currently the second largest producer in the world with RM1.5 billion sales. Despite the industry growing strongly at 20% per annum, challenges remain. These include:

- The bulk of current products are sold or exported as raw material without a traceability system;
- Lack of coordination in regulations and enforcement resulted in some unscrupulous operators exporting adulterated EBN; and
- Lack of EBN research for productivity improvement and downstream uses.

Target and Action

- Establish 8,500 additional EBN premises in Sabah and Sarawak as well as 4,500 in Peninsular Malaysia.
- Aim to capture 40% of the global market in 2020 by increasing production and downstream activities.
- The Swiftlet Industry Guidelines were launched on 19 January 2011. The guidelines will allow registration of bird houses and enable certification of Malaysia Bird Nest to help increase the value of EBN in the international market.
- All operators and exporters of EBN must register their premise location and business particulars with the Department of Veterinary Services (DVS). To date, 936 bird houses have been registered with the DVS.
- Exporters of EBN (exceeding one kilogramme) must obtain export permits and Veterinary Health Certificate from the DVS.
- The DVS is collaborating with Universiti Putra Malaysia in research and development (R&D) of EBN which includes nutritional aspect and development of downstream products.

TABLE 3.6

**Value-Added in the Agriculture Sector
2010 – 2011**

(at constant 2000 prices)

	Growth (%)		Share to Agriculture (%)	
	2010	2011 ¹	2010	2011 ¹
Agriculture	2.1	4.7	100.0	100.0
Oil palm	-3.4	7.3	30.1	30.8
Rubber	9.7	6.4	4.7	4.8
Cocoa	-13.3	-40.9	0.1	0.0
Forestry and logging	-3.3	-4.7	17.6	16.0
Other agriculture ²	7.9	8.5	18.0	18.7
Fishing	5.6	2.8	18.0	17.7
Livestock	9.7	8.6	11.5	12.0

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

Note: Total may not add up due to rounding.

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

TABLE 3.7

**Oil Palm Area and Palm Oil Production
2010 – 2011**

	2010	2011 ¹	Change (%)	
			2010	2011 ¹
Planted areas ('000 hectares)	4,854	5,068	3.5	4.4
Matured areas ('000 hectares)	4,202	4,399	3.1	4.7
Production ('000 tonnes)				
Crude palm oil	16,994	18,300	-3.3	7.7
Palm kernel oil	2,015	2,200	-3.9	9.2
Yield (tonnes/hectare) ²	18.03	20.79	-6.1	15.3

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 increased 4.3% to 5 million hectares (end-June 2010: 4.8 million hectares), with the opening of new areas mainly in Sabah and Sarawak. Of the total planted areas, 28.8% or 1.4 million hectares are located in Sabah, contributing about 31% to overall total production of CPO. The launches of the Oil Palm Replanting and New Planting Smallholders Schemes under the palm oil National Key Economic Areas (NKEAs) is expected to increase total oil palm cultivated areas to 5.1 million hectares in 2011 (2010: 4.9 million hectares).

With the increase in matured areas, higher FFB yields and improving OER, the oil palm sub-sector is expected to expand in 2011. In addition, the implementation of EPPs in the agriculture sector to enhance upstream productivity and downstream activities will further boost the sub-sector. Value-added of the sub-sector is expected to rebound 7.3% in 2011 (2010: -3.4%).

Meanwhile, palm oil inventory stood at 1.88 million tonnes as at end-August 2011 (end-August 2010: 1.71 million tonnes), compared with a high of 2.05 million tonnes recorded in June 2011, following stronger-than-expected production and higher imports. On a year-on-year basis, stock was higher by 10.2%. Despite the higher stock level, CPO prices strengthened to average RM3,356 per tonne during the first eight months (January – August 2010: RM2,555 per tonne) due to sustained demand and strong soyabean prices. The recent price discount for CPO of around USD200 per tonne (August 2011) compared with soyabean oil will help sustain demand and prices of CPO. The CPO prices are expected to average RM3,200 per tonne in 2011 (2010: RM2,701 per tonne).

Oil palm is one of the main drivers of Malaysia's agriculture sector, accounting for 71% of its agricultural land bank. The palm oil industry is

TABLE 3.8

**Rubber Area, Yield and Production
2010 – 2011**

			Change (%)	
	2010	2011	2010	2011
Total area (‘000 hectares)	1,020	1,048	-0.2	2.7
Smallholdings	956	967	-0.5	1.2
Estate	64	81	5.2	26.5
Yield (kg per hectare)	1,480	1,510	2.1	2.0
Smallholdings	1,470	1,500	2.1	2.0
Estate	1,620	1,630	0.6	0.6
Total production (‘000 tonnes)	939	1,000	9.6	6.5
Smallholdings	883	950	10.2	7.6
Estate	56	50	0.0	-10.7
% of world production	9.0	9.2		

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.

forecast to grow 7.1% over the next 10 years, driven by further gains in average productivity of FFB yields and OER, new plantation expansion of Malaysian companies abroad, as well as the venture of large plantation companies into high potential downstream activities such as processed food, biodiesel, second generation biofuel, and oleochemicals.

Value-added of the **rubber sub-sector** grew 8.4% (January – June 2010: 17.4%) on account of higher output following improved weather conditions and firm rubber prices. Production of natural rubber increased strongly by 10.8% to 0.6 million tonnes (January – July 2010: 13.9%; 0.5 million tonnes), with 95% contributed by smallholders. In 2011, production is expected to increase 6.5% to 1 million tonnes (2010: 9.6%; 939,241 tonnes) as smallholders are expected to increase tapping activities following higher

rubber prices. With stronger rubber production, value-added of the sub-sector is expected to expand 6.4% in 2011 (2010: 9.7%).

The price of natural rubber (SMR 20) remained high at RM14.35 per kilogramme during the first eight months (January – August 2010: RM9.76 per kilogramme), with an all-time high of RM17.17 per kilogramme on 18 February 2011. The favourable price was supported by stronger demand, particularly from China as well as tight supply due to lower output from Thailand, the world's largest rubber producer. Global tyre demand is envisaged to expand at a faster pace, led by strong vehicle sales in China which will help sustain rubber prices. Hence, rubber prices are expected to remain firm and average at RM13.00 per kilogramme in 2011 (2010: RM10.58 per kilogramme).

Total rubber planted areas are expected to increase 2.7% to 1.05 million hectares in 2011 (2010: -0.2%; 1.02 million hectares) with the Government's annual target of opening up 30,000 hectares of new areas, mainly in Sabah and Sarawak. Meanwhile, efforts have been intensified to increase rubber productivity to achieve the target of 2 million tonnes output by 2020. These include the establishment of MRB Similajau Station and Malaysian Rubber Budwood Centre in Bintulu. These centres were set up to produce high-yielding and quality latex clones such as RRIM 3001 and RRIM 928 as well as timber clones such as RRIM 2023 and RRIM 2025. In addition, a replanting grant of RM67.4 million was allocated in 2011 to boost rubber output.

Value-added of the **fishing sub-sector** moderated to 1.6% in the first half of 2011 (January – June 2010: 5.4%) due to a sharp decline in aquaculture production during the second quarter of 2011. Aquaculture production declined 2.2% (January – June 2010: 38.8%), particularly due to lower production of tilapia, a major aquaculture produce, which was affected by streptococcus infection. Marine fish landings, however, increased marginally by 0.5% (January – June 2010: -2.9%).

Aquaculture production is expected to rebound in the second half of the year with the speedy implementation of AIZ projects. To date, 30 AIZs have commenced operations, including in Perak; Semporna, Sabah; and Sungai Como, Terengganu. Malaysia aims to achieve 727,300 metric tonnes of aquaculture produce by 2015. To further spur the aquaculture industry and venture into the international market, the Government has intensified marketing efforts, including participating in international exhibitions such as European Seafood Show in Brussels, Belgium and International Boston Seafood Exposition in the US. Following the positive response from these marketing efforts, it is expected that RM450 million worth of fish fillets will be shipped to the US in 2011. The expansion of aquaculture sub-sector is expected to offset the slowdown in marine activity due to depleting resources. Value-added of the fishing sub-sector is expected to grow at a moderate pace of 2.8% in 2011 (2010: 5.6%).

The **livestock sub-sector** grew 9.5% (January – June 2010: 11.6%) mainly due to higher production of poultry, eggs and cattle. In 2011, the livestock sub-sector is expected to grow 8.6% (2010: 9.7%) following increased demand for meat products as household income rises. To further develop the livestock sub-sector, the Government plans to develop three dairy clusters with 27,000 heads of dairy cattle and processing facilities to increase output of dairy products. In addition, feedlot farming will be expanded via an increase in the number of small-scale feedlotlers and development of one anchor company to strengthen the link between farm and consumer.

The **other agriculture sub-sector** expanded strongly by 8.4% (January – June 2010: 9%) on account of higher output of padi, fruits and vegetables. Padi production is expected to increase 8.1% to 2.7 million tonnes in 2011 (2010: -1.8%; 2.5 million tonnes) contributed by higher output, especially from granary areas and expansion of padi areas. Output from granary areas is expected to increase 4.7% to 1.84 million tonnes (2010: -3.4%; 1.76 million tonnes). The modernisation of irrigation systems, upgrading

TABLE 3.9

**Production of Other Agriculture
2010 – 2011**
(‘000 tonnes)

	2010	2011 ¹	Change (%)	
			2010	2011 ¹
Livestock				
Meat ²	283	283	13.0	-0.1
Poultry	1,296	1,334	7.8	2.9
Eggs (million)	9,826	10,358	6.0	5.4
Milk (million litre)	67	71	7.5	5.8
Miscellaneous agriculture				
Fruits ³	1,164	1,268	4.2	8.9
Pepper	24	26	10.5	6.0
Vegetable	1,020	1,035	29.6	1.5
Coconut (million unit)	547	575	44.3	5.1
Tobacco (million kg) ⁴	31	31	24.2	2.9
Flowers (million cutting)	468	497	13.9	6.3

¹ Estimate.

² Including beef, mutton and swine.

³ Consists of star fruit, papaya, durian, guava, mango, mangoestein, 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, Ministry of Plantation Industries and Commodities and Ministry of Finance, Malaysia.

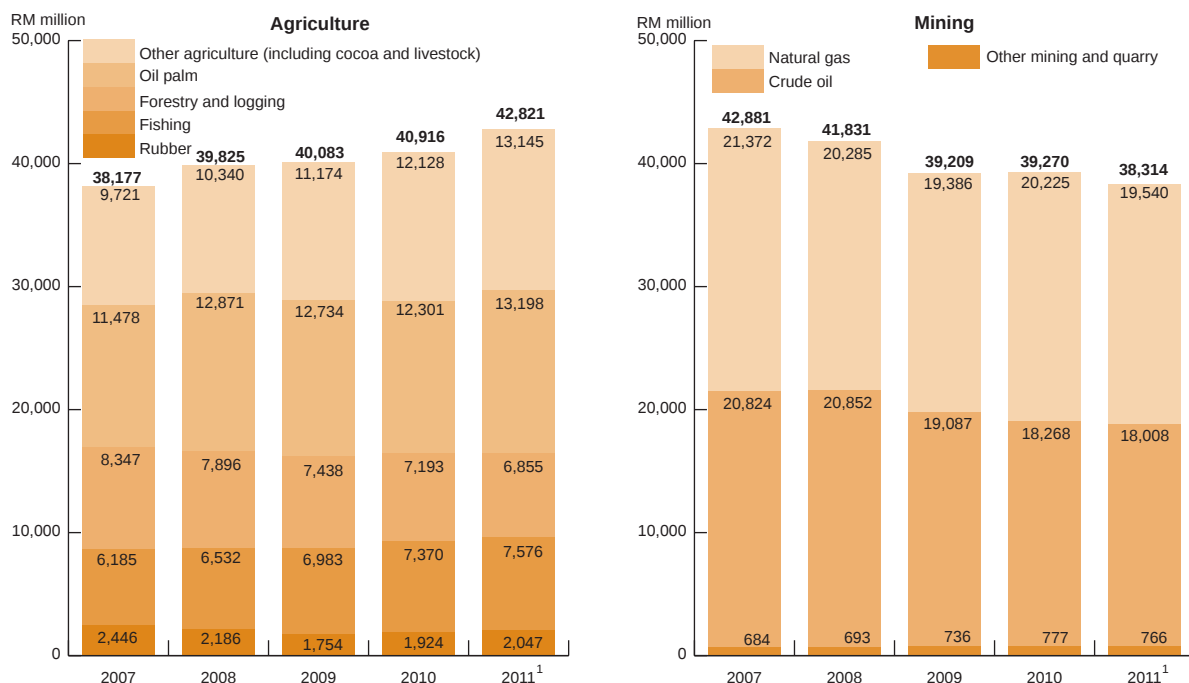
of infrastructure, high quality seeds, and modern agronomic practices are anticipated to increase overall productivity for padi to 3.9 tonnes per hectare (January – June 2010: 3.8 tonnes per hectare). Consequently, the self-sufficiency level for padi in 2011 is expected to reach 72.2% (2010: 71.4%), exceeding the 70% target under the 10MP.

Value-added of vegetables and fruits increased 10.1% and 12.3% (January – June 2010: 7.1%; 15.7%), respectively as a result of rising productivity following good agricultural practices and modern planting techniques such as fertigation and rain shelter. Meanwhile, stronger demand from new markets such as China and the Middle East for tropical fruits, especially pineapples 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.

jackfruits contributed to the favourable growth of the sub-sector. The opening up of more PFPP for vegetables and fruits is expected to increase production. In addition, the Government will continue to upgrade infrastructure, facilities and logistics to support supply chain of the sub-sector, particularly in the PFPP. For 2011, the sub-sector is expected to increase 8.5% (2010: 7.9%).

Mining Sector

Lower production of crude oil

The **mining sector** registered a contraction of 6.6% in the first half of 2011 (January – June 2010: 1.2%) due to lower production of crude oil. The shutdown of several facilities for maintenance as well as upgrading to expand oil and gas production capacity led to lower

activity in the mining sector during the first half of 2011. Production of oil and gas is expected to resume to its normal level in the second half of the year upon completion of maintenance and refurbishment of plants. Hence, the sector is envisaged to post a smaller contraction of 2.4% in 2011 (2010: 0.2%).

During the first seven months of 2011, production of crude oil (including condensates) fell 12% to 568,802 barrels per day (bpd) (January – July 2010: -2.6%; 646,476 bpd). This was due to repair and maintenance works under Petroliaim Nasional Berhad's (PETRONAS) Reservoir Management Plan to extend the productive capacity of reservoirs. However, production is envisaged to pick up following completion of the Plan and resumption of production in several oil fields in Sabah. Production of crude oil is expected to register a smaller contraction of 6% to 600,000 bpd in 2011 (2010: -3.1%; 638,260 bpd).

Oil prices remained high during the first half of 2011 amid continued constraints on global oil supplies due to the political upheavals in the Middle East coupled with stronger global demand, particularly from China and India. Against this backdrop, Dated Brent traded at an average price of USD111.52 per barrel (January – August 2010: USD77.20 per barrel). Likewise, Malaysia's Tapis Blend which closely tracks the price movements of Dated Brent, traded at an average price of USD118.21 per barrel (January – August 2010: USD80.86 per barrel). Oil prices are expected to trend lower on weak economic outlook in the Organisation for Economic Co-operation and Development (OECD) countries and heightened global uncertainties in the second half of 2011. Despite these uncertainties, fundamental supply-demand pressure will continue to keep prices at elevated levels in line with the International Energy Agency's (IEA) forecast that global demand will outstrip supply by 0.2 million bpd in 2011. Hence, Tapis prices are expected to sustain at an average of USD108 per barrel in 2011 (2010: USD83.84 per barrel).

Production of natural gas also decreased marginally by 0.3% to 1,259,725 million standard cubic feet (mmscf) during the first seven months of 2011 (January – July 2010: 1.4%; 1,263,774 mmscf) due to the shutdown of PETRONAS gas production platforms for maintenance works at liquefied natural gas (LNG) plants. However, for

TABLE 3.10

Production and Reserves of Crude Oil and Natural Gas 2010 – 2011

			Change (%)	
	2010	2011 ¹	2010	2011 ¹
Crude oil				
Production ² (‘000 barrels per day)	638.3	600.0	-3.1	-6.0
Reserves (billion barrels)	5.80	5.86	5.1	1.0
Reserves/production (years)	24	25		
Natural gas				
Production ³ (‘000 million standard cubic feet) (mmscf)	2,164.5	2,220.0	2.1	2.6
Reserves (trillion cubic feet)	88.6	88.9	0.8	0.3
Reserves/production (years)	38	39		

¹ Estimate.

² Including condensates.

³ Excluding flaring and reinjection.

Note: Total may not add up due to rounding.

Source: PETRONAS.

New Incentives for Marginal Oil Field Development

The five incentives to develop new oil and gas resources, technically challenging resources and to stimulate domestic exploration activity:

- Reduced tax rate from 38% to 25% for marginal oil field development.
- An accelerated Capital Allowance to 5 years from 10 years for marginal oil field development.
- Waiver of export duty on oil produced and exported from marginal oil fields.
- An investment tax allowance of between 60% – 100% on capital expenditure to be deducted against statutory income to encourage the development of capital-intensive projects.
- Allow Qualifying Exploration Expenditure transfer between non-contiguous petroleum agreement with the same partnership or sole proprietor to enhance contractors' risk taking and encourage a higher level of exploration activity.

the remaining months of the year, production of natural gas is expected to rise following the increase in capacity as a result of expansion from MLNG DUA Debottlenecking project and improved output in other LNG plants. In addition, LNG exports are projected to expand backed by increasing demand from Japan following the government's plan to reduce reliance on nuclear energy and closure of a few nuclear plants. Furthermore, the Tangga Barat cluster fields in offshore Terengganu are expected to commence production in the third quarter of 2011. Consequently, production of natural gas is anticipated to expand 2.6% to 2,220,000 mmscf in 2011 (2010: 2.1%; 2,164,477 mmscf).

Meanwhile, deep water exploration has been carried out to sustain crude oil and natural gas production levels. In 2011, four new oil fields were discovered at Spaoh and Saratok in offshore Sarawak as well as at Tambuku and Menggatal in offshore Sabah. In addition, a new gas field was discovered at Zuhai East in offshore Sabah. To date, exploration and drilling activities have resulted in 76 oil and 48 gas fields contributing to production in Malaysia. Apart from exploration activities, PETRONAS continues to make significant investment to secure long-term supply of oil and gas. These include the construction of an LNG regasification terminal and development of marginal oil fields. To further promote exploratory activities in upstream oil and gas, the Government has announced several incentives, particularly for marginal oil field exploration and development to increase lifespan of oil and gas reserves.

Following these efforts, PETRONAS will develop Berantai field in Terengganu as the first marginal oil field, with production to commence by the fourth quarter of 2011. As at 1 January 2011, crude oil reserves (including condensates) are estimated at 5.86 billion barrels with an expected lifespan of 25 years (1 January 2010: 5.80 billion barrel; 24 years), while gas reserves stood at 88.9 trillion standard cubic feet, sufficient to last 39 years (1 January 2010: 88.6 trillion standard cubic feet; 38 years).

Construction Sector

Steady property market activities

The **construction sector** expanded 2.1% during the first half of 2011 (January – June 2010: 6.2%) led by the recovery in residential construction as well as increased activity in the non-residential sub-sectors. Meanwhile, growth in the civil engineering and special trade sub-sector moderated following completion of projects under the stimulus packages as well as several highway projects including the Senai – Desaru Expressway and Kuala Lumpur – Kuala Selangor Expressway. However, growth of the construction sector is expected to be supported by the acceleration of 10MP projects in the second half of 2011. The sector is thus expected to grow 3.4% in 2011 (2010: 5.1%).

Construction activity in the **residential sub-sector** rebounded on the back of favourable economic and business conditions, rising household income, favourable labour market conditions as well as accommodative financing. On the supply side, housing starts picked up strongly by 37.6% (January – June 2010: -15.6%) on account of the increased number of housing projects, especially in Kuala Lumpur, Pulau Pinang, Sabah and Selangor. The number of new sales and advertising permits for construction as well as approvals to build houses rose 17.1% and 22.1% (January – June 2010: 22.1%; 11.1%), respectively supported by sustained property demand. Houses priced above RM500,000 continued to dominate construction activity, accounting for 20% – 50% of total launches, especially in urban centres such as Kuala Lumpur, Pulau Pinang and Selangor. This suggests that housing developers are inclined to develop high-end properties, particularly in city areas due to rising land prices.

Rising property prices have made it difficult for young working adults to afford a home of their own especially in urban areas. During the year, the Government undertook several measures to facilitate the rakyat, particularly the middle-income group to own a house. These include, introducing 50% stamp duty exemptions

Housing the Rakyat

Introduction

The Government is committed to providing adequate affordable quality housing for the *rakyat* in both rural and urban areas, with a focus on low and middle-income groups¹. The provision of low-cost and affordable quality housing has been a priority in the Five-Year National Plans through public and private sector housing programmes. The Government's aspiration is not only to provide adequate houses for all, but also to ensure they are housed in a safe, healthy and liveable environment. Towards this, the Government has put in place policies and guidelines to facilitate the private sector to provide adequate, affordable and quality housing.

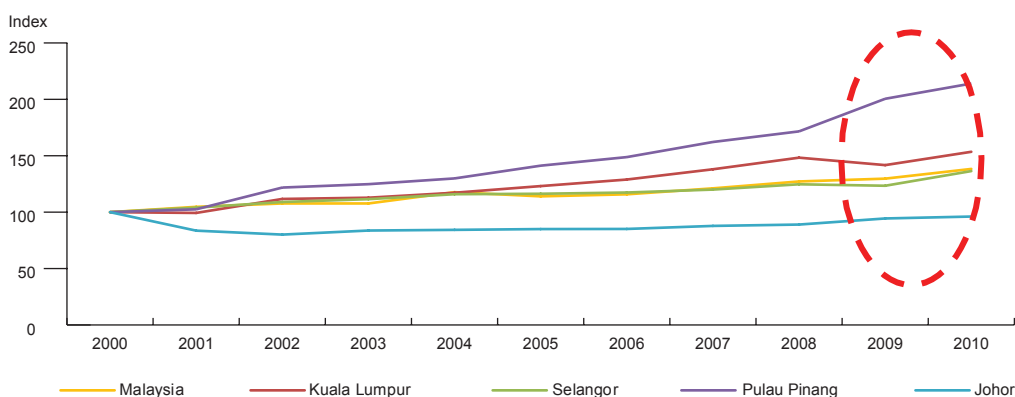
Housing Issues in Malaysia

While the Government continues to monitor developments in the housing sector to ensure that it is sustainable and responsive to the people's need for quality and affordable houses, there are, however, several issues to be resolved. Among these issues are:

- **Appreciation of residential property prices** ranging from 10% to 30% in 2010, especially in urban areas or preferred locations in Kuala Lumpur, Pulau Pinang and Selangor. Residential property prices have risen the highest since the 1997/1998 Asian financial crisis. On average, house prices increased 8.2% in the first half of 2011. In Kuala Lumpur, the average price of a residential unit more than double to RM448,750 compared with the national average of RM201,851 in the first half of 2011. Higher residential prices among others have been driven by robust demand, rising cost of construction inputs, scarcity of land and ease of financing. With rapid urbanisation and increasing household income spurring robust demand for houses, demand has exceeded supply, especially for medium-cost houses in urban areas.

CHART 1

Terraced House Price Index by Selected States 2000 – 2010



Source: National Property Information Centre.

¹ Low-income group: Monthly household income below RM2,300.
Middle-income group: Monthly household income between RM2,300 – RM5,599.

- There is a **mismatch between supply and demand** of affordable low and medium-cost houses², especially in urban areas. Generally, private developers are inclined to build high-cost houses due to the scarcity of land in urban areas and rising cost of building inputs as well as higher demand for these houses. To qualify for low and medium-cost houses, the income threshold is at RM2,500 per month. However, many households in urban areas do not qualify for these houses as their average household income is RM5,000 per month. Therefore, the Government needs to address the problem of mismatch of supply and demand for these categories of houses in urban areas. Data from the Computerised Open Registration System and census by state governments showed that as at 30 June 2011, there were 20,426 registered applicants for public housing while 90,282 squatter families, especially in urban areas have yet to be relocated to public housing.
- **Abandoned and delayed housing projects** affected the supply of houses especially for low and medium-cost houses. Among the reasons for abandoned housing projects include weak financial position of developers and low take-up rate as some of the projects are not strategically located. As at 31 July 2011, 167 projects involving 53,278 houses in Peninsular Malaysia were abandoned, affecting a total of 34,761 house buyers. Meanwhile, 48 projects were delayed involving 5,925 houses and 3,955 buyers. Abandoned and delayed housing projects cause undue hardship to house buyers as they have to service the mortgage loans and at the same time pay the rental for current premises.
- **Inadequate quality control, usage of low-quality construction materials and lack of skilled workers** have contributed to declining quality of low and medium-cost houses. Although the minimum quality standards and time periods for completion have been set, many developers fail to adhere to these guidelines and standards. These issues show weaknesses in project management and control as well as enforcement.
- Low-cost houses are **not always strategically located**. In addition, older schemes do not have adequate basic social amenities such as recreational areas, parking facilities and multipurpose halls as well as access to public transport. The surroundings are thus not conducive for a good quality living environment. In addition, the lack of basic amenities, low socio-economic conditions, inadequate housing and living conditions are contributory factors to crime.

Government Initiatives

To mitigate these issues, the Government has implemented several initiatives. These include:

- Launching the National Housing Policy (NHP) in February 2011 with the objective of:
 - Providing adequate and quality housing with comprehensive facilities and a conducive environment;
 - Enhancing the capability and accessibility of the people to own or rent houses; and
 - Setting future direction to ensure sustainability of the housing sector.

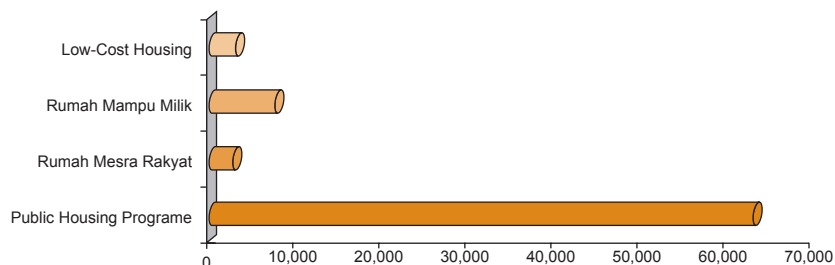
The NHP is expected to be able to mitigate problems pertaining to the quality of construction, abandoned housing projects, affordability to own or rent houses via an effective distribution system in the People's Housing Programme (PHP). It contains six thrusts and 20 policy directions which will provide a well-defined focus for achieving a progressive and sustainable housing sector by government agencies at the federal and state levels.

- Building 78,000 units of affordable houses, comprising of 38,950 units under the PHP and 39,050 units under programmes related to the Ministry of Rural and Regional Development to meet the needs of the low-income groups and squatters. As at end-June 2011, 63,166 units have been built under the PHP, while 7,734 units and 2,852 units were built under the

² Low-cost houses: Houses priced below RM42,000.
Medium-cost houses: Houses priced between RM70,000 – RM150,000.

CHART 2

Number of Houses Built by Government Agencies As at end-June 2011



Source: Ministry of Housing and Local Government and Ministry of Rural and Regional Development, Malaysia and Syarikat Perumahan Negara Berhad.

Rumah Mampu Milik and Rumah Mesra Rakyat programmes, respectively. Meanwhile, 15,432 units of PHP, 20,503 units of Rumah Mampu Milik and 2,148 units of Rumah Mesra Rakyat are being constructed. In addition, under the NKRA on rural basic infrastructure, a total of 2,567 houses have been built and restored, benefiting 12,835 households in Malaysia.

- Launching **My First Home Scheme** to assist young adults under 35 years old, earning less than RM3,000 per month to own a home. This scheme works through Cagamas Berhad which provides a guarantee on the down payment of 10% for houses priced below RM220,000. As at end-June 2011, there were 772 applications and 143 have been approved with amount guaranteed of RM7 million.
- Introducing **Program Perumahan Rakyat 1Malaysia (PR1MA)** to provide affordable quality housing mainly in urban and suburb areas, targeted for the middle-income group with household income between RM2,500 and RM6,000. It is another Public-Private Partnership programme where Government involvement includes providing land and facilitation funds to developers to ensure that housing units in or near urban areas are priced at affordable levels. Phase one of the PR1MA involves the construction of 42,000 houses at 20 strategic sites, including Bandar Tun Razak, Cyberjaya, Putrajaya, Seremban Sentral and Sungai Besi. The first PR1MA project was launched in Precint 11, Putrajaya, which will provide 560 apartment units with multipurpose halls and commercial buildings as well as other amenities.
- Providing stamp duty exemption of 50% on instruments of transfer and loan agreement instruments of a residential property priced not exceeding RM350,000 for first time buyers to encourage home ownership.
- Rehabilitation of abandoned housing projects to lessen the burden of affected house buyers. As at end-July 2011, 81 projects comprising 15,494 houses have been rehabilitated. Meanwhile, 54 projects are at various stages of rehabilitation while the remaining projects are at the restoration phase.
- Providing incentives for the use of green technology and the Industrialised Building System (IBS). The usage of environmental-friendly housing development concept such as the Green Building design elements will enhance the quality of new affordable houses apart from preserving the quality of the environment. In addition, emphasis is also given for the usage of new technologies and innovations such as the IBS to shorten the period for project completion and increase the quality of houses.

- Establishing a Housing Maintenance Fund with an initial funding of RM500 million for repair and maintenance works of public and private low-cost housing. The Fund is based on a matching grant concept where half of the contribution is from the respective resident management corporations. In addition, Tabung Perumahan 1Malaysia was established in February 2010 to provide support for the maintenance and major repairs of low-cost private housing in Kuala Lumpur with contributions from the Government and large private corporations.
- Implementing the 70% loan-to-value (LTV) ratio for the purchase of a third house to ensure stability and sustainability of the property market. The implementation of the LTV ratio is expected to moderate excessive investment and speculative activity in the residential property market, which has led to higher-than-average price increases in certain locations.

Conclusion

The Government will continue to give priority in providing adequate and affordable housing as well as ensuring a liveable environment for the low and middle-income groups. While the Government has direct involvement in the provision of affordable houses, the private sector must play their role by building more affordable housing for the middle-income population, especially in urban areas. In this regard, the Government will, on its part, constantly review regulations and procedures to reduce red-tape and create a more business-friendly environment to assist developers in their housing projects.

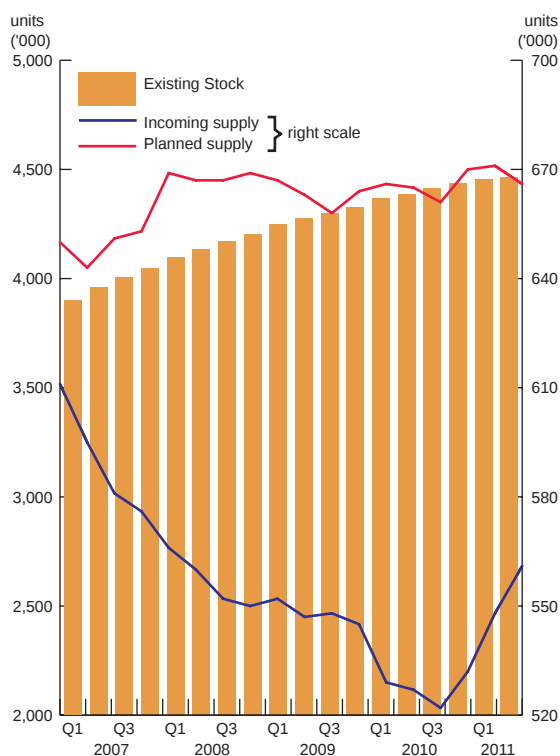
on instruments of transfer and loan agreement instruments for house prices not exceeding RM350,000. The exemptions are granted on the first residential property purchased by Malaysian citizens.

On the demand side, the take-up rate of newly launched residential units expanded to 13.5% (January – June 2010: 13.1%) following improved household income and better job prospects. Four states recorded improved sales performance, with Johor registering a higher take-up rate of 39.7% followed by Kuala Lumpur (38.8%), Perak (38.8%) and Sarawak (34.4%). In line with the Government's programmes to encourage home ownership such as My First Home Scheme, the demand for houses priced from RM100,000 – RM250,000 increased with a take-up rate of 21% during the first half of 2011 (January – June 2010: 20%).

Total property transaction value increased to RM64.8 billion (January – June 2010: RM49.9 billion) with volume expanding 18.1% to 214,764 transactions during the first six months of 2011 (January – June 2010: 17.1%; 181,780

CHART 3.6

Supply Indicators of Residential Property



Source: National Property Information Centre.

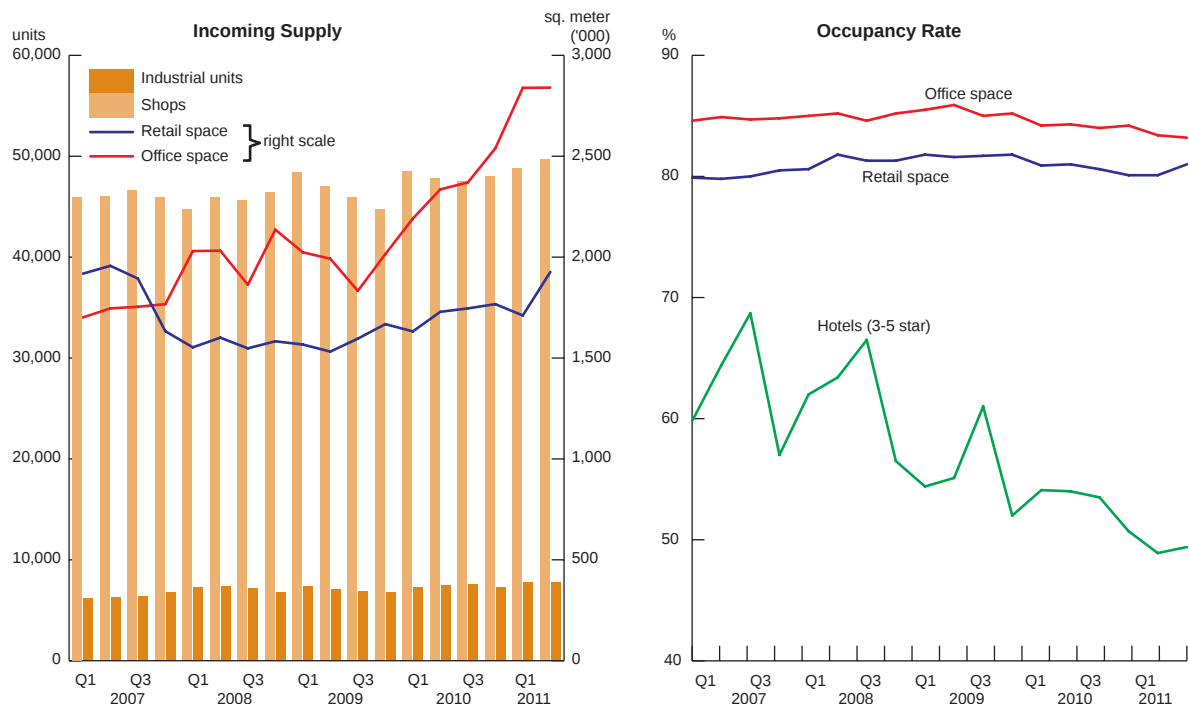
transactions). The residential sector accounted for 62.7% of total transactions. Residential transactions in Pulau Pinang and Perak posted a strong growth of 66.6% and 51.9%, respectively compared with the preceding year (January – June 2010: 7%; 21%). Meanwhile, residential property transactions in Kuala Lumpur, Johor and Selangor registered a growth of 17.3%, 17% and 14.5%, respectively.

With increasing demand for housing, particularly in urban areas, the Malaysia All-House Price Index rose 7.5% in the second quarter of 2011 (Q2 2010: 6.2%), with higher-than-average prices recorded in Terengganu (15.5%), Sabah (15.1%), Selangor (11.5%), Kelantan (10.6%) and Perak (7.5%). However, landed property prices in urban areas such as Johor Bahru, Kuala Lumpur, Penang Island and Selangor appreciated between 10% – 30% over the past six months. The highest increase in prices was recorded for terraced and semi-detached houses.

Construction activity in the **civil engineering and special trade sub-sector** moderated, partly due to lower construction activity in the civil engineering segment. However, higher private sector construction activities in the oil and gas industry, such as the LNG regasification terminal in Melaka and the development of Sabah Oil and Gas Terminal, cushioned the moderation in public civil engineering projects. In addition, ongoing projects including the electrified double-tracking projects between Ipoh – Padang Besar and Seremban – Gemas, East Coast Highway (LPT) Phase II from Jabur to Kuala Terengganu, Second Penang Bridge and upgrading Central Spine Road Kota Bharu – Seremban helped to cushion the slowdown of civil engineering activity. Meanwhile, special trade works such as upgrading, repair and maintenance works of public buildings also supported the growth of the sub-sector. These include the completion of 474.4 km of rural roads and 2,567 houses built or repaired under the NKRA on improving rural basic infrastructure.

CHART 3.7

Supply Indicators of Non-Residential Property



Source: National Property Information Centre.

Construction in the **non-residential sub-sector** continued to expand in line with higher business activity. Following the strong business sentiment, demand for office space especially in Kuala Lumpur, Pulau Pinang, Selangor and Johor was buoyant, with an average occupancy rate of 80%, 78.2%, 77.9% and 77.4%, respectively. As a result, the national occupancy rate of office space remained high at 83.2% (end-June 2010: 84.4%). Meanwhile, office space under construction surged significantly by 34.9% to 2.84 million square metres (sm) (January – June 2010: 6.7%; 2.11 million sm), mostly in the Klang Valley. Likewise, total existing space in shopping complexes increased from 10.37 million sm to 10.78 million sm, contributed by four new buildings. During the first half of 2011, 15 malls with total space of 191,168 sm were under construction (January – June 2010: 23 malls; 281,368 sm), including two malls each in Johor and Pulau Pinang, as well as one mall each in Kuala Lumpur and Selangor. The overall occupancy rate remained stable at 81% (end-June 2010: 81%) supported by favourable business activities and increased consumer spending. There were also 103 hotels with 52,000 rooms under construction during the review period, reflecting growing confidence in the tourism sector following continuous promotional campaigns.

Domestic Demand Performance

Domestic demand strengthens

Domestic demand is expected to strengthen further supported by strong private consumption and investment spending. In line with positive consumer sentiment and improved business prospects, **private sector expenditure** is expected to remain robust with a growth of 8.3% (2010: 8.3%). Meanwhile, **public sector expenditure** is envisaged to expand 7.6% (2010: 1.5%) on account of implementation of new projects under the 10MP, ETP and higher capital spending by NFPEs.

Private investment is expected to continue to record a double-digit growth of 16.2% in 2011 (2010: 17.7%) partly driven by the Government's

strategies in encouraging the private sector to spearhead economic growth, especially with the implementation of key initiatives under the ETP. This was reflected in the Business Conditions Index (BCI) by the Malaysian Institute of Economic Research (MIER) which trended up in the second quarter of 2011 to 114 points (Q1 2011: 113.3 points), suggesting a steady expansion in investment activities. The strong growth in private investment for the first half of 2011 was also reflected in several key investment indicators. These included higher imports of capital and intermediate goods as well as sales of commercial vehicles in the first seven months of 2011, which grew 9.5%, 7% and 6.8% (January – July 2010: 12%; 32.3%; 24.8%), respectively. Meanwhile, total loans by the banking system to the business sector increased 14.1% as at end-July 2011 (end-July 2010: 12.1%).

Malaysia remains an attractive investment destination, continuing to receive large foreign investment following the improvement in global FDI as well as increasing investors' confidence attributed to several key initiatives undertaken by the Government. After recording the highest growth of FDI in Asia in 2010, total FDI inflows continued to grow strongly by 75.4% to RM21,233 million in the first six months of 2011 (January – June 2010: 249.8%; RM12,103 million). The inflows were channelled mainly into the manufacturing, mining as well as financial and insurance sectors.

In consonance with renewed confidence in the domestic investment ecosystem, total investments in the manufacturing sector approved by the Malaysian Industrial Development Authority (MIDA) during the first seven months of 2011 increased 63.6% to RM31.7 billion involving 514 projects, comprising 313 new projects and the remaining were expansion and diversification of existing operations. The investments were mainly in the E&E (RM8.3 billion), basic metal products (RM5.1 billion), transport equipment (RM4.6 billion) and fabricated metal products (RM2.8 billion) sub-sectors. Of the total approved investments, 281 projects worth RM15.8 billion were foreign investment. The four leading sources of foreign investment were Japan (RM2.4 billion), the US

TABLE 3.11

Gross Domestic Product (GDP) by Aggregate Demand
2010 – 2012
(in 2000 real prices)

	Change (%)			Share of GDP (%)			Contribution to GDP growth (percentage point)		
	2010	2011 ¹	2012 ²	2010	2011 ¹	2012 ²	2010	2011 ¹	2012 ²
GDP	7.2	5.0–5.5	5.0–6.0	100.0	100.0	100.0	7.2	5.0–5.5	5.0–6.0
Domestic demand³	6.3	8.1	7.6	88.5	90.9	92.8	5.7	7.1	6.9
Private expenditure	8.3	8.3	8.7	64.2	66.1	68.1	5.3	5.3	5.8
Consumption	6.5	6.6	7.1	53.2	53.9	54.8	3.5	3.5	3.8
Investment	17.7	16.2	15.9	11.0	12.1	13.3	1.8	1.8	1.9
Public expenditure	1.5	7.6	4.7	24.3	24.9	24.7	0.4	1.8	1.2
Consumption	0.5	8.9	3.0	13.4	13.9	13.6	0.1	1.2	0.4
Investment	2.8	6.0	7.0	10.9	11.0	11.1	0.3	0.7	0.8
Change in stocks				2.1	1.6	1.0	5.0	-0.4	-0.6
External sector	-25.7	-16.8	-12.3	9.4	7.4	6.2	-3.5	-1.6	-0.9
Exports ⁴	9.9	2.3	2.5	109.9	107.0	103.9	10.6	2.6	2.6
Imports ⁴	15.1	4.1	3.6	100.5	99.5	97.8	14.1	4.2	3.6
GDP									
(RM billion, current value)	766.0	847.3	918.3						
Change (%)	12.7	10.6	8.4						

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.

(RM2.3 billion), Singapore (RM1.9 billion) and the Netherlands (RM1.2 billion). In terms of location, Johor (RM6 billion), Selangor (RM5.6 billion), Sarawak (RM5 billion) and Pulau Pinang (RM4.6 billion) remained the leading states for approved investment. During 2008 to 2010, a total of 2,595 manufacturing projects were approved, of which 1,854 projects (71.5%) with total investments of RM70.4 billion commenced production as at 31 December 2010.

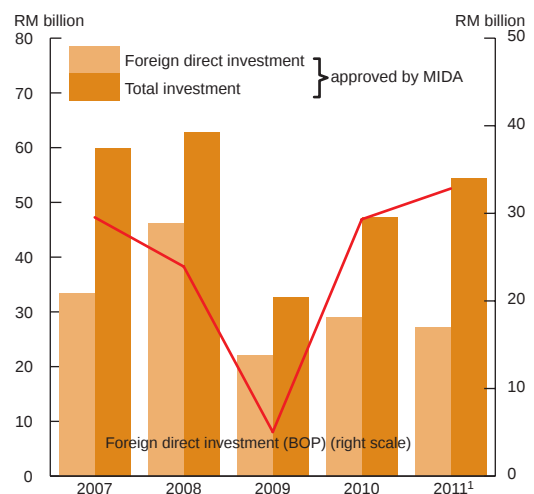
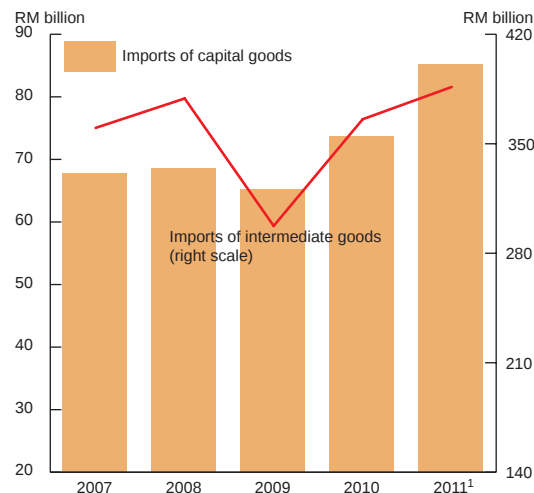
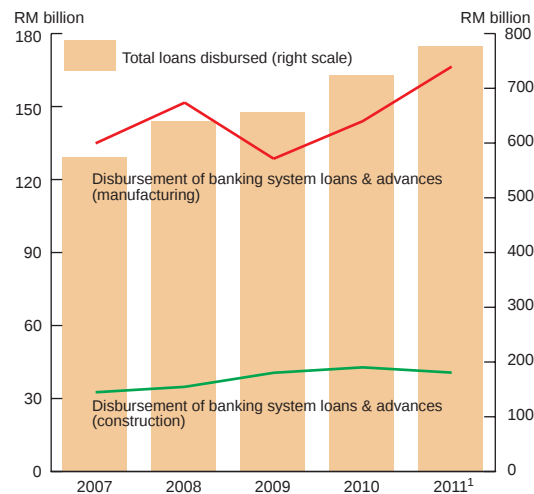
The Government has introduced several initiatives to boost private investment, especially in high value-added products and services. Among the measures include the corporatisation of MIDA

to enable speedy decision-making as well as structure competitive incentive packages to attract large and strategic investment. To address the growing needs of skilled manpower, the Talent Corporation was established on January 2011 to attract, motivate and retain talented Malaysians and expatriates to work in Malaysia.

The Government's efforts to attract private investment have yielded positive results. Under the ETP, 131 EPPs have been identified to spur growth of the NKEAs. As of 8 September 2011, a total of 97 initiatives under 70 EPPs have been announced. These initiatives involve investment commitments totalling RM171.2 billion and are

CHART 3.8

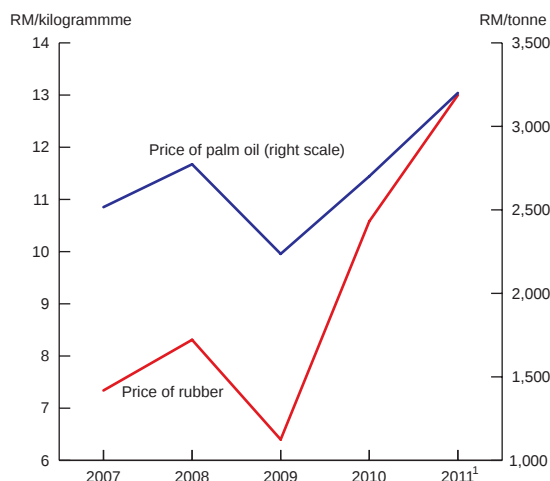
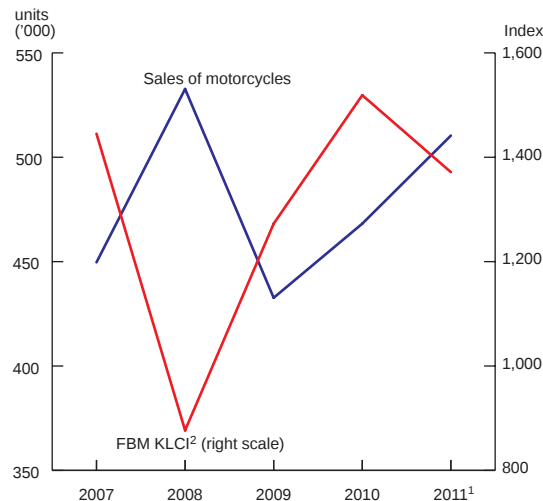
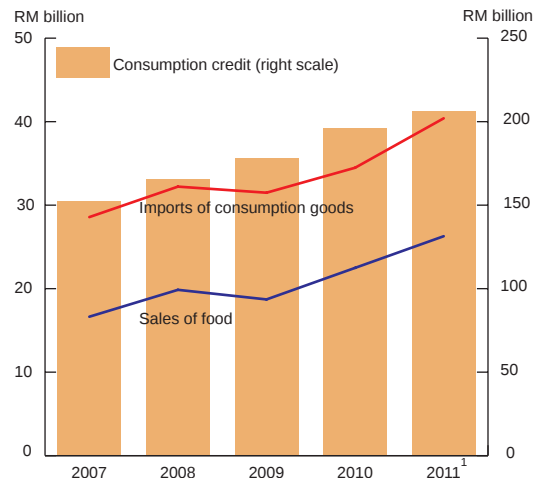
Private Investment Indicators

¹ Estimate.

Source: Bank Negara Malaysia, Malaysian Investment Development Authority, Department of Statistics and Ministry of Finance, Malaysia.

CHART 3.9

Private Consumption Indicators

¹ Estimate.² As at 28 September 2011.

Source: Bank Negara Malaysia, Bursa Malaysia, Motorcycle and Scooter Assemblers and Distributors Association of Malaysia, Malaysian Palm Oil Board, Malaysian Rubber Board, Department of Statistics and Ministry of Finance, Malaysia, .

TABLE 3.12

Economic Transformation Programme (ETP) Updates

Announcement	Initiatives	(RM billion)		
		Total Investments	GNI Increase	Job Creation
Update 1 (25 Oct 2010)	9	5.31	0.1	13,100
Update 2 (30 Nov 2010)	9	9.57	85.52	70,500
Update 3 (11 Jan 2011)	19	65.59	31.54	52,404
Update 4 (8 Mar 2011)	23	14.78	20.06	88,404
Update 5 (19 Apr 2011)	12	11.16	16.62	74,457
Update 6 (13 June 2011)	15	63.38	66.31	63,531
Update 7 (8 Sept 2011)	10	1.43	8.40	9,965
Total	97	171.21	228.55	372,361

Note: Total may not add up due to rounding.

Source: The Performance Management and Delivery Unit (PEMANDU).

expected to generate RM228.6 billion GNI as well as create 372,361 additional jobs by 2020. Of the total 97 initiatives, 23 are operational including Schlumbergers global financial hub, Hovid's generic drugs manufacturing and AUO Sunpower solar cell manufacturing, while the remaining initiatives are in various stages of development.

Furthermore, Malaysia's improved ranking in the 2011 – 2012 Global Competitiveness Report from 26th to 21st position is expected to strengthen the country's position as an investment destination. These developments will help to achieve the average annual target of RM115 billion of private investment as highlighted under the 10MP and further enhance growth of the economy.

Public investment is expected to grow 6% (2010: 2.8%) supported by higher capital spending by the NFPEs and the implementation of projects under the 10MP and ETP. The bulk of the expenditure

is channelled to the economic and social sectors, particularly to improve urban public transport as well as providing basic rural infrastructure and public amenities.

In line with improved business sentiment, the capital expenditure of NFPEs is envisaged to grow strongly, providing support for private investment to accelerate, notably in expanding infrastructure, telecommunication and utility services. This is driven by upgrading and capacity expansion programmes by the major NFPEs which include PETRONAS, Tenaga Nasional Berhad (TNB), TM, Malaysia Airports Holdings Berhad (MAHB) and Syarikat Prasarana Negara Berhad (Prasarana), mainly in the mining, utility, communication and transport sectors. PETRONAS's capital expenditure is largely concentrated on marginal fields and deep water development with the aim to enlarge productive capacity of oil and gas. TNB's capital spending is on expansion of electricity generation, transmission and distribution while TM is largely on expansion of HSBB. Meanwhile, MAHB's investment expenditure is on airport upgrading and enhancement projects while Prasarana's investment is on expansion of the current rail network as well as increasing the number of coaches and buses to improve public transport services.

Private consumption is projected to expand 6.6% (2010: 6.5%) mainly supported by strong income growth on account of favourable commodity prices, healthy labour market conditions and positive consumer sentiment. Approximately 265,000 rubber smallholders and 185,000 palm oil smallholders will continue to enjoy higher disposable income following strong rubber and palm oil prices which are expected to average RM13.00 per kilogramme and RM3,200 per tonne, respectively this year. Net disposable annual income for rubber and palm oil smallholders is estimated to increase to RM30,200 and RM32,220 in 2011 (2010: RM26,957; RM24,972), respectively which will enhance their purchasing power. Stable labour market conditions with higher job vacancies, lower retrenchments and low unemployment will provide the impetus for consumption spending. All sectors of the economy

are expected to generate job opportunities in tandem with the implementation of several ETP projects.

Consumer spending is expected to be supported by positive consumer confidence. This was reflected in the Consumer Sentiments Index (CSI) which registered above the 100-point threshold at 107.9 points in the second quarter of 2011 (Q1 2011: 108.2 points), indicating continued optimism in the economy. Moreover, consumers are expected to increase spending in the coming months in view of the celebration of major festivals. Positive consumer sentiment was also reflected in key consumption indicators, particularly sales of food, imports of consumption goods and sales of motorcycles which registered a double-digit growth of 21.3%, 12.8% and 11.7% during the first seven months of 2011

(January – July 2010: 16.1%; 13.4%; 4%), respectively. Meanwhile, credit card spending and consumption credit disbursed continued to grow 11.8% and 9.3% (January – July 2010: 15.9%; 16%), respectively reflecting strong demand for financing.

Public consumption is anticipated to grow at a strong pace of 8.9% (2010: 0.5%) following higher expenditure on emoluments as well as supplies and services. The expansion in expenditure on supplies and services is in tandem with the Government's initiatives to enhance and improve the quality of public services, including maintenance of public assets. In addition, the half-month's bonus with a minimum payment of RM500 to 1.27 million public sector employees amounting to RM1.7 billion is expected to increase public consumption expenditure in 2011.

TABLE 3.13

Savings-Investment Gap
2008 – 2012
(at current prices)

	RM million				
	2008	2009	2010	2011 ¹	2012 ²
Public sector					
Savings	80,880	60,767	88,309	56,889	83,816
Gross capital formation	67,428	72,871	76,864	83,774	91,809
Surplus/Deficit	13,453	-12,104	11,445	-26,885	-7,993
Private sector					
Savings	194,000	149,587	163,807	227,829	223,453
Gross capital formation ³	76,038	25,345	87,172	111,659	122,561
Surplus/Deficit	117,962	124,242	76,635	116,170	100,892
Overall					
Gross national savings	274,880	210,354	252,116	284,718	307,269
(% of GNI)	38.2	31.6	34.1	34.7	34.5
Gross capital formation ³	143,466	98,216	164,036	195,433	214,370
(% of GNI)	19.9	14.8	22.2	23.8	24.1
Surplus/Deficit	131,414	112,138	88,079	89,285	92,899
(% of GNI)	18.3	16.9	11.9	10.9	10.4

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.

National Resource Position

Continued surplus in savings-investment gap

Gross National Savings (GNS) is envisaged to increase 12.9% to RM284.7 billion in 2011 (2010: 19.9%, RM252.1 billion) with private sector savings expected to expand 39.1% to RM227.8 billion (2010: 9.5%; RM163.8 billion). Meanwhile, public savings is anticipated to decline 35.6% (2010: 45.3%) mainly due to lower operating surpluses of NFPEs during the year. Nevertheless, the share of GNS to GNI is expected to remain strong at 34.7% (2010: 34.1%), contributed by high private sector savings. Total investment expenditure (including stocks) is envisaged to increase to RM195.4 billion, contributing 23.8% to GNI (2010: RM164 billion, 22.2%). Thus, the **savings-investment gap** is

expected to record a surplus of RM89.3 billion or 10.9% of GNI in 2011 (2010: RM88.1 billion; 11.9%), enabling Malaysia to continue to finance its growth primarily from domestic sources.

External Sector

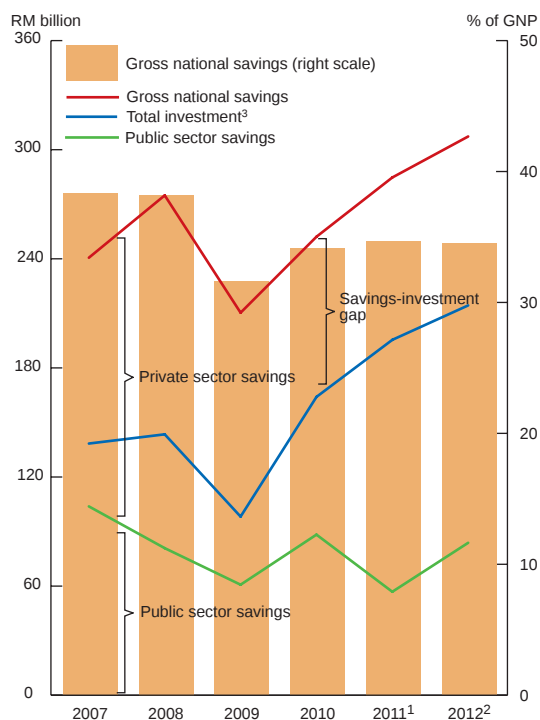
Trade Performance

Trade remains favourable

In 2011, Malaysia's total trade is expected to increase moderately by 7.1% to RM1.3 trillion (2010: 18.3%; RM1.2 trillion) despite a more challenging external environment. Gross exports of goods are estimated to grow 6.8% to RM682 billion (2010: 15.6%; RM638.8 billion) attributed to higher export earnings from commodities bolstered by rising prices of palm oil, rubber, crude petroleum as well as higher demand of

CHART 3.10

Savings-Investment Gap



¹ Estimate.

² Forecast.

³ Including change in stocks.

Source: Department of Statistics and Ministry of Finance, Malaysia

TABLE 3.14

External Trade 2010 – 2011

	RM million		Change (%)	
	2010	2011 ¹	2010	2011 ¹
Total trade	1,167,650	1,250,109	18.3	7.1
Gross exports	638,822	682,001	15.6	6.8
of which:				
Manufactures	487,974	504,688	12.9	3.4
Agriculture	69,905	88,585	30.8	26.7
Mining	72,787	79,912	23.4	9.8
Gross imports	528,828	568,107	21.7	7.4
of which:				
Capital goods	73,769	85,216	13.2	15.5
Intermediate goods	365,681	386,313	22.9	5.6
Consumption goods	34,477	40,336	9.5	17.0
Trade balance	109,994	113,894	-6.7	3.5

¹ Estimate.

Note: Total may not add up due to rounding.

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

non-E&E products. Meanwhile, gross imports of goods are envisaged to expand faster than exports at 7.4% to RM568.1 billion (2010: 21.7%; RM528.8 billion), supported by continued growth in imports of capital and consumption goods as well as higher import prices. Consequently, the trade surplus is expected to remain large at RM113.9 billion, equivalent to 13.4% of GDP (2010: RM110 billion; 14.4%).

Export Performance

Exports driven by higher commodity prices

During the first seven months of 2011, gross exports expanded 6.9% to RM396.3 billion (January – July 2010: 24.9%; RM370.9 billion) supported by strong growth in commodity exports and moderate expansion in manufactured exports. The strong expansion in commodity exports was supported by higher commodity prices and stronger regional demand, while the moderate expansion in manufactured exports was due to lower exports of E&E. Given the uncertainties in the external environment, gross exports are envisaged to increase at a moderate pace of 6.8% in 2011 (2010: 15.6%). This is on account of the continued slowdown in global demand for manufactured products, particularly E&E while

commodity prices are expected to soften in the remaining months of the year.

Export earnings from manufactured goods are expected to increase 3.4% to RM504.7 billion (2010: 12.9%; RM488 billion), remaining a significant contributor to total export earnings. The growth is supported by the non-E&E product segment, particularly chemicals and chemical products as well as machinery. Agriculture exports are anticipated to record a strong growth of 26.7% to RM88.6 billion (2010: 30.8%; RM69.9 billion) on account of higher prices and strong demand for palm oil and rubber. Meanwhile, exports of mining are estimated to register a growth of 9.8% to RM79.9 billion (2010: 23.4%; RM72.8 billion) due to higher demand for LNG.

Exports of Manufactured Goods

Growth buoyed by non-E&E products

Manufactured goods expanded 3.5% to RM293.2 billion in the first seven months of 2011 (January – July 2010: 21.9%; RM283.4 billion) in tandem with stronger external demand from major regional export destinations such as China, Japan, Singapore and Thailand. Growth was mainly driven by exports of non-E&E products, which

TABLE 3.15

Gross Exports January – July

	RM billion		Change (%)		Share (%)	
	2010	2011	2010	2011	2010	2011
Manufactures	283.4	293.2	21.9	3.5	76.4	74.0
Primary Agriculture	35.4	48.7	33.0	37.5	9.5	12.3
Mining	43.2	46.5	35.0	7.6	11.6	11.7
Others	8.9	8.0	50.8	-10.1	2.5	2.0
Gross exports	370.9	396.3	24.9	6.9	100.0	100.0

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

TABLE 3.16

**Exports of Manufactured Goods
January – July**

	RM million		Change (%)		Share (%)	
	2010	2011	2010	2011	2010	2011
E&E	146,200	136,712	22.5	-6.5	51.6	46.6
Semiconductors	57,565	63,190	20.2	9.8	20.3	21.6
Electronic equipment and parts	58,558	43,521	26.2	-25.7	20.7	14.8
Machinery and electrical products	30,076	30,001	20.1	-0.3	10.6	10.2
Non-E&E	137,153	156,445	21.3	14.1	48.4	53.4
Chemicals, chemical and plastic products	27,110	29,855	31.3	10.1	9.6	10.2
Petroleum products	16,830	22,798	33.7	35.5	5.9	7.8
Iron, steel and metal products	15,457	17,605	16.5	13.9	5.5	6.0
Machinery and equipment	12,784	13,520	18.6	5.8	4.5	4.6
Wood products	8,032	7,718	14.2	-3.9	2.8	2.6
Textiles, apparel and footwear	5,445	6,367	0.5	16.9	1.9	2.2
Food, beverages and tobacco	10,129	12,082	7.3	19.3	3.6	4.1
Rubber products	9,233	9,957	33.0	7.8	3.3	3.4
Transport equipment	6,295	5,390	12.5	-14.4	2.2	1.8
Non-metallic mineral products	2,809	3,281	-7.8	16.8	1.0	1.1
Other manufactured goods	23,029	27,872	26.0	21.0	8.1	9.5
Total	283,353	293,157	21.9	3.5	100.0	100.0

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

contributed 53% to total exports of manufactured goods, while E&E exports comprised the remaining 47%.

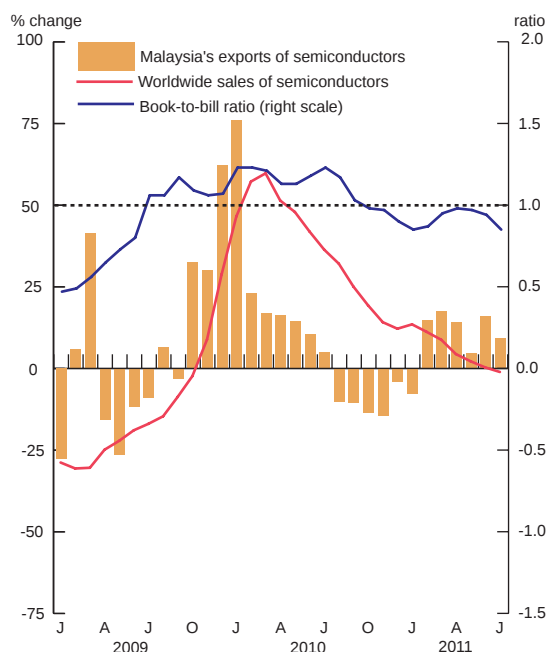
Export earnings of **E&E** contracted 6.5% to RM136.7 billion (January – July 2010: 22.5%; RM146.2 billion) due to lower shipments of electronic equipment and parts, which declined 25.7% (January – July 2010: 26.2%) following lower demand from advanced economies, particularly Europe and the US. Similarly, exports of machinery and electrical products contracted 0.3% (January – July 2010: 20.1%) due to lower external demand for radio broadcast receivers and telecommunication equipment. However, export receipts for semiconductors rose 9.8% (January – July 2010: 20.2%) driven mainly by microprocessor controllers, electronic integrated circuits as well as energy-saving devices such as light emitting diodes (LEDs) and solar photovoltaic.

Non-E&E exports continued to expand and recorded a double-digit growth of 14.1% to RM156.4 billion (January – July 2010: 21.3%; RM137.2 billion) underpinned by higher external demand coupled with rising prices. The sub-sectors posting a strong performance included chemicals, chemical and plastic products; iron, steel and metal products; petroleum products; textiles, apparel and footwear; food, beverages and tobacco as well as machinery and equipment.

Export earnings of **chemicals, chemical and plastic products** expanded significantly by 10.1% (January – July 2010: 31.3%) mainly contributed by organic chemicals and plastics in primary forms. Exports of organic chemicals and plastics in primary forms rose 23.4% and 7.1% (January – July 2010: 43.2%; 41.2%), respectively. The higher export volumes were supported by stronger demand from major export destinations such as China, Indonesia, Singapore and Thailand.

CHART 3.11

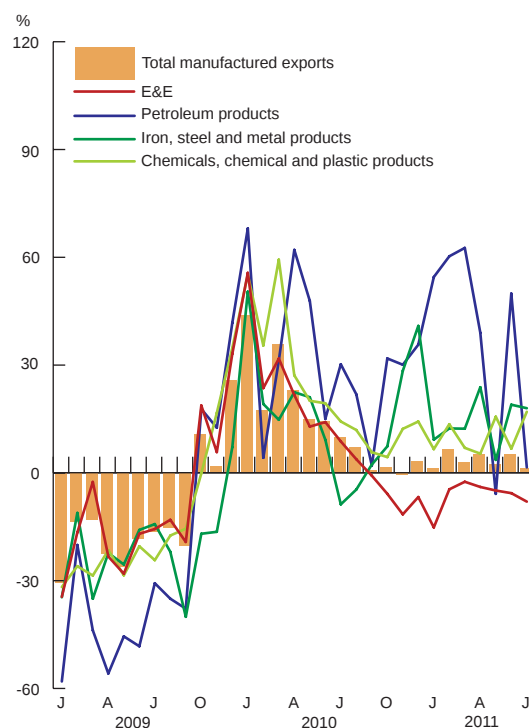
Malaysia's Exports of Semiconductors, Worldwide Sales of Semiconductors and Book-to-Bill Ratio



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.

Shipments of **iron, steel and metal products** expanded 13.9% (January – July 2010: 16.5%) fuelled by higher demand for all components, particularly non-ferrous metal (25.4%), iron and steel products (11.5%) as well as manufactures of metal (5.6%), backed by increased construction activities in the region. Similarly, export receipts of **non-metallic mineral products** rebounded strongly to register a double-digit growth of 16.8% (January – July 2010: -7.8%).

Exports of petroleum products registered an impressive growth of 35.5% (January – July 2010: 33.7%) largely contributed by refined petroleum products (43.6%), liquefied propane and butane (28.3%) as well as petroleum gas and gaseous hydrocarbons (10%). The expansion was due to higher global oil prices caused by the political unrest in the Middle East and increase

in demand from fast-growing emerging markets such as China and India.

Exports of textiles, apparel and footwear surged 16.9% (January – July 2010: 0.5%) with China, the Middle East and Turkey as the major export destinations. The stronger performance was led by exports of textile yarn and fabrics, which expanded at a faster pace of 21.3% (January – July 2010: 13.4%) as well as apparel which turned around to register 14.1% (January – July 2010: -12.4%). Strong consumer demand and improved household incomes, notably in the emerging economies were among factors which contributed to the sub-sector's strong performance.

Exports of **food, beverages and tobacco** surged 19.3% (January – July 2010: 7.3%) largely to Indonesia, Singapore and the US.

The strong performance of the sub-sector was due to higher world food prices and improved exports following higher household income in neighbouring countries. Growth was led by food products, which expanded 21.3% (January – July 2010: 7.2%), followed by beverages which increased 18.5% (January – July 2010: 13.1%). However, exports of tobacco declined 9% (January – July 2010: 0.1%) on account of lower exports to Hong Kong, Indonesia and Singapore.

Following stronger external demand from Indonesia, Singapore and Thailand, export receipts of **machinery and equipment** increased 5.8% (January – July 2010: 18.6%). The sub-sector's performance was supported by general industrial machinery and equipment (8.4%), metal working machinery (11.6%) as well as specialised machinery for specific industries (3.5%).

Exports of **rubber products** grew 7.8% (January – July 2010: 33%) mainly to China, Germany and the US. Exports of rubber gloves rose 7.6% (January – July 2010: 29.4%) due to improving healthcare standards, especially in emerging markets. Demand was not severely affected despite higher prices as rubber gloves remained a necessity in the medical and healthcare industry. Similarly, higher export earnings were also recorded for rubber tyres (30.8%), synthetic rubber (23.8%) and other rubber products (8.1%).

Shipments of **transport equipment** declined sharply by 14.4% (January – July 2010: 12.5%) largely due to the global supply chain disruptions which affected the supply of automotive components and production capacity. Consequently, exports of road vehicles and other vehicles fell 10.2% and 18.6% (January – July 2010: 39.6%; -5.9%), respectively. Meanwhile, receipts from **wood products** shrank 3.9% (January – July 2010: 14.2%) largely affected by lower demand for wooden furniture from the US and competition from cheaper panel products from regional producers.

Exports of Primary Commodities

Driven by higher export prices

Export earnings from **primary commodities** expanded 21.1% to RM95.2 billion during the first seven months of 2011 (January – July 2010: 34.1%; RM78.6 billion) attributed to higher export earnings of palm oil, rubber and LNG. Export earnings of agriculture commodities increased 37.5% to RM48.7 billion (January – July 2010: 33%; RM35.4 billion) largely on account of higher prices of CPO and rubber. Export earnings from mining increased 7.6% to RM46.5 billion (January – July 2010: 35%; RM43.2 billion) supported by the strong increase in exports of natural gas.

Higher **palm oil** export prices which averaged RM3,475.3 during the first seven months of 2011 (January – July 2010: RM2,564.6) spurred export earnings of palm oil by 35% to RM34.4 billion (January – July 2010: 23.9%; RM25.5 billion). However, shipments of palm oil contracted 0.4% to 9.9 million tonnes (January – July 2010: 7%; 9.9 million tonnes) due to lower demand from the European Union (EU) and the US. China's imposition of a price-freeze on cooking oil to control inflation coupled with increased imports of soyabean, resulted in lower shipments of palm oil to China during the first six months of the year. However, demand for palm oil in China has since improved with export increased significantly by 97.6% in July 2011 and 204.1% in August 2011.

Shipments of **rubber** rose 11.7% to 0.6 million tonnes (January – July 2010: 36.8%; 0.5 million tonnes) attributed to higher demand, mainly from China, Germany, South Korea and the US. China remained the largest importer of rubber, with a 50% share of total rubber exports. With higher average prices of rubber at RM14.56 per kilogramme (January – July 2010: RM9.81 per kilogramme), export earnings of rubber surged 65.7% to RM8.2 billion (January – July 2010: 134.7%; RM5 billion). Despite lingering concerns

TABLE 3.17

Primary Commodity Exports January – July

	2010	2011	Change (%)	
	2010	2011	2010	2011
Commodity exports (RM million)	78,647	95,238	34.1	21.1
Agriculture exports (RM million)	35,431	48,720	33.0	37.5
Palm oil¹				
Volume ('000 tonnes)	9,941	9,900	7.0	-0.4
Unit Value (RM/tonne)	2,565	3,475	15.8	35.5
Value (RM million)	25,495	34,406	23.9	35.0
Palm kernel oil				
Volume ('000 tonnes)	558	542	-8.0	-3.0
Unit Value (RM/tonne)	3,375	5,955	36.6	76.4
Value (RM million)	1,885	3,226	25.7	71.2
Saw logs				
Volume ('000 cubic metres)	2,659	1,871	19.7	-29.6
Unit Value (RM/cubic metres)	483	607	-2.5	25.6
Value (RM million)	1,286	1,136	16.7	-11.6
Sawn timber				
Volume ('000 cubic metres)	1,278	1,209	36.1	-5.4
Unit Value (RM/cubic metres)	1,178	1,179	-8.0	0.1
Value (RM million)	1,505	1,425	25.1	-5.3
Rubber				
Volume ('000 tonnes)	506	565	36.8	11.7
Unit Value (RM/kilogramme)	9.81	14.56	71.6	48.4
Value (RM million)	4,962	8,224	134.7	65.7
Pepper				
Volume ('000 tonnes)	7	7	4.7	-0.3
Unit Value (RM/tonne)	13,695	18,010	19.5	31.5
Value (RM million)	101	133	25.1	31.2
Cocoa				
Volume ('000 tonnes)	17	16	154.0	-6.1
Unit Value (RM/kg)	11,746	10,733	38.2	-8.6
Value (RM million)	198	170	249.1	-14.2
Mining exports (RM million)	43,216	46,519	35.0	7.6
Crude petroleum				
Volume ('000 tonnes)	10,256	7,596	7.6	-25.9
Unit Value (RM/tonne)	1,884	2,479	46.1	31.6
Value (RM million)	19,320	18,825	57.0	-2.6
Liquefied natural gas				
Volume ('000 tonnes)	13,252	14,625	0.1	10.4
Unit Value (RM/tonne)	1,715	1,785	18.9	4.1
Value (RM million)	22,731	26,109	19.0	14.9
Tin				
Volume ('000 tonnes)	21	19	45.8	-8.4
Unit Value (RM/tonne)	56,421	84,540	33.0	49.8
Value (RM million)	1,166	1,584	93.9	35.9

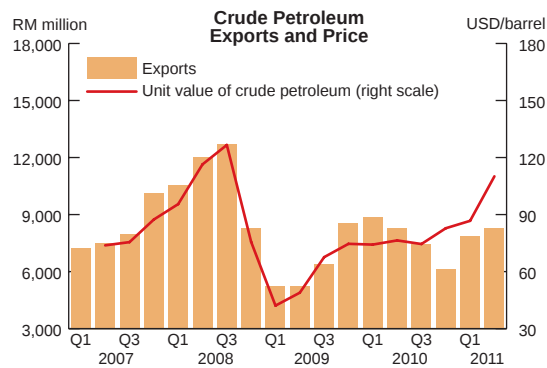
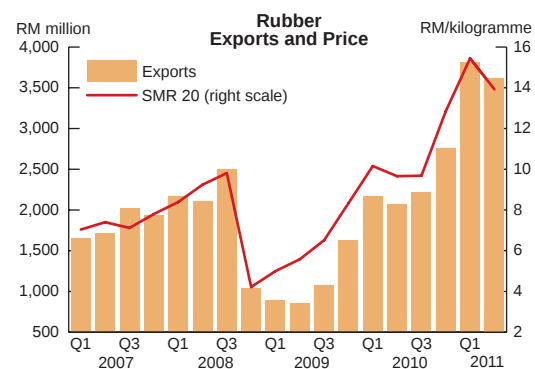
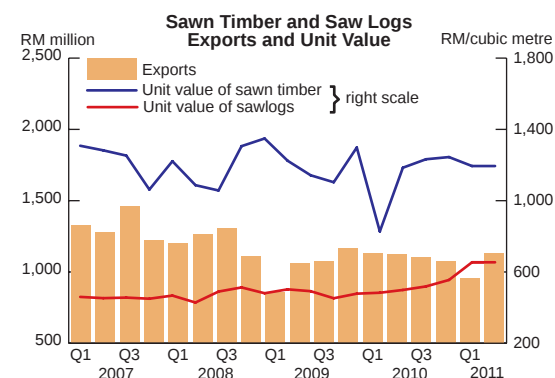
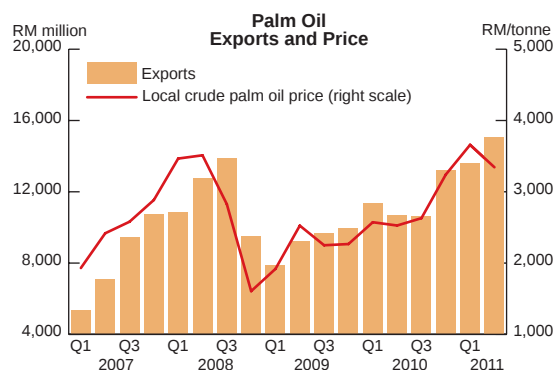
¹ Includes crude palm oil, processed palm oil and stearin.

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

CHART 3.13

Primary Commodity Exports



Source: Department of Statistics, Malaysia, Malaysian Palm Oil Board and Malaysian Rubber Board.

on global economic growth, shipments of rubber are envisaged to increase 9.9% to 1 million tonnes (2010: 29.1%; 0.9 million tonnes) on account of increased demand for tyres in the automotive industry from emerging countries, especially China.

Export earnings of **crude petroleum** declined 2.6% to RM18.8 billion (January – July 2010: 57%; RM19.3 billion) due to lower export volume despite strong prices. Export volume declined 26% to 7.6 million tonnes (January – July 2010: 7.6%; 10.3 million tonnes) while export prices averaged RM2,478.7 per tonne (January – July 2010: RM1,883.7 per tonne). However, following the resumption of normal crude production in the second half of 2011, export earnings are expected to recover with a marginal contraction of 1.8% to RM30.2 billion in 2011 (2010: 21.3% to RM30.8 billion).

In contrast, export earnings of LNG increased further by 14.9% to RM26.1 billion during the first seven months (January – July 2010: 19%; RM22.7 billion) attributed to higher export volume of 14.6 million tonnes (January – July 2010: 13.3 million tonnes) and average export price of RM1,785.3 per tonne (January – July 2010: RM1,715.3 per tonne). In addition, demand from Japan also expanded 22.6% following the post-quake reconstruction activity. For the year, exports of LNG are projected to increase 18.2% to RM45.1 billion (2010: 31.3%; RM38.1 billion) driven by higher external demand and firmer prices.

Import Performance

All categories record positive growth

In 2011, gross imports are projected to increase 7.4% (2010: 21.7%) underpinned by increased investment activities as well as the strengthening of the ringgit. Imports of intermediate goods are expected to increase at a moderate pace of 5.6% (2010: 22.9%) amid uncertainties over the recovery in manufacturing output as well as weaker performance of the E&E sub-

sector. Imports of capital and consumption goods are expected to grow 15.5% and 17% (2010: 13.2%; 9.5%), respectively in line with capacity expansion in the services, oil and gas as well as manufacturing sectors. During the first seven months of 2011, gross value of imports surged 8.7% to RM327.7 billion (January – July 2010: 30%; RM301.5 billion), reflecting higher import volume and prices as well as stronger domestic activities.

Imports of **intermediate goods**, the largest import component, grew moderately by 7% (January – July 2010: 32.3%) partly due to slower manufacturing activities during the April – June 2011 following the global supply chain disruptions. This was reflected by declining imports of parts and accessories for transport equipment (-0.4%) as well as parts and accessories of capital goods (-11.7%). However, imports of fuel and lubricants increased significantly by 40.4% on account of higher import prices. Similarly, imports of primary and processed materials of food and beverages for manufacturing activities surged 34.2% following rising global prices of food commodities.

In line with the better business sentiment and higher investment activity, imports of **capital goods** grew 9.5% (January – July 2010: 12%) mainly for the manufacturing sector to support expansion in production capacity. Following rising shipments for commodity exports as well as higher oil and gas exploration activities, imports of transport equipment increased further by 10.3%.

During the first seven months of 2011, imports of **consumption goods** rose 12.8% (January – July 2010: 13.4%), with all sub-categories registering positive growth. Imports of food and beverages and non-industrial transport equipment registered a marked increase on account of higher disposable income. The growth in consumption imports was also attributed to higher imports of other consumer goods which include jewellery, household electrical appliances as well as medicaments, cosmetics and health care products.

TABLE 3.18

Gross Imports by End Use January – July

	RM million		Change (%)		Share (%)	
	2010	2011	2010	2011	2010	2011
Capital goods	39,781	43,558	12.0	9.5	13.2	13.3
Capital goods (except transport equipment)	34,971	38,253	14.6	9.4	11.6	11.7
Transport equipment (industrial)	4,811	5,306	-3.4	10.3	1.6	1.6
Intermediate goods	209,579	224,231	32.3	7.0	69.5	68.4
Food and beverages, primary and processed mainly for industry	9,442	12,674	22.5	34.2	3.1	3.9
Fuel and lubricants, primary and processed	21,409	30,048	47.5	40.4	7.1	9.2
Industrial supplies, primary and processed	76,837	90,734	34.3	18.1	25.5	27.7
Parts and accessories for transport equipment	7,396	7,370	-2.5	-0.4	2.5	2.2
Parts and accessories of capital goods (except thermionic valves and tubes)	35,106	29,322	16.5	-16.5	11.6	8.9
Thermionic valves and tubes	59,388	54,083	43.9	-8.9	19.7	16.5
Consumption goods	19,964	22,525	13.4	12.8	6.6	6.9
Food and beverages, primary and processed mainly for household consumption	8,678	9,810	13.6	13.0	2.9	3.0
Transport equipment (non-industrial)	339	417	16.0	23.1	0.1	0.1
Other consumer goods	10,948	12,298	13.2	12.3	3.6	3.8
Durables	2,444	2,735	22.6	11.9	0.8	0.8
Semi-durables	3,213	3,696	19.4	15.0	1.1	1.1
Non-durables	5,291	5,867	6.1	10.9	1.8	1.8
Others (including dual use goods)	11,340	12,872	64.0	13.5	3.8	3.9
Imports for re-exports	20,878	24,561	54.0	17.6	6.9	7.5
Total	301,543	327,748	30.0	8.7	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 a growth of 13.5% (January – July 2010: 64%) mainly attributed to a higher increase in imports of fuels and lubricants and processed motor spirits (33.9%). Meanwhile, **imports for re-exports** expanded 17.6% (January – July 2010: 54%).

Direction of Trade

Led by intra-regional trade

Malaysia's total trade expanded 7.7% to RM724.1 billion during the first seven months of 2011

(January – July 2010: 27.1%; RM672.4 billion) supported mainly by higher regional demand in line with rising level of regional economic integration, through trade and investment channels. With growth of imports outpacing exports, Malaysia's trade surplus narrowed to RM68.6 billion (January – July 2010: RM69.4 billion). Malaysia's major trading partners were Singapore (12.9%), China (12.8%), Japan (11.3%) and the US (9.1%), which accounted for 46.1% (2010: 46.5%) of total trade. Meanwhile, trade with ASEAN (excluding Singapore) and the EU constituting 13.6% and 10.3% of total trade, respectively.

TABLE 3.19

Direction of External Trade January – July

	RM million				Change (%)				Share (%)			
	Exports		Imports		Exports		Imports		Exports		Imports	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Singapore	48,642	50,453	34,568	42,769	14,075	7,684	17.6	3.7	36.6	23.7	13.1	12.7
China	46,707	50,838	38,664	41,508	8,043	9,330	38.8	8.8	19.4	7.4	12.6	12.8
Japan	37,399	44,141	37,870	37,422	-470	6,719	31.1	18.0	30.9	-1.2	10.1	11.1
United States	36,214	33,075	32,343	32,619	3,872	456	6.6	-8.7	19.4	0.9	9.8	8.3
North East Asia (not including China & Japan)	45,271	46,552	37,520	36,716	7,751	9,835	33.6	2.8	45.6	-2.1	12.2	11.7
Hong Kong SAR	18,891	18,273	7,467	7,399	11,424	10,874	22.7	-3.3	28.1	-0.9	5.1	4.6
Republic of Korea	14,710	15,411	16,387	13,679	-1,677	1,732	33.7	4.8	55.6	-16.5	4.0	3.9
Taiwan	11,595	12,761	13,648	15,611	-2,052	-2,850	56.3	10.1	45.2	14.4	3.1	3.2
ASEAN (not including Singapore)	46,055	48,375	46,809	49,990	-754	-1,614	29.6	5.0	41.0	6.8	12.4	12.2
Thailand	21,016	21,201	19,095	19,884	1,921	1,317	31.5	0.9	37.8	4.1	5.7	5.3
Indonesia	10,971	11,930	16,868	21,175	-5,897	-9,245	14.4	8.7	37.2	25.5	3.0	3.0
Philippines	5,642	6,466	5,906	2,840	-264	3,627	54.9	14.6	192.7	-51.9	1.5	1.6
European Union	39,824	41,338	30,801	33,139	9,023	8,200	24.5	3.8	15.5	7.6	10.7	10.4
Germany	9,530	11,139	11,958	12,472	-2,428	-1,333	28.6	16.9	18.8	4.3	2.6	2.8
Netherlands	12,461	10,871	1,877	2,026	10,584	8,845	28.5	-12.8	13.3	7.9	3.4	2.7
United Kingdom	4,273	4,140	3,558	3,391	716	750	4.1	-3.1	2.7	-4.7	1.2	1.0
South Asia	19,097	25,227	5,018	6,746	14,079	18,481	24.7	32.1	0.6	34.4	5.1	6.4
India	11,732	16,165	4,454	5,845	7,278	10,321	18.5	37.8	-3.6	31.2	3.2	4.1
Pakistan	3,917	4,347	373	454	3,544	3,893	19.0	11.0	53.6	21.5	1.1	1.1
West Asia	12,964	14,771	9,483	15,523	3,481	-752	7.9	13.9	13.2	63.7	3.5	3.7
United Arab Emirates	7,100	7,501	4,088	4,770	3,012	2,732	21.5	5.6	17.5	16.7	1.9	1.9
Saudi Arabia	1,720	2,441	2,792	5,445	-1,072	-3,004	5.4	41.9	12.2	95.0	0.5	0.6
Iran	1,442	1,868	614	868	828	1,000	21.4	29.6	9.0	41.4	0.4	0.5
Australia	14,507	14,281	5,387	7,057	9,120	7,224	29.8	-1.6	0.3	31.0	3.9	3.6
New Zealand	1,778	1,661	1,236	1,529	543	131	77.8	-6.6	29.0	23.8	0.5	0.4
Africa	8,923	10,387	5,816	6,139	3,107	4,248	29.5	16.4	132.9	5.6	2.4	2.6
Rest of the World	13,521	15,249	16,030	16,589	-2,509	-1,340	16.3	12.8	52.8	3.5	3.6	3.8
Total	370,902	396,348	301,543	327,747	69,359	68,600	24.9	6.9	30.0	8.7	100.0	100.0

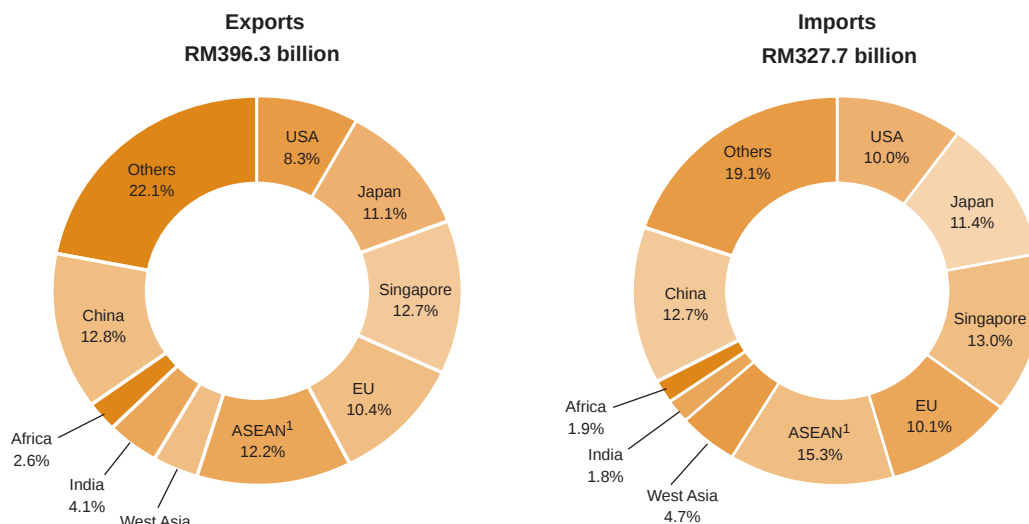
Note: Total may not add up due to rounding.

Source : Department of Statistics, Malaysia.

CHART 3.14

Direction of External Trade**January – July 2011**

(% share)

¹ Not including Singapore.

Source: Department of Statistics, Malaysia.

During the first seven months of 2011, Malaysia's trade with **Singapore** expanded 12% to RM93.2 billion and recorded a surplus of RM7.7 billion. The trade surplus was supported by strong export growth of refined petroleum products (58%), which offset the decline in E&E products (-14.2%). As such, exports to Singapore grew 3.7% while imports expanded 23.7%.

Trade with **China**, the second largest trading partner, remained favourable with the trade surplus widening to RM9.3 billion. Total trade with China grew 8.2% to RM92.3 billion, with exports growing 8.8% on account of higher demand for electronic integrated circuits, palm oil as well as data processing machines. Imports from China expanded 7.4% mainly contributed by E&E products, parts and accessories for machines as well as television broadcast receivers.

Japan's trade with Malaysia expanded strongly to RM81.6 billion, accounting for 11.3% of total

trade during the first seven months of 2011. The earthquake disaster in Japan affected trade, particularly for manufactured goods during April – June 2011. However, strong exports of commodity products offset the slowdown in exports of manufactured goods. Exports to Japan expanded 18% mainly due to higher demand for LNG (22.6%) due to shortages of energy supply following the closure of a few nuclear plants. In addition, exports of wood products grew sharply by 27.8% due to stocking-up activity in anticipation of reconstruction projects. However, imports from Japan contracted 1.2% mainly due to the supply chain disruptions, especially for E&E products (-10.5%) and machinery, appliances and parts (-9.5%).

Following the moderate economic growth in the US, trade with **the US** declined 4.2% to RM65.7 billion and constituted 9.1% of overall trade. This was largely due to the declining exports to the US (-8.7%) due to the contraction in demand

of E&E (-18.4%) as well as rubber (-1.2%) and wood products (-23.4%). However, imports grew 0.9% driven mainly by higher imports of machinery and transport equipment as the business sector capitalised on the stronger ringgit to upgrade and expand plant capacity.

Trade with **ASEAN (excluding Singapore)** remained favourable with total trade expanding 5.9% to RM98.4 billion driven mainly by demand for manufacturing inputs. Notably, trade with Thailand and Indonesia registered a higher growth of 2.4% and 18.9%, respectively. Despite uncertainty surrounding the sovereign debt crisis in some of the EU economies, trade with **the EU** as a whole was relatively unaffected. Trade with the EU grew 5.5% to RM74.5 billion supported mainly by trade with France, Germany, Netherlands and the UK. Exports to the EU grew 3.8% supported by higher demand for palm oil and rubber, while imports including parts of electronic integrated circuits and aircraft increased 7.6% during the period.

Balance of Payments

Strong current account surplus

Malaysia's overall **balance of payments** is projected to remain favourable in 2011, with a strong current account surplus and a lower net outflow in the financial account. The current account surplus is expected to remain large at RM89.3 billion or 10.9% of GNI (2010: RM88.1 billion; 11.9%) backed by a sturdy trade surplus. Similarly, the net outflow in the financial account is envisaged to improve mainly supported by continued inflows of FDI and portfolio investment. Subsequently, Malaysia's international reserves are anticipated to strengthen further and enhance the nation's economic resilience.

The surplus in the **goods account** is estimated to increase to RM139.7 billion (2010: RM134.7 billion). Gross exports are expected to expand 6.7% to RM682.7 billion (2010: 15.5%; RM640 billion) on account of higher commodity prices in particular for palm oil, rubber and crude petroleum as well as strong regional demand from emerging markets. In 2011, gross imports

are envisaged to increase 7.5% to RM543 billion (2010: 22.6%; RM505.3 billion), reflecting expansion in all import categories. In addition, imports are expected to increase due to strong construction and investment activities, higher household disposable income as well as a stronger ringgit.

The **services account**, comprising travel, transportation, government transaction and other services is expected to record net outflow of RM1.4 billion in 2011 (2010: +RM1.7 billion) on account of a higher deficit in the transportation and other services accounts. In the transportation account, total net payment is envisaged to be higher at RM24.5 billion (2010: -RM23.2 billion) due to continued reliance on foreign shipping companies for transportation of goods. Payments with sea transportation services constituting the bulk of gross outflows are expected to grow at 5.7% to RM40.4 billion (2010: 17.5%; RM38.2 billion) due to trade expansion and rising transportation charges following higher fuel costs. Gross receipts are anticipated to increase 5.7% to RM16 billion (2010: -2.7%; RM15.1 billion) supported by earnings from passenger, transshipment and charter services by shipping and airline domestic companies.

In line with the improvement in the economy and higher demand, the other services account is expected to register a larger deficit of RM9.9 billion (2010: -RM8 billion). Higher payments for imported services are expected to increase significantly by 7.3% to RM41.9 billion (2010: -3.5%; RM39 billion). The outflows are attributable mainly to higher payments for royalties and licence fees, construction and other business services.

Travel receipts, the largest contributor to earnings in the services account are expected to increase 2.2% to RM60.2 billion in 2011 (2010: 5.9%; RM58.9 billion), reflecting the success of tourism promotion strategies. The strong economic performance of regional countries and greater connectivity in air services through increased number of flights, including charter flights and promotional fares, are envisaged to result in a higher number of visitors to 25.3 million (2010: 24.6 million). On the payment front, the rising

TABLE 3.20

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

	2010			2011 ¹		
	Receipts	Payments	Net	Receipts	Payments	Net
Balance on goods and services	745,311	608,887	136,424	791,146	652,842	138,304
Goods	640,043	505,317	134,726	682,707	543,025	139,682
Services	105,268	103,570	1,698	108,439	109,816	-1,378
Transportation	15,095	38,248	-23,153	15,959	40,421	-24,462
Travel	58,868	25,541	33,327	60,180	26,691	33,489
Other services	31,045	38,998	-7,953	31,961	41,858	-9,897
Government transactions <i>n.i.e</i> ²	260	783	-523	339	847	-508
Income	38,297	64,811	-26,514	41,378	68,525	-27,148
Compensation of employees	3,548	5,634	-2,086	3,568	5,782	-2,214
Investment income	34,748	59,176	-24,428	37,810	62,743	-24,933
Current transfers	1,855	23,686	-21,831	2,461	24,331	-21,871
Balance on current account	785,463	697,384	88,079	834,984	745,698	89,285
% of GNI			11.9			10.9

¹ Estimate.

² Not including elsewhere.

Note: Total may not add up due to rounding.

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

affluence and improved household income as well as increasing business activities will lead to higher expenditure on foreign travel which is expected to rise 4.5% to RM26.7 billion (2010: 11.6%; RM25.5 billion). In addition, expenditure of Malaysians on education, health and pilgrimage is expected to increase in 2011. On balance, the travel account will continue to register a surplus of RM33.5 billion (2010: RM33.3 billion).

The **income account** comprising investment income and compensation of employees is expected to register a deficit of RM27.1 billion (2010: -RM26.5 billion). Gross payments for investment income are expected to increase 6% to RM62.7 billion (2010: 22%; RM59.2 billion) on account of higher profits and dividends to foreign investors operating in Malaysia. Nevertheless,

the actual outflows of investment income are considerably lower as approximately more than half of these earnings are retained in Malaysia as reinvested earnings. The rising number of Malaysian companies investing abroad to diversify operations and provide synergy to domestic activities have yielded positive results. Hence, the profits and dividends to Malaysian companies are expected to increase 8.8% to RM37.8 billion (2010: -1.7%; RM34.7 billion), particularly in the financial services, mining as well as manufacturing sectors. The deficit on the compensation of employees, which includes salaries, wages and other benefits earned by residents working abroad and non-residents working in Malaysia, is expected to remain stable at RM2.2 billion (2010: -RM2.1 billion).

The net outflow **current transfers account**, is projected to be sustained at RM21.9 billion (2010: -RM21.8 billion). This is in line with the Government's efforts to regulate the presence of foreign workers according to the needs of various sectors of the economy. As such, transfer payments in 2011 are expected to increase marginally by 2.7% to RM24.3 billion (2010: 1.5%; RM23.7 billion). Meanwhile, receipts are projected to expand 32.6% to RM2.5 billion (2010: -50.1%; RM1.9 billion).

In 2011, the **financial account** including direct investment, portfolio investment, financial derivatives and other investment is expected to record a lower net outflow. Despite the global uncertainty and greater competition from emerging economies, Malaysia continues to attract significant inflows of FDI. This is due to investor confidence on the growth prospects of the Malaysian economy and several Government initiatives, including the implementation of the EPPs under the ETP as well as continued efforts by the Government to further liberalise the economy.

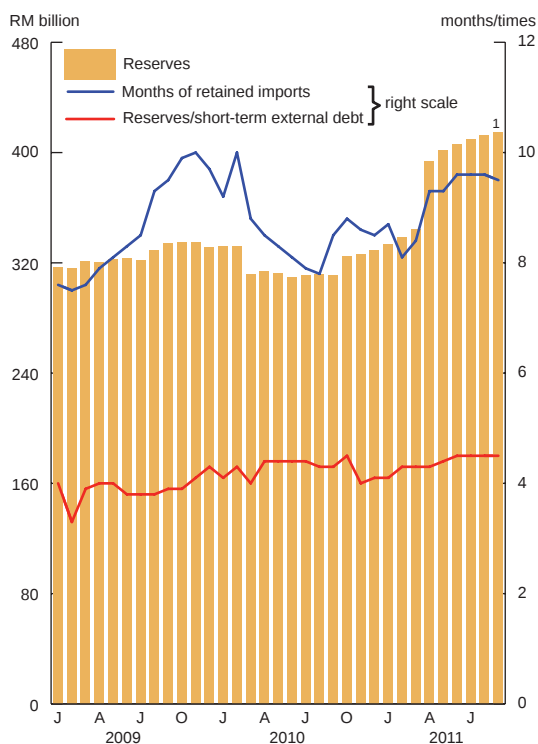
Given strong regional growth prospects, direct investment abroad (DIA) by Malaysian companies are expected to be sizeable. The higher DIA is expected to be channelled mainly into the services, mining as well as manufacturing sectors with focus on emerging economies, including the Asian region. Investments abroad by Malaysian companies are aimed at broadening the market base, tapping into new opportunities to diversify earnings, supporting domestic activities and positioning themselves as global players.

The inflows of portfolio investment are expected to continue but with some degree of volatility especially in the second half of the year given the increasingly adversely external environment. The inflows of portfolio investment are expected to be channelled into the equity and debt markets, with the bulk of funds invested in long-term debt securities in Malaysia. The other investment component of the financial account is, however, expected to register a net

outflow mainly on account of net repayments of external loans by the official sector, higher trade credits by Malaysian exporters and repayment of trade credits by Malaysian importers. In addition, the placement of assets abroad by the banking sector and settling of inter-bank borrowings will continue to contribute to gross outflows.

Malaysia's **international reserves** position remained strong, amounting to RM414.5 billion or USD137.1 billion as at 15 September 2011 (2010: RM328.6 billion; USD106.5 billion) following sustained trade surplus as well as inflows of FDI and portfolio investment. The reserves position is sufficient to finance 9.5 months of retained imports and is 4.5 times the short-term external debt. Going forward, the international reserves position is expected to remain resilient driven by the continued large surplus in the current account at 10.9% of GNI.

CHART 3.15
International Reserves



¹ As at 15 September 2011.

Source: Bank Negara Malaysia.

Prices

CPI peaked in June

Effective January 2011, the base year for the **Consumer Price Index (CPI)** was revised from 2005 to 2010 to better reflect household expenditure patterns, following the Household Expenditure Survey conducted from April 2009 to March 2010. The headline inflation rate, as measured by the annual change in the CPI, has increased in 2011 in line with inflation trends worldwide due to higher energy and food prices. Since August 2010 to August 2011, Dated Brent prices surged sharply by 43.5%, while prices of food commodities such as wheat, soyabean, corn, CPO, rice, and sugar also increased between 14.7% and 71.4%.

Malaysia's inflation rose 3.1% in the first eight months of 2011 (January – August 2010: 1.5%). The three major contributors to the increase

were the food and non-alcoholic beverages; transport; as well as housing, water, electricity, gas and other fuels groups, which together accounted for 2.5 percentage points of the CPI increase. Besides supply factors, the increase in inflation was also partly contributed by the subsidy rationalisation of some essential consumer items, including sugar, petrol RON97 and electricity tariffs.

The **food and non-alcoholic beverages group** increased 4.6% (January – August 2010: 2.2%), contributing 1.4 percentage points to the CPI. This was due to price increases of food at home and food away from home by 5% and 4.2%, respectively. Essential food items which registered increases were meat (7.1%), vegetables (7%) as well as fish and seafood (4.8%), mainly on account of disruptions in supply caused by adverse weather conditions as well as higher demand during festivities and school holidays. On 10 May 2011, the Government revised the price

TABLE 3.21

Reclassification of Consumer Price Index (CPI)

(2005 = 100)

	Weight
Food and non-alcoholic beverages	31.4
Alcoholic beverages and tobacco	1.9
Clothing and footwear	3.1
Housing, water, electricity, gas and other fuels	21.4
Furnishings, household equipment and routine household maintenance	4.3
Health	1.4
Transport	15.9
Communication	5.1
Recreation services and culture	4.6
Education	1.9
Restaurants and hotels	3.0
Miscellaneous goods and services	6.0

(2010 = 100)¹

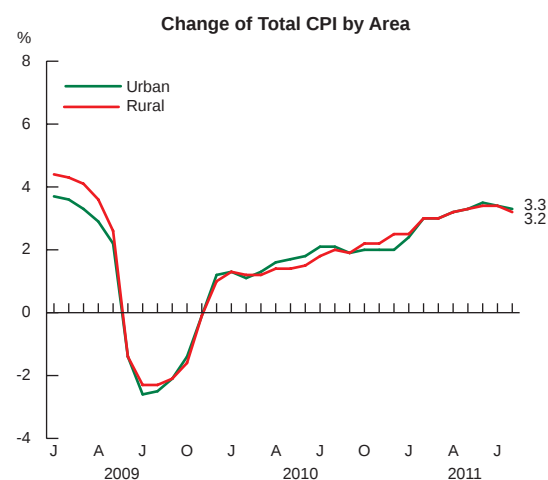
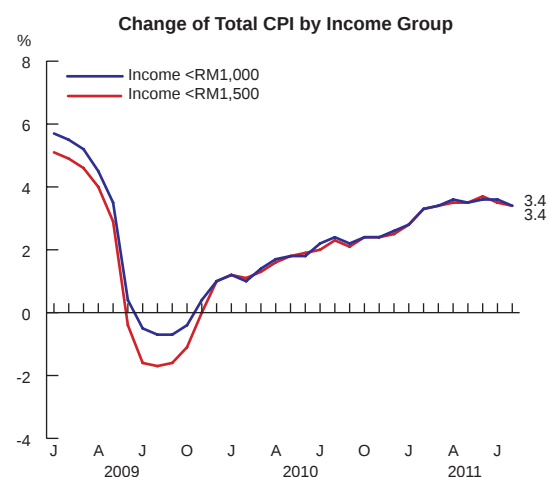
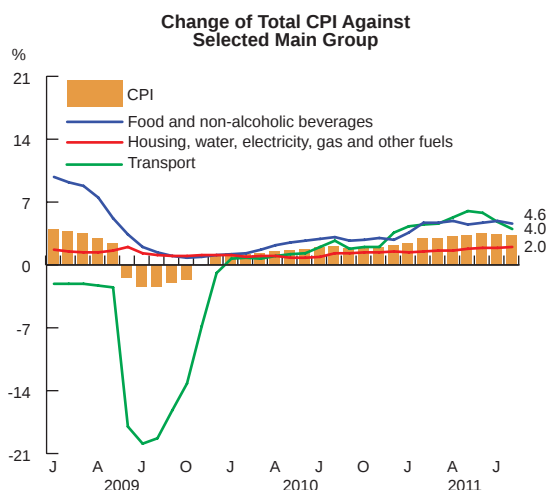
	Weight
Food and non-alcoholic beverages	30.3
Alcoholic beverages and tobacco	2.2
Clothing and footwear	3.4
Housing, water, electricity, gas and other fuels	22.6
Furnishings, household equipment and routine household maintenance	4.1
Health	1.3
Transport	14.9
Communication	5.7
Recreation services and culture	4.6
Education	1.4
Restaurants and hotels	3.2
Miscellaneous goods and services	6.3

¹ Effective January 2011, the CPI base year was revised from 2005 to 2010.

Source: Department of Statistics, Malaysia.

CHART 3.16

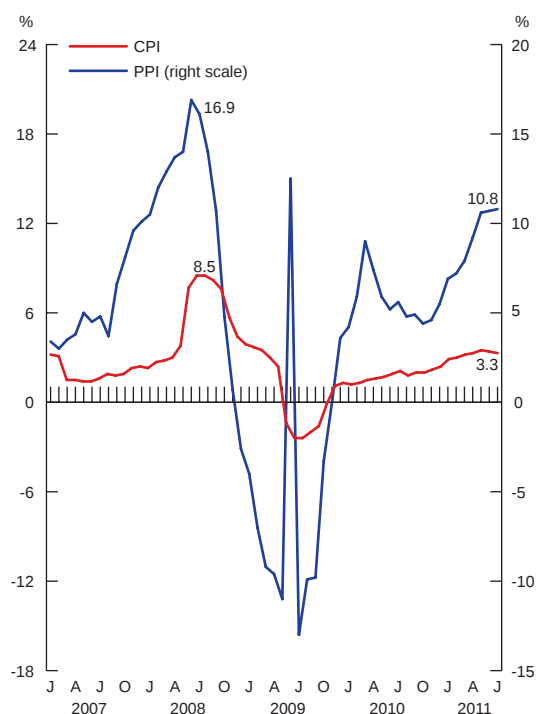
CPI in Malaysia (% annual change)



Source: Department of Statistics, Malaysia.

CHART 3.17

CPI and PPI Trends (% annual change)



Source: Department of Statistics, Malaysia.

of sugar by 20 sen to RM2.30 per kilogramme following the sharp rise in the price of sugar in the global market.

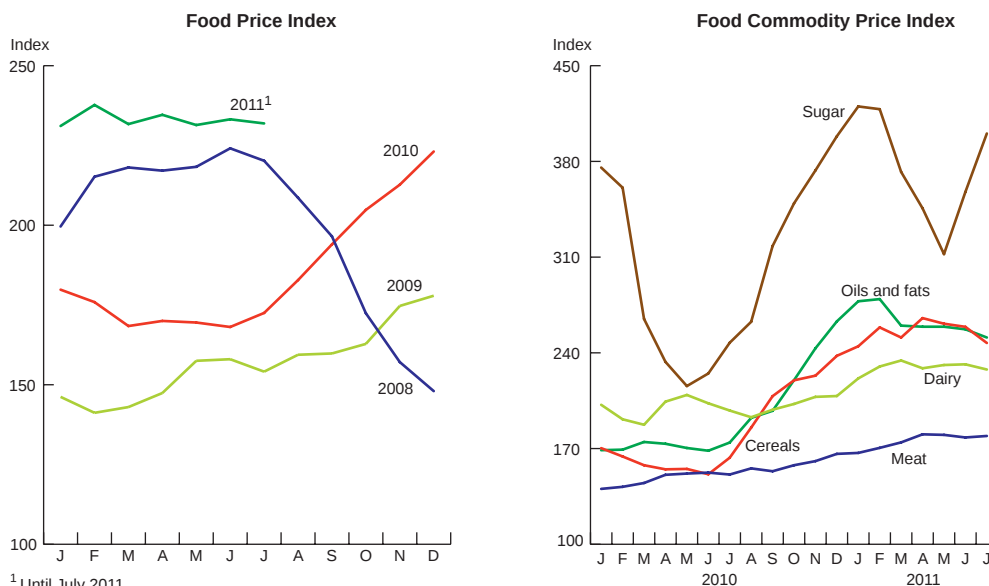
Following four consecutive adjustments from RM2.40 to RM2.90 per litre in the pump price of petrol RON97 between January and May 2011, prices in the **transport group** rose 4.9% during the first eight months of the year (January – August 2010: 1.3%), contributing 0.7 percentage point to the CPI increase. However on 16 June 2011, the Government reduced the price of petrol RON97 by 10 sen to RM2.80 per litre, reflecting the slight easing in global crude oil prices, though remaining elevated. The significant price increase in this group was also due to higher prices of fuel and lubricants in personal transport equipment (7.5%), parts and accessories for personal transport (5.3%) as well as repair and maintenance for personal transport (3.2%).

Managing Rising Inflation

Introduction

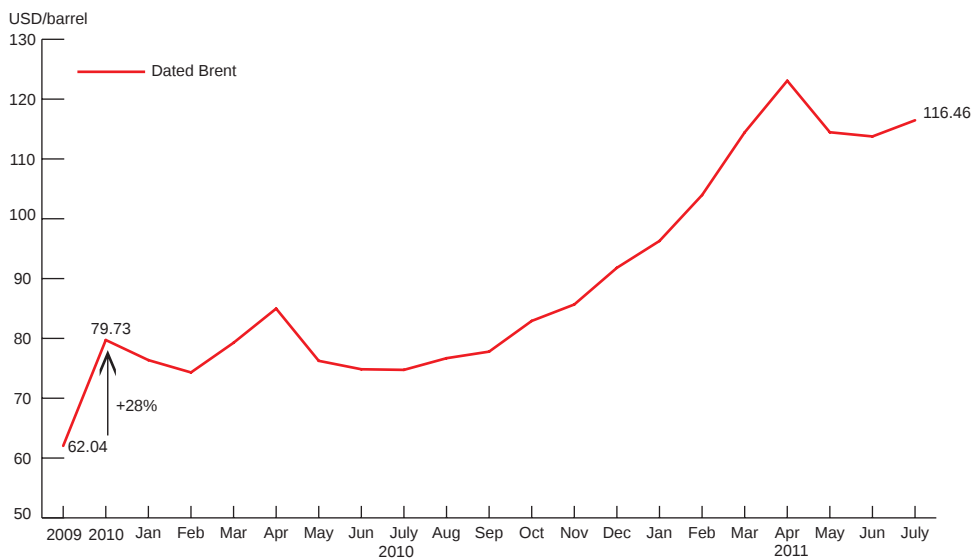
Governments, especially in developing countries are once again grappling with rising inflation brought about by the current round of soaring global commodity prices, particularly fuel and food commodities. The increase was in tandem with the recovery in global economic growth, which picked up in the middle of 2010. Global commodity prices have surged due to several factors, including increasing demand from a growing population and rising affluence, especially in developing countries as well as supply disruptions caused by adverse weather conditions and the political unrest in the Middle East and North Africa (MENA). This is reflected in the rising Food and Agriculture Organisation of the United Nations (FAO) Food Price Index. The index, which averaged 157 points in 2009, has increased steadily from 172 points in July 2010 to 234 points in June 2011. For the first half of 2011, the index remained elevated between 231 points and 238 points, with the highest level recorded in February. Similarly, oil prices which remained relatively stable between USD75 – USD85 a barrel during the first 8 months of 2010, increased to nearly US\$116 in July 2011.

CHART 1
Food Price Indices
(2002 – 2004 = 100)



Despite inflation being a global phenomenon, its impact is greater in developing countries compared with developed countries. Rising oil prices have led to higher domestic retail fuel prices and generally to higher production costs and overall prices of product and services. The impact of higher global food prices is felt more keenly in developing countries as food accounts for a larger share of their consumption basket. In some countries such as China, India and Vietnam, food price inflation has reached double-digit levels, driving up their headline inflation.

CHART 2
World Crude Oil Prices



Source: Bloomberg.

Impact on Malaysia

Malaysia's headline inflation registered a modest 0.6% in 2009 and was higher at 1.7% in 2010, reflecting the rising trend in global commodity prices. The inflationary pressures continued into the first seven months of 2011, with inflation increasing to 3.1%. Nevertheless, in comparison with other countries, Malaysia's inflation rate remained among the lowest in the region.

TABLE 1

Food Weights in the CPI, Food Inflation and Inflation Rate in Selected Countries (January – July 2011)

Country	Food Weight (%)	Food Inflation (%)	Inflation rate (%)	Country	Food Weight (%)	Food Inflation (%)	Inflation rate (%)
Cambodia ¹	44.8	6.2	5.3	Malaysia ¹	30.3	4.6	3.1
China ²	30.2	11.8	5.6	Philippines ¹	46.6	5.9	4.8
Hong Kong	26.7	6.2	5.0	Singapore ¹	22.0	2.8	5.0
India ³	14.3	10.2	9.5	Taiwan ¹	26.1	2.3	1.4
Indonesia ⁴	36.2	11.3	6.1	Thailand ¹	33.0	7.0	3.6
Republic of Korea ¹	14.0	9.6	4.4	Viet Nam	39.9	24.0	17.0

¹ Including non-alcoholic beverages.

² Including beverages.

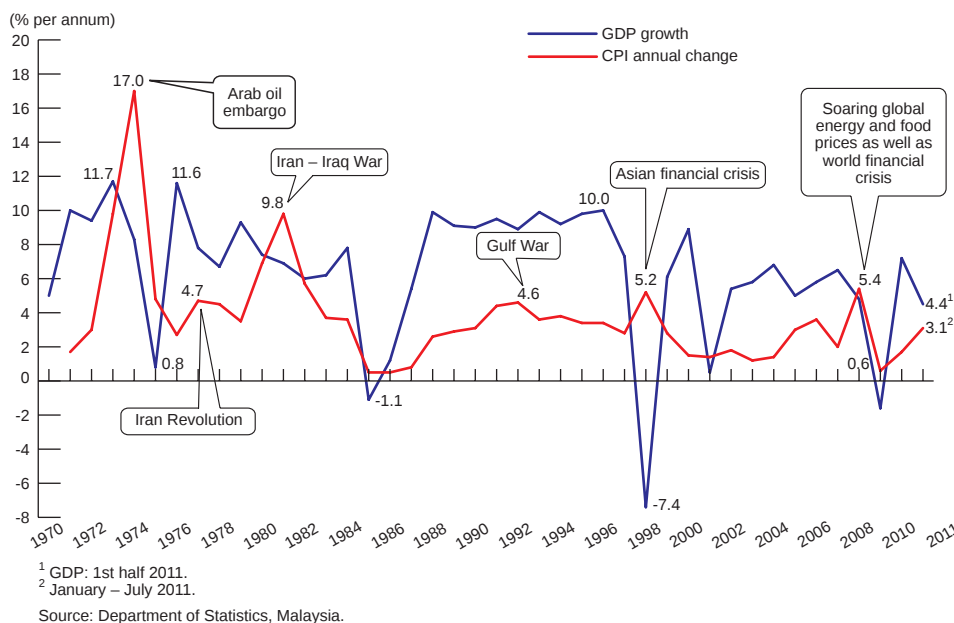
³ Based on Wholesale Price Index.

⁴ Including beverages and tobacco.

Source: Bloomberg and national authorities.

CHART 3

Malaysian Inflation and GDP Growth Trends, 1970 – 2011



According to the World Bank, although the dollar price of internationally traded food commodities have increased 40% since June 2010, the overall food price indices in developing countries have risen by much less. This is partly due to price controls and government subsidies. This also partly explains Malaysia's low inflation rate. This is, however, not without cost to the country as rising prices have also resulted in significant increases in food and fuel subsidies. During the period of high inflation experienced in 2008, the total subsidy outlay by the Government for LPG, diesel, petrol, rice, sugar, flour and cooking oil was RM19.3 billion. The total subsidy decreased 56.8% in 2009, with the lower inflation of 0.6%, as crude oil prices and the Food Price Index declined 57.5% and 21.4%, respectively in 2009. Total subsidy has since increased 48.4% in 2010 to RM12.4 billion and is estimated to be higher at RM19.9 billion in 2011.

The Government recognises the impact of rising inflation on the welfare of the rakyat. Though the situation remains manageable for most Malaysians, the Government is most concerned about the rising prices of food posing a burden on the poor and low-income group. These groups are most vulnerable to any food price shocks as a greater part of their income is spent on food.

Policy Response

The Government has been monitoring domestic and international price developments closely and has taken pre-emptive measures on the monetary side to mitigate the impact of rising inflation. As economic growth strengthened in 2010, the overnight policy rate (OPR) continued to be normalised and was adjusted upwards three times in 2010 and once during the first seven months of 2011. This was to ensure that the OPR remains appropriate and consistent with the assessment of growth and inflation in the economy.

The Government also recognises the burden of subsidy outlay on the country's fiscal position and the need to strengthen it. However, any subsidy rationalisation will be gradual and the Government will ensure that the poor and low-income group will continue to receive Government support. In addition, the Government has also set up a Cabinet Committee on Supplies and Prices chaired by the Deputy Prime Minister. The focus of the Cabinet Committee is to determine policies related to prices and supplies of basic necessities and to ensure it is sufficient and available at reasonable prices to consumers.

Measures Implemented

In view of the difficulties faced by the rakyat, especially the poor and low-income households, the Government has implemented various measures which include:

- Providing **subsidies** for petrol, diesel, LPG and food items, such as rice (ST15%), sugar, flour and cooking oil; and abolishing import duties on several food items like vermicelli, biscuits, fruit juice and sweet corn;
- Providing **allocations** of: RM974 million as price subsidy for padi, fertilisers and padi seeds; RM230 million for production incentives and increasing padi yield; RM235 million to upgrade the drainage and irrigation system as well as usage of high quality padi seeds; and RM170 million as incentives for fishermen as well as boat owners and workers to increase fish landing;
- Extending **income tax deduction** for investors and income tax exemption for companies undertaking food production activities for another five years until 2015;
- Implementing **Dasar Jaminan Bekalan Makanan 2008 – 2010** to increase production and productivity of the agro food sector and to ensure that food supply is adequate, of quality and safe for consumption. This is followed by **Dasar Agro Makanan 2011 – 2020** with the aim to further tap the agricultural potential in increasing output and developing a more integrated food supply chain;
- Introducing an interactive portal **1Malaysia Smart Consumer**, www.1pengguna.com, to provide consumers with updates on price developments of 355 consumer products and make price comparison of products sold at 1,255 retail outlets nationwide, including hypermarkets, supermarkets and wet markets. The prices of products are monitored and updated by 1,300 price watch officers;
- Implementing the **Price Control and Anti-Profiteering Act 2010** to control prices of goods or charges for services and to prohibit profiteering, that is, selling and supplying goods and services at unreasonably high profit;
- Enacting the **Competition Act 2010** (which will come into effect in January 2012) to curtail anti-competitive practices by an enterprise or enterprises, and thereby protecting the interests of consumers. This includes fixing directly or indirectly a purchase or selling price or any other trading conditions. An enterprise is also prohibited from engaging, whether independently or collectively, in any conduct to abuse its dominant position in any market for goods or services;
- Launching **Kedai Rakyat 1Malaysia (KR1M)**. KR1M offers 250 items under the brand name “1Malaysia” at prices up to 40% lower than market prices to ease the burden of the vulnerable group in urban areas. The first KR1M store at Kelana Jaya was launched on June 22, followed by a second store at Bandar Tun Razak on August 21 and a third store at Pantai Dalam on 26 August 2011;
- Introducing **Menu Rakyat 1Malaysia** for breakfast and lunch set with drinks at an affordable price of RM2 and RM4, respectively. The programme, with cooperation from food operators nationwide, is aimed at helping people save on their daily expenses. Currently, there are 728 restaurant operators participating in the programme and their locations can be found on the 1Malaysia Smart Consumer Portal, “www.1pengguna.com”;
- Launching **Skim Rumah Pertamaku** to assist young adults under 35 years old, earning less than RM3,000 per month to own a home, as well as **Program Perumahan Rakyat 1Malaysia (PR1MA)** to build houses mainly in urban and suburban areas, targeted for the middle-income group with household income between RM2,500 and RM6,000 a month.

Conclusion

With a view to mitigate the impact of rising inflation on the rakyat in a holistic manner, the Government recently announced an additional National Key Result Area (NKRA) to deal with the rising cost of living. The main objectives of this NKRA is to identify measures to assist and ease the burden faced by the rakyat, particularly the vulnerable and low-income groups as well as the middle-income groups. This will ensure that policy response and initiatives to assist the rakyat are well coordinated and resources optimised to effectively serve the targeted groups.

TABLE 3.22

Consumer Price Index (CPI)
January – August
 (2010 = 100)¹

		Change (%) 2010	Contribution to CPI growth (%) 2010	Change (%) 2011	Contribution to CPI growth (%) 2011
	Weight				
Food and non-alcoholic beverages	30.3	2.2	47.7	4.6	44.7
Alcoholic beverages and tobacco	2.2	3.0	4.3	6.3	4.3
Clothing and footwear	3.4	-1.7	-2.8	-0.3	-0.4
Housing, water, electricity, gas and other fuels	22.6	1.0	13.6	1.7	12.5
Furnishings, household equipment and routine household maintenance	4.1	0.7	1.8	1.6	2.0
Health	1.3	1.6	1.3	2.6	1.1
Transport	14.9	1.3	12.7	4.9	23.4
Communication	5.7	-0.3	-1.0	-0.2	-0.3
Recreation services and culture	4.6	2.3	6.4	1.3	1.9
Education	1.4	1.7	2.0	2.1	1.0
Restaurants and hotels	3.2	1.7	3.5	5.7	5.9
Miscellaneous goods and services	6.3	2.8	10.5	1.9	3.9
Total	100.0	1.5	100.0	3.1	100.0

¹ Effective January 2011, the CPI base year was revised from 2005 to 2010.

Source: Department of Statistics, Malaysia.

During the first eight months of the year, prices in the **housing, water, electricity, gas and other fuels group** rose 1.7% (January – August 2010: 1%) and contributed 0.4 percentage point to the CPI increase. This was on account of higher prices of gas (7.2%) as well as service charges for maintenance and repair of dwellings (3%). As part of the ongoing subsidy rationalisation, the average electricity tariff was raised by 2.23 sen per kilowatt hour (kWh) on 1 June 2011 to 33.54 sen kWh. Despite the 7.1% increase, 75% or 4.4 million domestic users who consume less than 300 kWh per month will not be affected, thus limiting the impact of the tariff increase on the CPI. On the whole, inflationary pressures were slightly mitigated by price declines of 0.3% and 0.2% in the **clothing and footwear** as well as **communication groups** (January – August 2010: -1.7%; -0.3%), respectively due to market competition.

The CPI for **urban** and **rural areas** increased 3.1% and 3.2% (January – August 2010: 1.6%; 1.5%), respectively. In both the areas, the increase in prices of food and non-alcoholic beverages as well as transport groups was the main contributors to the rise in CPI. Meanwhile, on an income basis, the CPI for those in **income groups of less than RM3,000, less than RM1,500 and less than RM1,000** recorded the same rate of increase of 3.4%, due mainly to higher prices in the food and non-alcoholic beverages group.

The **Producer Price Index (PPI)**, a measure of change in the prices of commodities charged by domestic producers and those paid by importers, increased 9.1% during the first seven months of 2011 (January – July 2010: 6.2%) mainly due to significant price increases in local production. The **PPI for local production**

TABLE 3.23

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

		Change (%)	Contribution to PPI growth (%)	Change (%)	Contribution to PPI growth (%)
	Weight	2010	2010	2011	2011
Domestic economy	100.0	6.2	100.0	9.1	100.0
Food	5.4	2.2	2.1	8.0	5.2
Beverages and tobacco	0.9	-0.3	0.0	2.6	0.2
Crude materials, inedible	5.4	19.1	19.1	32.0	24.6
Mineral fuels, lubricants etc	17.4	17.9	50.6	17.7	37.8
Animal and vegetable oils and fats	4.2	12.0	9.9	37.6	22.3
Chemicals	7.0	3.9	4.2	9.0	6.5
Manufactured goods	10.9	1.0	1.8	3.9	4.5
Machinery and transport equipment	42.9	1.5	10.1	-0.7	-2.8
Miscellaneous manufactured articles	5.4	0.9	0.8	2.1	1.1
Miscellaneous transactions and commodities	0.5	18.5	1.3	2.2	0.1
Local production	66.4	8.5	91.6	12.1	91.7
Imports	33.6	1.6	8.5	2.4	8.0

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.

increased at a faster pace of 12.1% (January – July 2010: 8.5%), contributing 8.3 percentage points to the PPI increase. This was on account of strong price increases in mineral fuels and lubricants (19.2%), crude materials, inedible (35.5%) as well as animal and vegetable oils and fats (38.6%) (January – July 2010: 21.7%; 21.6%; 12.8%). In terms of **stage of processing in local production**, the cost of intermediate materials, supplies and components recorded the largest increase of 11.6%, followed by crude materials for further processing, 29.3%, which together contributed 11.5 percentage points to the PPI increase.

Meanwhile, the **import components, comprising 33.6% of domestic PPI**, registered a relatively small increase of 2.4% (January – July 2010:

1.6%) and contributed only 0.7 percentage point to the overall PPI increase. The main contributors to the increase were machinery and transport equipment as well as mineral fuels and lubricants by 1.3% and 8.8% (January – July 2010: 1.6%; 0.8%), respectively.

Labour Market

Labour market remains stable

Malaysia's sustained economic performance in 2011 will further benefit the labour market in the country. With growth in demand for labour outpacing supply, the economy will continue to operate under conditions of full employment. The **labour force** is projected to increase by 2.3% to reach 12.6 million (2010: 2.3%; 12.4 million) contributed by

TABLE 3.24

Labour Market Indicators

	('000)		Change (%)	
	2010	2011 ¹	2010	2011 ¹
Labour force	12,361.3	12,645.7	2.3	2.3
Employment	11,937.1	12,226.7	2.6	2.4
Unemployment	424.2	419.0	3.4 ²	3.3 ²

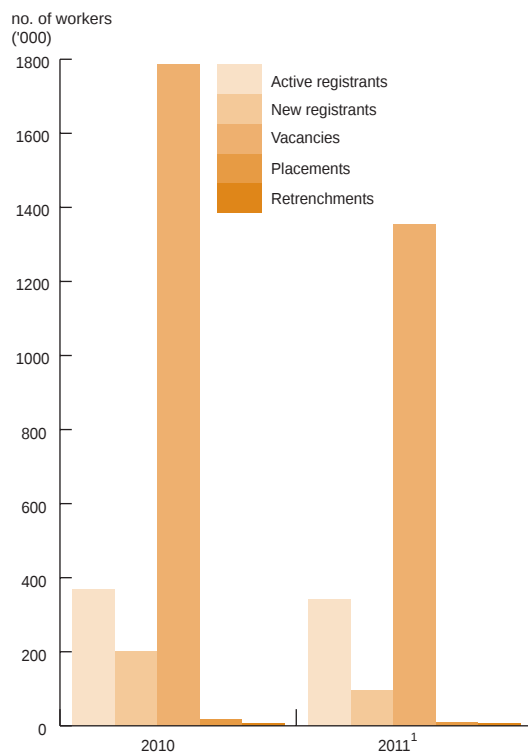
¹ Estimate.² Percentage of labour force.

Source: Economic Planning Unit, Malaysia.

the increase in the number of persons employed in the economy. Following these developments, the **unemployment rate** is expected to improve to 3.3% or 419,000 unemployed persons in 2011 (2010: 3.4%; 424,200). In line with the various measures undertaken by the Government to enhance human capital development, the percentage of labour force with tertiary education is expected to improve to 26.9% in 2011 compared with 24.2% in 2010. The overall **labour force participation rate** is expected to increase from 64.3% in 2010 to 64.8% in 2011 mainly due to greater participation by the younger age cohort of 20 – 24 years. In terms of gender, both male and female participation rates are anticipated to edge up to 80% and 49% (2010: 79.8%; 48%), respectively.

The improvement in total employment in 2011 is mainly on account of increased job creation in the manufacturing and services sectors. The services sector continued to account for the highest share of employment at 53.1% or 6.5 million workers in 2011. However, the manufacturing sector is expected to employ 52% of total new employment compared with 47% in the services sector in 2011. The upward trend in job creation was also reflected in the number of **job vacancies** registered with JobsMalaysia which rose 2.3% to 1,353,114 during the first

CHART 3.18

Job Market Indicators¹ January – August.

Source: Ministry of Human Resources, Malaysia.

eight months of 2011 (January – August 2010: 49.5%, 1,322,143). Similarly, the services and manufacturing sectors recorded the highest number of vacancies, accounting for 35.7% and 32.7%, respectively. In terms of occupational groups, the highest number of vacancies was in elementary occupations which accounted for 51.5% of total vacancies. Meanwhile, the demand for highly skilled workers increased 59.7% to 268,833 vacancies during the first eight months of 2011 (January – August 2010: 26.5%; 168,296).

The number of **active job seekers** registered with JobsMalaysia declined 3.5% to 342,198 people in the first eight months of 2011 (January – August 2010: -8%; 354,645). The majority of registrants were in the 20 – 24 age group with 205,073 registrants, accounting for 59.9% of the total, followed by the 25 – 29 age group (21%), 30 and above age group (9.9%) and 15 – 19

TABLE 3.25

Employment by Sector

	('000)		Change (%)		Share (%)	
	2010	2011 ¹	2010	2011 ¹	2010	2011 ¹
Agriculture	1,390.3	1,389.4	0.0	-0.1	11.6	11.4
Mining & quarrying	42.6	42.8	0.0	0.5	0.4	0.3
Manufacturing	3,381.7	3,533.1	5.4	4.5	28.3	28.9
Construction	765.5	768.8	0.4	0.4	6.4	6.3
Services	6,357.0	6,492.6	2.1	2.1	53.3	53.1
Utilities (electricity, water and gas)	100.2	102.0	2.5	1.8	0.8	0.8
Transport, storage and communication	683.4	704.2	1.2	3.1	5.7	5.8
Wholesale and retail trade, accommodation and restaurant	2,226.3	2,297.9	4.0	3.2	18.7	18.8
Finance, insurance, real estates and business services	839.3	854.4	1.7	1.8	7.0	7.0
Government services	1,249.5	1,251.8	0.1	0.2	10.4	10.2
Other services	1,258.3	1,282.3	1.5	1.9	10.5	10.5
Total	11,937.1	12,226.7	2.6	2.4	100.0	100.0
Primary	1,432.9	1,432.2	0.0	0.0	12.0	11.7
Secondary	4,147.2	4,301.9	4.4	3.7	34.7	35.2
Tertiary	6,357.0	6,492.6	2.1	2.1	53.3	53.1

¹ Estimate.

Source: Economic Planning Unit, Malaysia.

age group (9.2%). The majority of job seekers were graduates and school leavers. During the period, 60.6% of job seekers were degree and diploma holders while 29.7% were Sijil Pelajaran Malaysia (SPM) school leavers.

The Government continues to implement several measures to assist the unemployed. A total of 2,748 graduates were provided with employment opportunities in several agencies while about 3,000 graduates were trained by Bank Negara Malaysia and 25 Government-linked companies (GLCs) under the Skim Latihan 1Malaysia (SL1M) programme. In addition, training was also extended to non-graduates through several Government agencies, including Community Colleges, National Youth Training Institutes, GIATMARA Centres and Manpower Department Training Institutions.

In line with the favourable labour market conditions, the number of **retrenched workers** remained low at 6,751 in the first eight months of 2011. Of this, 87% were locals, while the remaining were foreigners. The manufacturing sector recorded the highest retrenchments at 4,474 workers or 66.3% of total retrenchments.

The number of **foreign workers** as at end-December 2010 accounted for 15.2% of the workforce. Following the Government's efforts to further reduce the dependency on low-skilled foreign workers, the share of foreign workers to total workforce declined to 10.7%. These workers were mainly from Asian region namely Indonesia (551,152), Nepal (254,431), Myanmar (153,140), Bangladesh (104,616), India (88,380) and Vietnam (53,729). Most of them were employed

in the manufacturing (533,885), followed by construction (198,906), plantation (151,917), services (120,475) and agriculture (118,449) sectors.

In an effort to monitor and manage the number of foreign workers in the country, the Government introduced the 6P initiative on 13 July 2011. The programme aims to register all foreign workers in the country, including illegal foreign workers. The 6P which includes registration (Pendaftaran), legalisation (Pemutihan), amnesty (Pengampunan), supervision (Pemantauan), enforcement (Penguatkuasaan) and deportation (Pengusiran) is being implemented with the support of foreign missions in the country. A total of 2.3 million legal and illegal foreign workers were registered under the 6P programme as of 11 September 2011.

Attracting highly skilled **expatriates** will facilitate the country's transition to a knowledge and innovation-based high income economy. As at end-August 2011, a total of 41,831 expatriates (end-August 2010: 32,058) were employed, particularly in the services (23,763), manufacturing (12,355), construction (2,188) and education (1,308) sectors. The majority of expatriates were from India (8,651), China (4,487), Japan (3,442) and Pakistan (2,292). In addition, concerted efforts were taken to attract talented Malaysians overseas to return and contribute to national development. In the first eight months of 2011, a total of 424 applications from Malaysian professionals working overseas were approved.

Prospects for 2012

Malaysian Economy

Growth prospects remain favourable

For 2012, GDP growth in Malaysia will be largely domestic driven, due to heightened uncertainties in the global economy. While the outlook for 2012 is affected by the increasingly adverse external environment, strong economic fundamentals coupled with pragmatic macroeconomic policies

and implementation of the ETP will enhance domestic sources of growth. Domestic demand, in particular private sector expenditure is expected to play a more significant role in driving economic expansion in 2012. The public sector will remain supportive of growth with higher capital spending by NFPEs. The Government will continue to provide an enabling environment to facilitate private investment by implementing key initiatives under the NKRA and NKEAs.

On the external front, increased domestic demand in the region and steady intra-regional trade will provide support for Malaysia's exports. Hence, Malaysia's real GDP growth is expected to be sustained at 5% – 6% in 2012. The projection takes into consideration a modest world economic growth with sustained strong expansion in intra-regional trade, improvement in E&E exports and firm commodity prices.

Sectoral Prospects

Broad-based growth

On the supply side, growth is expected to be broad-based. A turnaround is projected for the mining sector with the anticipated normalisation of production in 2012. A strong performance is projected for the construction sector supported by the commencement of large infrastructure projects, particularly the Sungai Buloh – Kajang MY Rapid Transit (MRT) line and River of Life projects. The manufacturing sector is expected to grow supported by strong domestic-oriented industries and improvement in the global personal computer market. The services sector is expected to sustain its growth momentum supported by strong domestic economic activities and steady regional trade. Growth in the agriculture sector will be supported by increased output of palm oil and rubber as well as high-growth segments such as ornamental fish, bird nests and herbal products.

Growth of the **services sector** is expected to be sustained at 6.5% in 2012 (2011: 6.4%) driven by the wholesale and retail trade, finance and insurance as well as communication sub-sectors.

Strong private consumption, steady intra-Asian trade, increased tourist spending as well as implementation of the EPPs are expected to further boost the performance of the sector. In consonance with these developments, the contribution of the services sector is expected to increase to 58.9% of GDP.

Value-added of the **manufacturing sector** is expected to sustain at 4.5% (2011: 4.5%) largely supported by the strong growth in domestic-oriented industries particularly from resource-based sub-sectors. The export-oriented industries are projected to pick up modestly with some improvement in E&E exports and resilient regional trade. Demand for E&E is expected to be driven by resumption of restocking activity, given the low level of global inventory as reflected in the book-to-bill ratio, which moderated to less than one for eight consecutive months in 2011. Thus, Malaysia is likely to benefit from these developments, particularly demand for high-end memory chips as well as digital applications for the automotive industry. In addition, continued expansion of domestic consumption and investment are anticipated to support production of domestic-oriented industries. Likewise, the prospects for the construction-related materials sub-sectors remains strong as projects under the 10MP and NKEAs gain momentum.

The **agriculture sector** is envisaged to grow 4.1% in 2012 (2011: 4.7%) with strong performance in most sub-sectors. The plantation sector, particularly oil palm and rubber is expected to perform strongly in line with yield improvement. The speedy implementation of replanting activity as well as improving FFB yields (2012: 21 tonnes per hectare; 2011: 20.8 tonnes per hectare) and OER (2012: 20.5%; 2011: 20.5%) are expected to boost CPO output to 18.7 million tonnes in 2012 (2011: 18.3 million tonnes). Likewise, rubber production is expected to strengthen further to 1.04 million tonnes (2011: 1 million tonnes) on account of expanding planted areas amid steady rubber prices. Output of food commodities are expected to perform better in 2012 with strong growth of the fishing and livestock as well as fruit and vegetable sub-sectors. Furthermore,

efforts to transform the agriculture sector through high value-added activities such as aquaculture, seaweed farming and swiftlet nests as well as herbal products, is expected to enhance growth of the sector.

The **mining sector** is expected to expand 2.5% in 2012 (2011: -2.4%) supported by higher production of crude oil and natural gas. Production of crude oil is expected to increase following the completion of major maintenance and the Reservoir Management Plan by PETRONAS. Crude oil production (including condensates) is envisaged to expand 3.3% to 620,000 bpd (2011: -6%; 600,000 bpd) supported by higher production from new oil fields, particularly Gumusut Kakap, Sabah and Berantai, Terengganu oil fields. Similarly, production of LNG is poised to increase following the completion of upgrading and expansion of facilities in MLNG DUA plant with total LNG production capacity of 1.3 million tonnes per year. In addition, output from Kumang cluster fields in offshore Sabah, which is expected to commence production by end-2011, is anticipated to accelerate the gas production in 2012.

The **construction sector** is projected to grow strongly by 7% in 2012 (2011: 3.4%) driven by the commencement of large infrastructure projects and vibrant housing construction activities. The civil engineering sub-sector will be supported by the implementation of development projects to enhance the long-term potential growth of the economy. These include the construction of Sungai Buloh – Kajang MRT line, integrated transport terminal (ITT) in Gombak to improve public transportation and to ease traffic congestion in Klang Valley. In addition, the development of Sabah Gas and Oil Terminal, including the 300MW Gas-Fired Power Plant in Sabah to supply clean source of energy to meet the increasing demand for electricity in Sabah, will further support the growth of the sub-sector. Other projects which will support the sub-sector include the ongoing construction of KLIA2, expansion of clean water supply and electrification projects to rural areas, especially in Sabah and Sarawak as well as construction of 430.7 km rural roads under the

NKRA on rural basic infrastructure. In addition, the ongoing corridor development projects such as the Lido Boulevard as well as LEGOLAND Malaysia in Iskandar Malaysia, and upgrading of existing coastal roads in East Coast Economic Region (ECER) are expected to further boost the growth of the sub-sector. Meanwhile, the residential sub-sector is expected to expand further supported by stronger demand for housing in line with improving household income, accommodative financing and the Government's continuous support for home ownership, in particular the Program Perumahan Rakyat 1Malaysia (PR1MA) project. Likewise, the non-residential sub-sector is envisaged to remain active, benefiting from the favourable business environment.

Domestic Demand

Private investment drives growth

On the demand side, growth in private consumption is expected to be broad-based with a strong expansion of 7.1% in 2012. Growth is premised on steady consumer confidence with stable employment outlook as well as higher household income. Firm prices of commodities will spur rural household spending. In addition, the civil service reform programme with improved remuneration scheme will lead to higher disposable income of civil servants and have a significant multiplier effect on the economy.

Private investment is expected to gain momentum with a strong growth of 15.9% supported by steady inflows of FDI and acceleration of implementation of EPPs. Major infrastructure projects are expected to spur property development in surrounding areas. With strong corporate cashflows, private corporations are expected to increase their capital expenditure, particularly in the financial services sector, oil and gas as well as plantation industries. In addition, incentives to promote new sources of growth and encourage manufacturers to move up the value chain are expected to result in higher domestic investment. The new growth sectors such as services, ICT, plantation as well as resource-based industries will be the main

catalyst in driving private investment. Government continued support in corridor development with infrastructure and catalytic projects will spur private investment. Expected completion of LEGOLAND Malaysia as well as several projects under EduCity Iskandar Malaysia by 2012, will further provide investment opportunity in the Southern Corridor Region.

In the public sector, while the Government remains committed to fiscal consolidation, fiscal policy will remain supportive of growth. This includes providing facilitation funds for the private sector to accelerate their investment. For 2012, public expenditure is expected to increase 4.7%, with public investment increasing 7%. The focus of public development expenditure will be on the social and economic sectors with the aim of upgrading manpower skills as well as increasing R&D support. The growth of public capital spending is expected to largely emanate from higher capital expenditure of NFPEs to upgrade public infrastructure and utilities apart from PETRONAS investment in marginal oil fields and downstream projects. Meanwhile, public sector consumption expenditure is expected to expand 3% on account of higher allocation for emoluments as well as supplies and services.

Given the encouraging economic prospect, nominal GNI per capita is expected to rise 7.4% to RM30,856 (2011: 9.7%; RM28,725). In terms of PPP, per capita income is expected to increase 5.5% to reach USD17,445 (2011: 17.1%; USD16,529).

National Resource Position

Savings-investment gap remains positive

National income in current prices is envisaged to expand 8.6% in 2012 (2011: 10.9%). The **savings-investment gap** is anticipated to register a significant surplus of RM92.9 billion, accounting for 10.4% of GNI in 2012 (2011: RM89.3 billion; 10.9%). The favourable position is attributed to a higher GNS estimated at 34.5% of GNI, expanding 7.9% to RM307.3 billion

(2011: 34.7%; 12.9%; RM284.7 billion), with the private sector remaining the largest contributor. Total investment expenditure (including change in stocks) is expected to increase to RM214.4 billion, contributing 24.1% to GNI in 2012 (2011: RM195.4 billion; 23.8%). The projected surplus in the national resource position will provide ample liquidity in the financial system to finance domestic economic activities.

External Sector

Current account surplus remains large

Malaysia's external position is expected to remain strong backed by steady intra-regional trade and services related activities. The current account is envisaged to record a surplus for the 15th consecutive year since 1998 underpinned by a larger surplus in the goods and services accounts. The **goods account** is expected to register a surplus of RM142.7 billion (2011: RM139.7 billion) spurred by expansion in domestic economic activities and higher export earnings of manufactured goods as

well as firm commodity prices. Exports are expected to grow 6% to RM724 billion (2011: 6.7%; RM682.7 billion) while imports are anticipated to pick up strongly by 7% to RM581.2 billion (2011: 7.5%; RM543 billion), reflecting strong investment and consumption activity in the domestic economy.

The **services account** is expected to record a turnaround to register a net inflow of RM0.9 billion in 2012 (2011: -RM1.4 billion). In contrast, the deficit in the **income account** is envisaged to increase to RM28 billion (2011: -RM27.1 billion) on account of higher profits and dividends from foreign companies operating in Malaysia. Furthermore, net outflow in the **current transfers account** are envisaged to increase to RM22.8 billion (2011: -RM21.9 billion). However, the surplus in the goods and services account will be more than sufficient to offset the net outflows in the income and current transfers accounts. Taking all these into consideration, the **current account** surplus is thus projected to record a larger surplus at RM92.9 billion or 10.4% of GNI in 2012 (2011: RM89.3 billion; 10.9%).

