3 Economic Performance and Prospects

Economic Performance and Prospects

Overview

Growth driven by robust domestic activity

The Malaysian economy expanded at a faster pace of 5.1% during the first half of 2012 (January – June 2011: 4.7%) despite the increasingly challenging global economic conditions. Growth in the domestic economy was supported by strong private consumption and robust private investment. The global economy is expected to further moderate during the second half of 2012 as the euro area debt crisis shows no clear signs of abating. Additionally, tepid economic growth in advanced economies and the slowdown of emerging economies especially in China and India, point to weakening global economic prospects. The deterioration in the external environment and correction in commodity prices are expected to weigh on Malaysia's export performance during the second half of 2012. Nevertheless, the vibrant domestic demand is expected to be sustained during the second half of 2012, supported by both public and private sectors amid conducive financial market conditions, stable prices and a favourable labour market. Taking into account the downside risks emanating from the external sector and a resilient domestic economy, the real Gross Domestic Product (GDP) is estimated to expand 4.5% – 5% in 2012 (2011: 5.1%).

Domestic demand will be the main driver of the Malaysian economy supported by private and public sector expenditure. Growth in private consumption is expected to be buoyed by stable employment and income coupled with lower inflation. The salary revision and bonus for civil servants, cash assistance under *Bantuan Rakyat 1Malaysia* (BR1M), reward to the Federal Land Development Authority (FELDA) settlers and other cash payments to assist various groups supported private consumption. Private investment is envisaged to drive economic growth over the medium term, underpinned by the ongoing implementation of the Economic Transformation Programme (ETP) and vibrant construction activity. Growth in private investment will be broad-based in line with positive investors' confidence and strong domestic demand. Public investment will be largely led by the Non-Financial Public Enterprises' (NFPEs) capital spending on oil and gas (O&G), telecommunications and transport-related industries.

On the supply side, growth in 2012 is expected to emanate from the services and manufacturing sectors with the construction sector playing a stronger role in supporting the economy. The strong growth in the services sector is largely due to buoyant wholesale and retail trade, communication, accommodation and restaurant as well as business services subsectors. Manufacturing output, especially domestic-oriented industries, is expected to expand steadily in tandem with strong domestic activities. However, the export-oriented industries are anticipated to moderate during the second half of 2012 in line with the weak global Purchasing Managers Index (PMI). The construction sector is expected to register a double-digit growth backed by the ongoing implementation of various Government projects, particularly large-scale projects such as the Sabah Oil and Gas Terminal (SOGT), Second Penang Bridge and offshore pipeline for Gumusut-Kakap, Sabah. Growth in the agriculture sector is expected to moderate on account of lower output of crude palm oil (CPO) due to the natural production down cycle, after registering a record high production in 2011. The mining sector is expected to recover with improvement in crude oil output and supported by a moderate increase in output of natural gas.

Rebasing of Gross Domestic Product

The Department of Statistics, Malaysia (DOSM) has rebased the National Accounts Statistics from year 2000 to year 2005. Effective from the 2012 first quarter publication, the national accounts in constant prices will be based on 2005 prices. In addition, DOSM has incorporated some of the recommendations from the System of National Accounts 2008 (SNA 2008) statistical framework[1]. The SNA 2008 was prepared jointly by the Eurostat, International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD), United Nations (UN), and World Bank.

- Rationale for rebasing the national accounts:
  - Rebasing of Gross Domestic Product (GDP) enables the national accounts to reflect developments in the economy over the years, including relative price movements as well as structural changes in production and consumption patterns.
  - Given that the rebasing exercise was last conducted in 2007 (with base year 2000), it is consistent with the recommendation of the UN that the base year should end in zero or five. In addition, significant movements in commodity prices (2000 against 2005) underscore the urgency to rebase the GDP to 2005.
  - Rebasing is a standard international practice, making a rebased GDP comparable with countries which have conducted a similar exercise such as Italy, Japan, Republic of Korea (ROK), Singapore and the United States (US). This is particularly relevant for the comparison of level data.
- The three main recommendations in the SNA 2008 which have been incorporated during the rebasing exercise are:
  - FISIM[2] is now calculated based on loans and deposits using the reference rate method on an annual basis instead of the difference between interest received and paid, used previously. FISIM is now distributed across all sectors, to better reflect the actual value-added of the various economic sectors.
  - Expenditure on research and development (R&D) is now treated as capital formation, instead of intermediate input. With the change of this concept, the output value of industries which carry out R&D will increase, while in the final expenditure, the value of gross fixed capital formation (GFCF) will increase by the same amount.
  - Expenditure on weapons systems, which includes vehicles and other military equipment such as aircraft, warships, submarines, tanks, missile carriers and launchers, is now treated as capital formation. However, expenditure on single-use weapons such as bombs, torpedoes and rockets is recorded as inventories. The change will increase the GFCF and inventories while Government final expenditure will decrease by the same value.
- Other improvements:
  - The rebasing exercise also took into account updated data sources and more comprehensive information from the Supply and Use Table 2005, Input-Output Table 2005, Economic Census 2006, Annual Industry Surveys and Household Expenditure Survey 2004/2005.

[1] The previous publication of the System of National Accounts manual was in 1993. Other industrialised and regional economies have also begun adopting selected recommendations from SNA 2008.

[2] FISIM, which is an indirect measure of the value of financial intermediation services provided, but for which financial institutions do not charge explicitly.

- New industries and economic activities have been included to enhance the coverage of national accounts. These include regasification plants and oil terminals in the transport and storage subsector as well as jatropha, swiftlet and kenaf activities in the agriculture sector.

- To better reflect the value-added of the financial and capital market to the economy, activities related to stock brokerage, which were previously included in the business services subsector, are now classified under the finance subsector.

Conclusion

Rebasing will be carried out periodically to reflect economic changes and relative prices. Changes and improvements in international practices and methodologies will continue to be incorporated to ensure cross-country comparability.

Source: System of National Accounts 2008, Department of Statistics, Malaysia and Bank Negara Malaysia.

Malaysia's external position is expected to remain favourable in 2012 despite the challenging global economic environment. The current account surplus in the balance of payments (BOP) is expected to narrow, but remains sizeable at RM68.5 billion or 7.5% of Gross National Income (GNI). This is due to strong domestic activity with the growth of imports outpacing exports. In the financial account, the inflows of foreign direct investment (FDI) are expected to continue, albeit at a slower pace, supported by investors' confidence in the economic transformation initiatives and strong fundamentals of the economy.

Inflation is expected to moderate to 2% – 2.5% in 2012. Despite the domestic economy growing at a faster pace during the first half of 2012, inflationary pressures are expected to be mitigated by continuous productivity improvement and capacity expansion. However, the recent increase in global food prices pose a risk to the inflation outlook. The recent severe drought in North America has adversely affected output of corn and soybean. A sustained high level of food commodity prices will eventually feed through the domestic supply chain and exert pressures on domestic inflation.

Given the expansion in economic activities, national income as measured by the GNI is estimated to grow 5.7% to RM908.2 billion (2011: 11.8%; RM859.1 billion) with per capita income rising 4.4% to RM30,956 (2011: 10.3%; RM29,661). As a result, nominal income per capita in terms of purchasing power parity (PPP) is expected to increase 3.2% to USD15,676 in 2012 (2011: 7.3%; USD15,190).

Sectoral Performance

Services Sector

Services sector remains resilient

During the first half of 2012, the **services sector** grew 5.8% (January – June 2011: 7.1%) largely driven by sustained domestic demand and travel-related activities. Growth of the services sector is anticipated to remain resilient in 2012, expanding 5.5% (2011: 7%) and contributing 3 percentage points (2011: 3.7 percentage points) to the overall GDP growth. The **intermediate services** group is expected to expand 5.8% (2011: 6.2%) spurred by the finance and insurance, and real estate and business services subsectors. In addition, the **final services** group is expected to increase 5.4% in 2012 (2011: 6%) largely supported by the wholesale and retail trade, and accommodation and restaurant subsectors.

TABLE 3.1

Gross Domestic Product (GDP) by Sector
2011 – 2013
(at constant 2005 prices)

	Change (%)			Share of GDP (%)			Contribution to GDP growth (percentage point)		
	2011	**2012[1]**	**2013[2]**	**2011**	**2012[1]**	**2013[2]**	**2011**	**2012[1]**	**2013[2]**
Agriculture	5.9	0.6	2.4	7.7	7.3	7.2	0.4	0.0	0.2
Mining	-5.7	1.5	2.7	8.8	8.5	8.3	-0.6	0.1	0.2
Manufacturing	4.7	4.2	4.9	25.1	25.0	25.0	1.2	1.1	1.2
Construction	4.6	15.5	11.2	3.0	3.3	3.5	0.1	0.5	0.4
Services	7.0	5.5	5.6	54.2	54.5	54.8	3.7	3.0	3.0
Add: Import duties	13.0	11.3	-0.4	1.2	1.3	1.2	0.1	0.1	0.0
GDP	**5.1**	**4.5 – 5.0**	**4.5 – 5.5**	**100.0**	**100.0**	**100.0**	**5.1**	**4.5 – 5.0**	**4.5 – 5.5**

[1] Estimate.
[2] Forecast.

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

The **wholesale and retail trade subsector** increased 6.1% (January – June 2011: 6.5%) driven by strong domestic consumption. This was reflected by the wholesale and retail trade indices increasing 5.1% and 3.8% (January – June 2011: 14.4%; 5.5%), respectively. Growth of the subsector was also attributed to the increasing number of large format stores operating in Malaysia, including 180 foreign hypermarkets, superstores and departmental stores as at end-August 2012 (end-August 2011: 166). In addition, other indicators such as imports of consumption goods were higher by 15.2% while credit card spending grew, albeit at a slower pace of 6.7% (January – July 2011: 12.8%; 11.8%).

In 2012, the subsector is expected to grow 5.7% (2011: 7.1%) driven by higher consumption which benefited from Government initiatives under the 2012 Budget such as BR1M, *Baucar Buku 1Malaysia* (BB1M) and the RM100 assistance for all primary and secondary school students. The performance of the subsector will also be supported by ongoing efforts to modernise the retail segment under the ETP. In 2012, 500 retail shops and 50 workshops are targeted to be modernised under the Retail Shop Transformation (TUKAR) and Automotive Workshop Modernisation (ATOM) programmes, respectively. As at end-July 2012, 95 workshops have been modernised, surpassing the yearly target, while 393 retail shops have been modernised.

The **accommodation and restaurant subsector** is expected to grow 6.4% in 2012 (2011: 6%) supported by higher hotel occupancy and increased food outlets. As at end-June 2012, the total supply of hotel rooms increased 5.2% to 180,078 (end-June 2011: 3.6%; 171,130), with Kuala Lumpur contributing the highest share of 17.7% (end-June 2011: 18.5% in Kuala Lumpur). Meanwhile, the average hotel occupancy rate reached 55.2% with the highest level of 78.7% recorded in Pahang (January – June 2011: 51.3%; 69.4% in Kuala Lumpur).

During the first six months of 2012, total tourist receipts increased to RM26.8 billion

(January – June 2011: RM25.7 billion), with the average per capita tourist expenditure at RM2,310 (January – June 2011: RM2,254). In addition, tourist arrivals rebounded 2.4% to 11.6 million (January – June 2011: -4.3%; 11.3 million) with the Association of Southeast Asian Nations (ASEAN) remaining the largest contributor, accounting for 73.8% of the total. In line with continuous efforts to promote Malaysia as a preferred tourist destination, various programmes have been held in 2012, including the International Shoe Festival, International Tourism Exchange, International Tourism Night Floral Parade and Contemporary Art Tourism. Furthermore, the opening of new tourist attractions in Johor, namely LEGOLAND Malaysia Theme Park and Puteri Harbour Family Theme Park in September and November 2012, respectively, are expected to attract more domestic and foreign tourists. Initiatives continue to be undertaken to capture a higher market share of the Meetings, Incentives, Conventions and Exhibitions (MICE) industry. In the first six months of 2012, the Malaysia Convention and Exhibition Bureau (MyCEB) organised 33 major events with a total of 50,770 participants, generating an estimated revenue of RM499 million. According to the 2011 International Congress and Convention Association Report, Malaysia was ranked as the seventh largest host of MICE events in Asia Pacific with a total of 126 meetings in 2011.

The homestay and Malaysia My Second Home (MM2H) programmes are among the important segments in the tourism industry. The homestay occupancy rate reached 37.2% (January – June 2011: 26.7%) supported by strong promotional activities through the

TABLE 3.2

Services Sector Performance
2011 – 2013
(at constant 2005 prices)

	Change (%)			Share of GDP (%)		
	2011	2012[1]	2013[2]	2011	2012[1]	2013[2]
Intermediate services						
Finance and insurance	6.5	4.2	5.2	9.2	9.2	9.2
Real estate and business services	5.5	6.6	5.9	5.4	5.5	5.6
Communication	7.6	9.3	8.2	3.7	3.9	4.0
Transport and storage	5.4	5.2	6.7	3.7	3.7	3.7
Final services						
Wholesale and retail trade	7.1	5.7	6.8	14.4	14.5	14.7
Accommodation and restaurant	6.0	6.4	6.7	2.5	2.5	2.5
Utilities	3.1	4.5	4.7	2.5	2.5	2.5
Other services	4.7	4.3	5.8	5.1	5.1	5.1
Government services	12.4	5.1	1.5	7.7	7.7	7.5
Total	**7.0**	**5.5**	**5.6**	**54.2**	**54.5**	**54.8**

[1] Estimate.
[2] Forecast.

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

Ministry of Tourism Malaysia endorsed portal www.go2homestay.com. During the first six months of 2012, the number of participants in the homestay programme totalled 155,933 comprising 80.4% domestic and 19.6% foreign tourists (January – June 2011: 100,606; 73%; 27%). The most visited homestay locations were in Pahang and Johor, accounting for 26.7% and 25%, respectively. In addition, during the first six months of 2012, the MM2H programme attracted 1,667 participants (January – June 2011: 946) mainly from Japan (389), China (326) and Bangladesh (235).

The **finance and insurance subsector** is expected to expand 4.2% in 2012 (2011: 6.5%) mainly driven by steady bank lending activities. Total loans outstanding increased 13% to RM1,073.1 billion as at end-July 2012 (end-2011: 13.6%; RM1,003.5 billion) largely for the purchase of residential properties and working capital, accounting for 27% and 24.7% (end-2011: 26.8%; 25.2%), respectively. The growth in net interest income of the banking system is expected to be complemented by higher fee-based income. The subsector is also anticipated to benefit from the growing Islamic banking market. As at end-July 2012, Islamic financing grew 19.3% to RM294.2 billion and accounted for 26.6% (end-2011: 23.6%; RM268.3 billion; 25.9%) of total loans by the banking system. Meanwhile, stockbroking activity increased with a higher volume of share transactions at 18.4% to 222.2 billion units (January – July 2011: 40.2%; 187.7 billion units). In the insurance segment, life and general insurance are anticipated to further contribute to the growth of the subsector supported by an increase in new life insurance, and motor insurance policies.

The **real estate and business services subsector** is anticipated to grow 6.6% in 2012 (2011: 5.5%) supported by favourable real estate, shared services and outsourcing (SSO), and information technology (IT) related activities. In the first six months of 2012, the subsector grew 7.3% (January – June 2011: 6.4%) with the value of real estate transactions increasing 6.5% to RM69.1 billion (January – June 2011: 29.9%; RM64.8 billion). Meanwhile, loans approved for the real estate segment rose 22% to RM20.1 billion during the first seven months of 2012 (January – July 2011: 60.6%; RM16.5 billion).

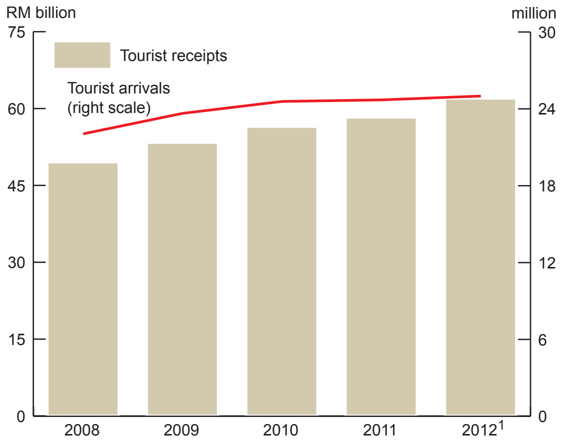
In the SSO industry, Malaysia maintained its position as the third most preferred location globally for the eighth consecutive year. Good infrastructure and lower operating cost coupled with political stability continue to make Malaysia an attractive investment destination. These factors have encouraged prominent multinational corporations (MNCs) and large companies to choose Malaysia as their regional and global operations hub, bringing in substantial investments with significant multiplier impact on the economy. As at end-July 2012, total regional establishments stood at 3,123 (end-July 2011: 3,007) comprising 1,785 representative offices, 859 regional offices, 227 international procurement centres, 224 operational headquarters and 28 regional distribution centres. These establishments are involved in various activities such as electrical and electronics (E&E), services, chemicals, medical devices, and O&G. During the first seven months of 2012, 65 new regional establishments were approved (January – July 2011: 59), creating 670 employment opportunities (January – July 2011: 696) largely involving managerial, professional and technical positions.

In IT services, 83 companies were granted the Multimedia Super Corridor Malaysia (MSC Malaysia) status with total estimated investment of RM1,465.3 million and 7,891 employment opportunities during the first eight months of 2012 (January – August 2011: 119; RM975 million; 4,647). As at end-August 2012, the total number of MSC Malaysia companies stood at 3,037 (end-August 2011: 2,857), of which 2,273 or 74.8% were Malaysian-owned, 677 (22.3%) foreign-owned, and the remaining 87 (2.9%) joint ventures. These companies are clustered into infotech (75.8%), creative multimedia (11.6%), global sourcing (8.8%), and institutions of higher

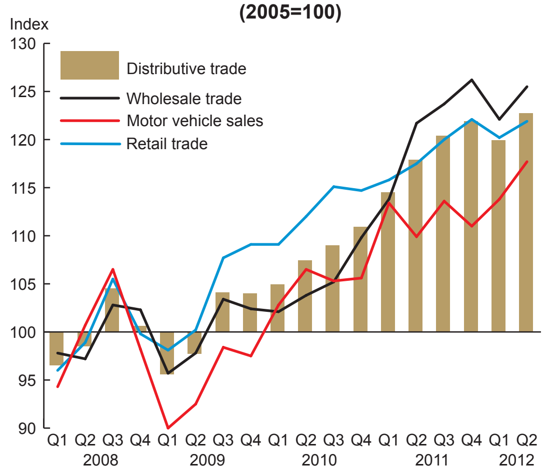
CHART 3.1

Selected Indicators for the Services Sector

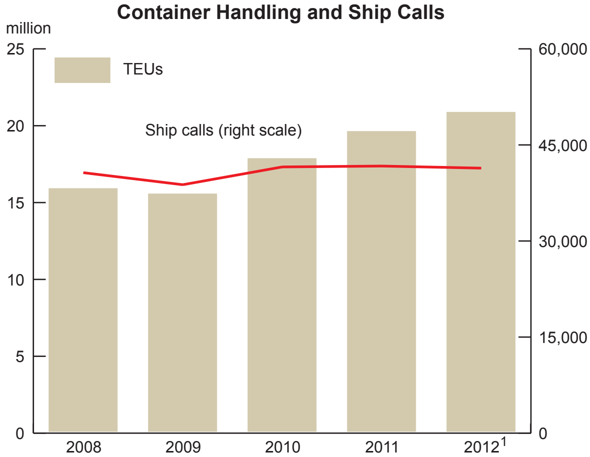
Tourist Arrivals and Receipts



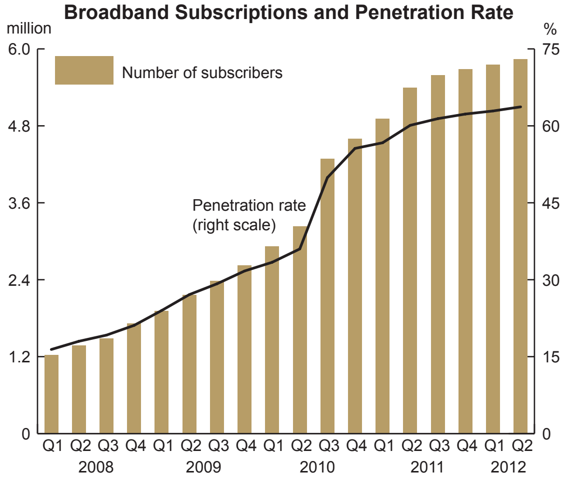
Distributive Trade Volume Index (2005=100)



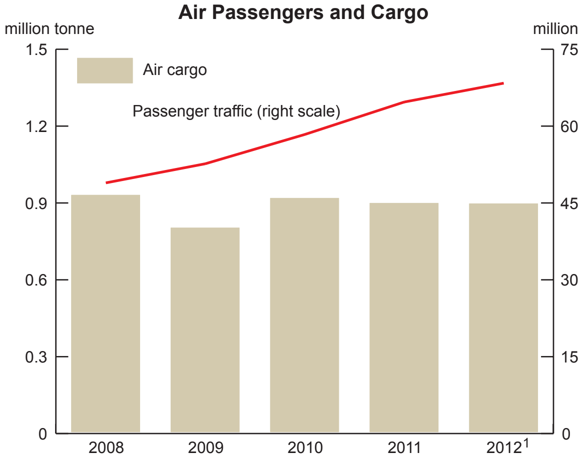
Container Handling and Ship Calls



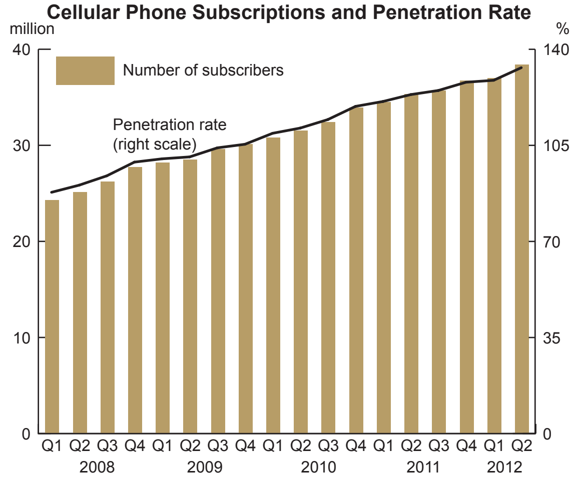
Broadband Subscriptions and Penetration Rate



Air Passengers and Cargo



Cellular Phone Subscriptions and Penetration Rate



[1] Estimate.

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

learning and incubators (3.8%). In addition, there were 26 cybercities and cybercentres as at end-August 2012 (end-August 2011: 22) including three new cybercentres approved in 2012, namely Jaya 33 in Petaling Jaya, Puchong Financial and Corporate Centre, and Menara Worldwide in Bukit Bintang. Furthermore, three new premises are in the pipeline for consideration as cybercity and cybercentre status by end-2012.

The **communication subsector** is estimated to grow 9.3% in 2012 (2011: 7.6%) attributed to strong expansion in the cellular, broadband and third-generation (3G) segments. The cellular segment remains the main driver of growth supported by increased usage of data, voice and multimedia services. As at end-June 2012, cellular phone subscriptions rose 9% to 38.4 million with a penetration rate of 133.3% (end-June 2011: 12.1%; 35.3 million; 123.6%). The prepaid segment dominated total subscriptions with 31.2 million subscribers, while the remaining were postpaid subscribers. Growth was attributed to affordable and sophisticated smartphones with Internet access and better service quality. In addition, 3G subscriptions increased 23.2% to 12 million largely supported by growing demand for mobile broadband services (end-June 2011: 24.1%; 9.8 million).

As at end-June 2012, the broadband segment continued to expand 8.2% with the number of subscribers increasing to 5.8 million and reaching a household penetration rate of 63.7% (end-June 2011: 66.9%; 5.4 million; 60.1%). Growth was largely driven by intense promotional activities and improved network coverage. In addition, the growing popularity of social network sites such as Facebook and Twitter will further spur demand for broadband services. In the wireless broadband segment, the number of hotspot locations rose to 26,698 nationwide (end-June 2011: 16,851) mainly concentrated in Pulau Pinang, Selangor and Kuala Lumpur, which collectively accounted for 51.6% of total hotspot locations.

Meanwhile, the high-speed broadband (HSBB) or UniFi services of Telekom Malaysia Berhad (TM) registered 405,839 subscribers as at end-July 2012, surpassing the year-end target of 400,000 subscribers. Broadband subscribers are expected to increase 3.5% to 5.9 million as at end-2012 (end-2011: 23.6%; 5.7 million) supported by the ongoing extension of UniFi coverage and Government initiatives to provide broadband connectivity nationwide.

In the broadcasting industry, the subscription-based satellite television, Astro Malaysia Holdings Berhad (ASTRO), has 3.2 million subscribers with a household penetration rate of 50.4% as at end-July 2012 (end-July 2011: 3 million; 48.2%). This was largely attributed to a wide range of content offerings with 156 channels, including 22 high-definition (HD) channels and increased subscriptions to sports packages, particularly for the UEFA European Football Championship and 2012 Olympic Games. In addition, ASTRO can now be accessed through smartphones, tablets, laptops and personal computers with Internet connection. The performance of the industry in 2012 is expected to remain favourable with the offerings of more HD channels and introduction of prepaid packages to targeted groups.

In the postal services industry, Pos Malaysia Berhad (PMB) recorded an estimated total revenue of RM510.5 million during the first half of 2012 (January – June 2011: RM494.6 million) supported by higher mail and courier volume. Total mail volume handled by PMB registered a turnaround of 4.6% to 589.9 million (January – June 2011: -9.5%; 564.2 million), while the parcel segment rebounded sharply by 14.6% to 479,000 (January – June 2011: -31.3%; 418,000). This growth was largely attributed to increased demand for postal services during the festive and holiday seasons. Meanwhile, courier volume surged 29.6% to 11 million (January – June 2011: 12.4%; 8.5 million) as a result of increased express mail and e-commerce delivery. The continuous expansion of network coverage, upgrading of the track-and-trace system and increased automation

Digital Malaysia – Accelerating Economic Growth and Competitiveness

Introduction

Digital Malaysia is aimed at creating an ecosystem which promotes the pervasive use of digital technology in all aspects of the economy to connect communities globally and interact in real time resulting in increased economic activity, productivity and standard of living. While Malaysia has built a strong information and communication technology (ICT) foundation, Digital Malaysia will focus on driving value-added services through digital technologies. The Multimedia Development Corporation (MDeC) was mandated in October 2011 during the 24th Multimedia Super Corridor Malaysia (MSC Malaysia) Implementation Council Meeting to spearhead this initiative, which is anchored on three strategic thrusts, namely shifting from supply to demand, consumption to production and low-knowledge to high-knowledge activity. Digital Malaysia encompasses a strategic framework and a set of action plans which will be implemented as entry point projects.

Targets

The following goals are targeted to be delivered by 2020:

- **Contribute 17% or RM294 Billion to the Gross National Income (GNI) and Create High-Income Job Opportunities**

  Raising Malaysia's ICT contribution from 9.8% of Gross Domestic Product (GDP) in 2010 to 17%[1] by 2020. Digital Malaysia also aims to create 160,000 high-income job opportunities, particularly in areas such as cloud enterprise applications, gamification, embedded systems, microsourcing, social media, e-commerce and green technology.

- **Top 20 in the Economist Intelligence Unit's (EIU) Digital Economy Ranking**

  Raising Malaysia's ranking of 36th out of 70 nations in 2010 to be among the top 20 by 2020. The criteria used for consideration are connectivity, Government policy and vision, consumer and business adoption as well as cultural, legal, social and business environment.

- **Top 10 in the International Institute for Management Development's (IMD) World Competitiveness Ranking**

  Raising Malaysia's global competitiveness ranking from 14th position out of 59 nations in 2012 to be among the top 10 by 2020. In this regard, it is critical to capitalise on the opportunities of digital technology to advance towards becoming a developed nation.

Three Strategic Thrusts

i) Supply to Demand-Focused

The Tenth Malaysia Plan (10MP) shows that the bulk of Government investment in ICT is on supply-centric or infrastructure-based projects such as high-speed broadband, development of information technology centres, and purchase of computer hardware and software. Digital Malaysia aims to create demand-side activities such as the development of digital entrepreneurs to tap into the total domestic ICT spending of RM175 billion by 2020.

ii) Consumption to Production-Centric

Although there is extensive use of the Internet for social networking, e-commerce, news and research, Malaysians have yet to fully capitalise on the Internet for income generation.

[1] Figure denotes contribution to GNI and includes e-commerce.

The Internet World Statistics 2010 estimated that 30% of Malaysian Internet users are online shoppers, representing a better performance than several Organisation for Economic Co-operation and Development (OECD) countries. However, Malaysians remain largely consumers rather than producers, that is adopting and importing instead of creating and exporting. For instance, Malaysia lags behind Thailand and the Philippines in the number of sellers on eBay. According to the eBay.com.my, the majority of the 500,000 Malaysians registered on the online auction and shopping site are primarily consumers.

There is a need to shift from spending money to income-generating activities. Digital Malaysia aims to create platforms and programmes to nurture and encourage users to generate revenue through digital business models. One example of this initiative is microsourcing, which involves outsourcing microtasks to a group of networked and skilled individuals through the Internet. These tasks can be completed under flexible circumstances and only require basic Internet-connected devices such as cellular phones, tablets, netbooks and computers.

iii) Low-Knowledge to High-Knowledge Activity

Malaysia's broadband penetration rate of 63.7% as at end-June 2012 is lower than other Asian countries such as the Republic of Korea (118.4%), Singapore (104.8%) and Hong Kong (86.7%). In addition, ICT adoption rate by Malaysian small and medium enterprises (SMEs) remains low at 20%. The Digital Malaysia initiative will enable SMEs to raise productivity through automation and innovative digital tools. Furthermore, it aims to upgrade local talent through training and reskilling to move up the value chain. A report on the impact of the Internet on selected countries in early 2012 found that SMEs which spend more than 30% of their budget on web technologies were able to grow their revenue nine times higher than SMEs spending less than 10%.

Conclusion

The digital world is evolving rapidly with the number of global Internet users expected to increase from 2.3 billion in 2011 to 3 billion by end-2016. In this regard, accelerating the digital economy initiative will enhance interconnectivity and provide a wide range of opportunities that are essential towards transforming into a high-income economy.

are expected to further boost the performance of the postal and courier industry.

During the first half of 2012, value-added of the **transport and storage subsector** grew 5.9% (January – June 2011: 4.6%) due to sustained passenger travel and moderate trade activities. Growth was also supported by initiatives to modernise the transport infrastructure, particularly ports, airports and public transport. In 2012, the subsector is expected to increase 5.2% (2011: 5.4%) as domestic economic activities remain resilient amid a moderate trade expansion. Total container throughput in major ports[1] grew 4.8% to 10.1 million twenty-foot equivalent units (TEUs) (January – June 2011: 10.4%; 9.6 million TEUs). Port Klang handled 5 million TEUs while PTP, 3.8 million TEUs (January – June 2011: 4.7 million TEUs; 3.7 million TEUs), contributing 49.6% and 38.1% of total container throughput (January – June 2011: 48.7%; 38.1%), respectively.

According to the Containerisation International Report, Port Klang and PTP remained at 13th and 17th position, respectively in terms of total containers handled in 2011. In addition, Malaysia ranked seventh in the Liner Shipping Connectivity Index (LSCI) by the United Nations Conference on Trade and Development (UNCTAD), underscoring the growing importance of Malaysia as a regional logistics hub. The changing dynamics of the global shipping environment have, however, affected the domestic maritime industry. The introduction of ultra-large ships with a higher carrying capacity has lowered the charter rates due to economies of scale. This has prompted

[1] Comprise Port Klang, Tanjung Pelepas (PTP), Penang, Kuantan, Johor, Bintulu and Kuching.

domestic ports to purchase new cranes and build new wharfs to cater for the berth of ultra-large ships in efforts to remain competitive. Consequently, total container throughput is expected to reach 21 million TEUs in 2012 (2011: 19.7 million TEUs) supported by increased handling capacity, efficiency and productivity.

The performance of the land transport segment is expected to remain steady supported by initiatives to upgrade roads and public transport infrastructure to ensure a seamless movement of goods and services. During the first six months of 2012, the number of vehicles on tolled highways increased 4.5% to 761.4 million (January – June 2011: 7.1%; 728.4 million). In 2012, the Eastern Dispersal Link Expressway (EDL) in Johor Bahru; the Section 2 of the South Klang Valley Expressway (SKVE) connecting Saujana Putra to Teluk Panglima Garang; and a part of the East Coast Expressway Phase 2 (LPT2) in Terengganu were opened to increase connectivity, and reduce travel time and congestion. Meanwhile, freight volume of Keretapi Tanah Melayu Berhad (KTMB) rose 5.6% to 3 million tonnes (January – June 2011: 7.7%; 2.9 million tonnes) supported by higher cargo of construction materials. In contrast, KTMB intercity passengers contracted 10.1% to 2.1 million (January – June 2011: 7.5%; 2.3 million) due to the termination of the KL Sentral – Ipoh shuttle service and closure of the Tanjong Pagar station in Singapore.

In urban public transport, total ridership on RapidKL and RapidPenang bus services rose 3.8% to 67.5 million passengers during the first six months of 2012 (January – June 2011: 3.4%; 65 million). Total passengers on urban rail[2] services in the Klang Valley increased 2% to 93.1 million (January – June 2011: 9.2%; 91.3 million). Among the efforts undertaken to improve public transport include an additional 470 RapidKL buses, 35 four-car train sets for the light rail transit (LRT) on Kelana Jaya Line and 38 new Electric Multiple Unit six-car train sets on KTM Komuter. As at end-August 2012, 468 bus stops have been refurbished, 10 Komuter stations equipped with disabled-friendly facilities and three stations upgraded with park-and-ride facilities. Meanwhile, construction works for MY Rapid Transit (MRT) on the Sungai Buloh – Kajang (SBK) line started in July 2011 and are expected to be completed in July 2017. The initiatives undertaken have contributed to enhanced safety and capacity of the urban public transport system as well as reduced waiting time and increased travel frequency within the Klang Valley. With these ongoing initiatives, the National Key Result Area (NKRA) on urban public transport is targeted to achieve a modal share of 25% in 2012 (2011: 16.4%).

The Government continues to step up efforts to enhance public transport services nationwide. The Land Public Transport Commission (SPAD) was allocated RM400 million to help finance stage bus operators while taxi drivers were each given a subsidy of RM520 for tyre replacement under the *Teksi Rakyat 1Malaysia* (TR1Ma) programme. In addition, in early 2012, KTMB launched the new Malayan Tiger Train service which connects Johor Bahru to Tumpat, Kelantan.

During the first half of 2012, growth in the air transport segment was moderate despite sustained demand for passenger travel. Total passenger traffic in airports nationwide expanded 4.1% to 33.2 million (January – June 2011: 12.6%; 31.9 million) partly attributed to increased connectivity following the entry of new airlines to Malaysia such as Mandala Airlines and Bangkok Airways. The total number of passengers on the domestic carriers[3], however, contracted 7.3% to 18.9 million (January – June 2011: 18.2%; 20.4 million) partly due to the rationalisation of domestic and international routes. Similarly, total air cargo handled at all airports declined slightly by 0.8% to 437,174 tonnes (January – June 2011: -2.5%; 440,626 tonnes) on account of slower E&E exports.

In 2012, the air transport industry is expected to remain challenging due to volatile fuel prices

[2] Comprise Ampang Line, Kelana Jaya Line, KL Monorail, Express Rail Link and KTM Komuter.
[3] Comprise Malaysia Airlines System (MAS), AirAsia, Firefly, MASwings and AirAsia X.

and uncertainties in the global economy. These challenges have prompted the domestic players to transform and become more competitive. MAS has introduced the Airbus A380 for passengers and A330-200 for cargo as part of efforts to reduce operating cost and increase capacity. In addition, the capacity and connectivity of rural air services in Sabah and Sarawak will be enhanced with the purchase of new fleets and expansion to serve the Brunei Darussalam-Indonesia-Malaysia-The Philippines East ASEAN Growth Area (BIMP-EAGA) by MASwings. The construction of klia2, the new terminal for low-cost carriers, and upgrading of airports in Bayan Lepas, Kuching and Langkawi are also underway to meet the growing demand for air travel.

Value-added of the **utilities subsector** is expected to expand 4.5% in 2012 (2011: 3.1%) mainly contributed by higher electricity and gas consumption by the industrial and commercial segments. During the first half of 2012, electricity sales rose 4.5% to 53,005 gigawatt hours (GWh) (January – June 2011: 0.3%; 50,715 GWh) with the industrial, commercial and household segments contributing 42%, 34.7% and 21.7%, respectively to total electricity consumption. Electricity generation also grew 6.3% (January – June 2011: -0.1%) while the maximum demand peaked at 15,826 megawatts (MW) in June 2012 (January – June 2011: 15,476 MW in May 2011). Similarly, gas sales increased 7.8% to RM1,018.2 million (January – June 2011: 7.6%; RM944.3 million). Among the projects implemented to improve electricity generation and distribution were the upgrading of hydroelectric schemes in Ulu Jelai, Pahang and Hulu Terengganu, and the construction of the Backbone Transmission Project in Sarawak. Furthermore in 2012, Gas Malaysia will build additional gas pipelines estimated at 77 kilometres (km) to supply gas to underserved industrial areas such as Padang Terap, Kedah and Chuping, Perlis.

During the first half of 2012, water supply production to consumers increased 0.5% to 14,721 million litres per day (mld) (January – June 2011: 4.2%; 14,648 mld). As at end-June 2012, water supply coverage for the urban and rural population stood at 96.8% and 90.2% (end-2011: 96.8%; 90.1%), respectively. A major initiative implemented is the takeover of water assets by Pengurusan Aset Air Berhad (PAAB) under the water services restructuring programme. As at end-June 2012, six states have signed up under this programme, namely Melaka, Negeri Sembilan, Johor, Perlis, Pulau Pinang and Perak. In addition, to ensure efficient water distribution and reduce non-revenue water, water pipes and meters are being replaced while the telemetry and Geographical Information System (GIS) are installed in stages nationwide.

Growth of the **other services subsector** is expected to increase 4.3% in 2012 (2011: 4.7%) led by higher private education and healthcare activities. As at end-June 2012, there were 506 private higher education institutions, comprising six foreign university branch campuses and 448 private colleges. The number of foreign students is expected to increase to 106,919 in 2012 (2011: 70,509) attracted by the provision of quality education at affordable cost. In healthcare services, the Malaysia Healthcare Travel Council (MHTC) is working closely with private healthcare providers to promote healthcare tourism. This is expected to increase receipts from foreign patients by 7.2% to RM548 million in 2012 (2011: 34.8%; RM511 million). MHTC will undertake further measures to strengthen the healthcare tourism industry such as organising the first Malaysia International Healthcare Travel Expo, establishing MHTC offices abroad and enhancing its portal to be more interactive and informative. Meanwhile, the **government services subsector** is expected to grow 5.1% in 2012 (2011: 12.4%).

Manufacturing Sector

Driven by domestic-oriented industries

Value-added of the manufacturing sector expanded 5% during the first half of 2012 (January – June 2011: 4.1%). Output of the sector rose 5.2% during the first seven months of 2012 (January – July 2011: 3.6%) in line with the increase in sales value of manufactured products

TABLE 3.3

Manufacturing Production Index
January – July
(2005 = 100)

	Index		Change (%)		Share (%)	
	2011	2012	2011	2012	2011	2012
Export-oriented industries	**109.2**	**113.7**	***2.8***	***4.1***	***75.9***	***75.1***
Electrical and electronic products	94.4	95.9	*-4.8*	*1.6*	*26.4*	*25.5*
Chemicals and chemical products	126.1	138.6	*5.5*	*9.9*	*19.0*	*19.8*
Petroleum products	116.0	124.3	*9.3*	*7.1*	*15.9*	*16.1*
Wood and wood products	79.7	83.3	*-6.9*	*4.6*	*3.1*	*3.1*
Off-estate processing	113.1	105.5	*6.3*	*-6.7*	*3.6*	*3.2*
Rubber products	168.9	174.9	*15.4*	*3.6*	*3.7*	*3.6*
Paper products	143.3	132.0	*14.8*	*-7.8*	*2.7*	*2.4*
Textiles, apparel and footwear	92.7	86.1	*14.8*	*-7.1*	*1.5*	*1.3*
Domestic-oriented industries	**140.4**	**152.5**	***6.5***	***8.6***	***24.1***	***24.9***
Non-metallic mineral and other related products	147.1	156.8	*27.1*	*6.6*	*3.8*	*3.9*
Fabricated metal products	205.9	228.9	*26.1*	*11.2*	*5.1*	*5.3*
Basic metals	115.9	107.9	*2.5*	*-6.9*	*2.5*	*2.2*
Transport equipment	122.8	139.6	*-10.4*	*13.7*	*4.6*	*5.0*
Food products	134.8	151.6	*1.9*	*12.5*	*4.9*	*5.2*
Beverages	151.4	151.3	*12.6*	*0.0*	*1.7*	*1.6*
Tobacco products	90.2	112.6	*-2.3*	*24.9*	*0.3*	*0.3*
Others	107.5	118.2	*-14.8*	*10.0*	*1.2*	*1.2*
Total	**115.3**	**121.4**	***3.6***	***5.2***	***100.0***	***100.0***

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

by 6.5% to RM363.1 billion (January – July 2011: 10.6%; RM341 billion). Output from domestic-oriented industries continued to expand 8.6% (January – July 2011: 6.5%) while export-oriented industries grew 4.1% (January – July 2011: 2.8%). The sector continued to attract domestic and foreign investments, with approved investments totalling RM56.1 billion in 2011. Average wage per employee was higher at RM2,455 while productivity increased 4.6% during the first seven months of 2012 (January – July 2011: RM2,299; -2%). Meanwhile, the capacity utilisation rate remained strong during the second quarter of 2012 at 82.8% (Q1 2012: 82.3%) despite continued expansion in capacity on account of new investments.

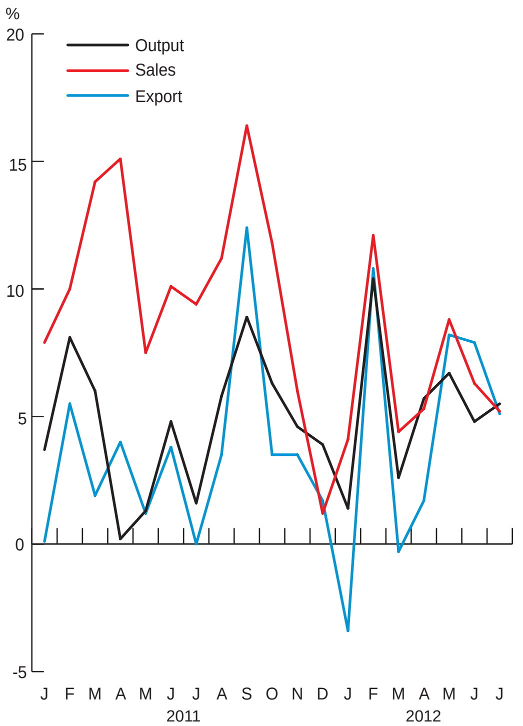
In line with the overall economic outlook, value-added of the manufacturing sector is expected to grow 4.2% in 2012 (2011: 4.7%).

Output of **E&E** rebounded 1.6% during the first seven months of 2012 (January – July 2011: -4.8%) mainly driven by the higher production of semiconductor devices (14.5%) as well as audio, visual and communication apparatus (6%). The improved performance of E&E was partly due to chip vendors and storage producers taking advantage of stable prices and supply of parts to replenish inventories as well as the launching of new products which was delayed by massive floods in Thailand during the fourth quarter of 2011.

CHART 3.2

Performance of Manufacturing Sector

(% annual change)



Source: Department of Statistics, Malaysia.

TABLE 3.4

Growth of the E&E Subsector January – July

(2005 = 100)

	Change (%)		Share (%)	
	2011	**2012**	**2011**	**2012**
Total E&E	***-4.8***	***1.6***	***26.4***	***25.5***
Semiconductors and other electronic components	*-6.1*	*3.1*	*11.1*	*10.8*
Audio visual and communication apparatus	*6.6*	*6.0*	*5.4*	*5.5*
Office, accounting and computing machinery	*-31.2*	*-6.9*	*3.7*	*3.2*
Electrical machinery and apparatus	*7.4*	*5.3*	*3.1*	*3.1*
Domestic appliances	*15.4*	*-14.4*	*0.3*	*0.2*
Machinery and equipment	*19.5*	*-4.5*	*2.8*	*2.6*

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

In addition, the book-to-bill ratio rose above 1 from February to May 2012. However, downside risks remain, reflected by the slower manufacturing PMI in advanced and emerging markets. This was also indicated by the book-to-bill ratio in June and July 2012, which declined to 0.93 and 0.87, respectively, implying a slowing in end-market demand, with supply outpacing demand.

At the global level, demand for personal computers (PCs) remains weak with declining orders notably from advanced economies. In addition, the growing popularity of smartphones and media tablets has also affected the sales of PCs despite the introduction of the Ultrabook, which provides better mobile computing solutions. Consequently, output of the office, accounting and machinery segment in Malaysia contracted further by 6.9% during the first seven months of 2012 (January – July 2011: -31.2%).

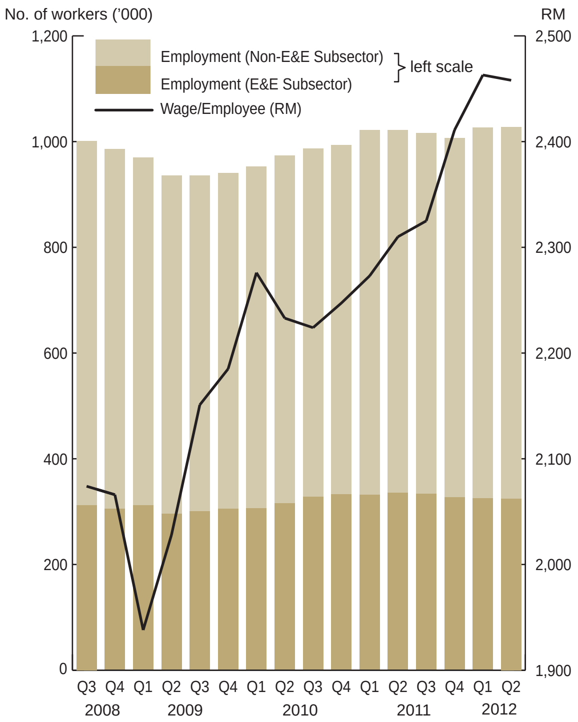
Despite the slowdown in global demand, E&E manufacturers continued to invest in new technology and product development to upscale the value chain. Approved capital spending in the E&E subsector amounted to RM1.72 billion in 46 projects, of which RM1.35 billion were from foreign investors. This further reaffirms Malaysia as an attractive and cost-efficient E&E manufacturing base in the region. The continued strong investments will further strengthen growth in the E&E subsector and create more skilled jobs.

Output of **chemicals and chemical products** rose 9.9% (January – July 2011: 5.5%) on account of increasing demand for plastic products (11.8%) and basic chemicals (11.1%). External demand for plastic packaging materials surged during the early part of the year, particularly from Japan and Thailand, as manufacturers resumed operations, which were interrupted by natural calamities and

CHART 3.3

Employment and Wages in the Manufacturing Sector

(% annual change)

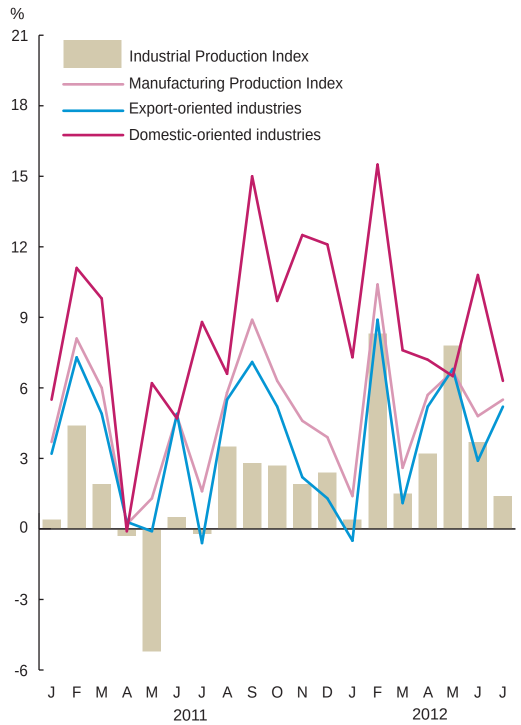


Source: Department of Statistics, Malaysia.

CHART 3.4

Output of Manufacturing Sector

(% annual change)



Source: Department of Statistics, Malaysia.

power outages. The subsector is also expected to make significant gains from the O&G sector and the transformation of South Johor into an international O&G hub.

Petroleum output expanded 7.1% (January – July 2011: 9.3%) in line with high domestic demand. The strong performance was contributed by higher production of diesel (27.3%), naptha (25.4%), and gasoline (6.4%). The higher production of these products helped to offset the contraction in output of liquefied natural gas (LNG) at 12.9% and liquefied petroleum gas (-4.6%) output which were affected by operational challenges.

Meanwhile, production of **wood and wood products** rebounded 4.6% (January – July 2011: -6.9%) largely supported by higher demand for wooden and cane furniture (33.5%). The positive performance was attributed to vibrant domestic residential construction activities and higher demand from major export destinations such as China and the United States (US) for Malaysian-made furniture. Demand from China accelerated further following the country's rising income level and the implementation of zero import duty on Malaysian made-furniture.

Output of **rubber products** increased 3.6% (January – July 2011: 15.4%) mainly supported by continuous demand for rubber gloves. Output of rubber gloves grew 5.9% on account of the expansion in the global healthcare industry and wider usage of gloves in other sectors. Likewise, output of catheters, especially for use in medical appliances, also registered a strong growth of 12.6%. However, production of rubber tyres and tubes contracted 10.9% in tandem with slowing external demand from the automotive industry, particularly China.

TABLE 3.5

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

	Change (%)		Share (%)	
	2011	2012	2011	2012
Construction-related materials				
of which:				
Structural metal products, tanks, reservoirs and steam generators	*49.5*	*20.0*	*2.0*	*2.3*
Hydraulic cement	*10.0*	*5.8*	*1.0*	*1.0*
Refractory ceramic products	*66.7*	*25.4*	*1.0*	*1.2*
Ready-mix concrete	*36.6*	*21.9*	*0.3*	*0.3*

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

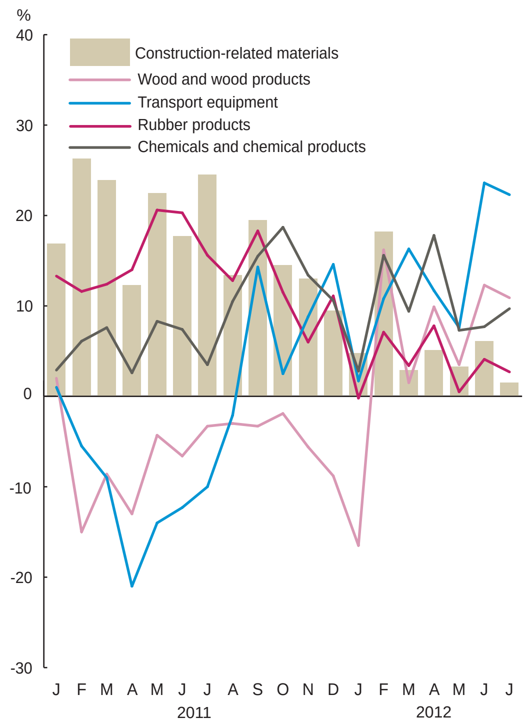
On the domestic front, output of **construction-related materials** as a group, grew 5.7% (January – July 2011: 20.4%). Production of non-metallic minerals and fabricated metal products continued to increase, albeit at a slower pace of 6.6% and 11.2% (January – July 2011: 27.1%; 26.1%), respectively. Of significance, production of structural metal products expanded 20% while hydraulic cement grew 5.8%. Demand was mainly driven by ongoing infrastructure and high-impact projects (HIPs), which include the Second Penang Bridge, LRT line extension and klia2.

Output of **transport equipment** turned around sharply by 13.7% (January – July 2011: -10.4%). Production of motor vehicles rebounded 11.8% while motorcycles grew strongly by 34.5%, partly attributed to the low-base effect as a result of shortage of automotive parts and component supplies following the natural calamity in Japan in 2011. Total industry volume (TIV) recorded 360,691 units during the first seven months of 2012. Following the introduction of new and replacement models and the market gradually adjusting to Bank Negara Malaysia's (BNM) new lending guidelines, vehicle sales are expected to increase further during the second half of 2012. Thus, the TIV is estimated to reach 615,000 units in 2012.

Production of **food** rose significantly by 12.5% (January – July 2011: 1.9%) mainly driven by higher output of dairy products (98.9%) and manufacture of processed and preserved fish products (25.4%). However, output of refined palm oil products contracted 12.9% due to lower output of crude palm oil during the first seven months of 2012. Meanwhile, output of **tobacco** rebounded to record a double-digit growth of 24.9% (January – July 2011: -2.3%). The UEFA European Football Championship, festivities and higher demand from regional economies were among factors that contributed to the positive performance of these subsectors.

CHART 3.5

Performance of Selected Industries
(% annual change)



Source: Department of Statistics, Malaysia.

Agriculture Sector

Growth led by food commodity subsector

Value-added of the **agriculture sector** contracted marginally by 1.5% during the first half of 2012 (January – June 2011: 3.8%) largely affected by lower output in the plantation subsector, particularly oil palm and rubber. However, the contraction in the plantation subsector output was cushioned by growth in the food commodity subsector. Growth of the sector during the second half of 2012 is expected to be supported by a marginal recovery in the output of oil palm on account of improved fresh fruit bunches (FFB) yields. Implementation of strategies under the National Agro-Food Policy (2011 – 2020) to transform and modernise the agro-food commodity sector by raising productivity will contribute positively to the overall output of the agriculture sector. Taking into account the improving yield and the output of the plantation sector during the second half of the year, the agriculture sector is expected to grow 0.6% in 2012 (2011: 5.9%).

Value-added of the **oil palm subsector** contracted 8.6% during the first half of the year (January – June 2011: 6.5%) due to the less favourable weather conditions and natural production down cycle that constrained the output of FFB. Despite higher oil extraction rate, the lower average FFB yield at 11.19 tonnes per hectare (January – August 2011: 12.52 tonnes per hectare) led to lower output of CPO by 7% to 11.2 million tonnes (January – August 2011: 8.2%; 12 million tonnes). However, the yield is expected to improve in the later part of the year, with the subsector registering a smaller contraction of 2.8% in 2012 (2011: 10.8%).

TABLE 3.6

Value-added in the Agriculture Sector 2011 – 2012
(at constant 2005 prices)

	Growth (%)		Share of Agriculture (%)	
	2011	2012[1]	2011	2012[1]
Agriculture	***5.9***	***0.6***	***100.0***	***100.0***
Oil palm	*10.8*	*-2.8*	*37.0*	*35.7*
Rubber	*6.1*	*-0.6*	*8.8*	*8.7*
Livestock	*10.4*	*8.4*	*10.8*	*11.7*
Other agriculture[2]	*7.1*	*6.4*	*17.2*	*18.2*
Forestry and logging	*-7.6*	*-2.2*	*11.8*	*11.5*
Fishing	*2.1*	*-0.7*	*14.4*	*14.2*

[1] Estimate.
[2] Including paddy, fruits, vegetables, coconut, tobacco, tea, flowers, pepper, cocoa and pineapple.

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

TABLE 3.7

Oil Palm Areas and Palm Oil Production 2011 – 2012

			Change (%)	
	2011	2012[1]	2011	2012[1]
Planted areas ('000 hectares)	5,000	5,107	*3.0*	*2.1*
Matured areas ('000 hectares)	4,282	4,378	*1.9*	*2.2*
Production ('000 tonnes)				
Crude palm oil	18,912	18,440	*11.3*	*-2.5*
Palm kernel oil	2,145	2,080	*6.4*	*-3.0*
Yield (tonnes/ hectare)[2]	19.7	18.0	*9.2*	*-8.6*

[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.

Accelerating Replanting of Oil Palm

Key Issue

- Slow replanting rate of low-yielding palms, defined as palms older than 25 years.

Objectives

- To replant 365,414 hectares of low-yielding oil palm areas by plantation companies and smallholders across Malaysia within three years; and
- To increase the average yield of plantations and smallholdings.

Replanting Recommendations

For smallholdings:

- All low-yielding palm oil trees;
- Organised smallholdings with average yield less than 13 tonnes per hectare per year for the past three years; and
- Independent smallholders with average yield less than 10 tonnes per hectare per year for the past three years.

For plantations:

- Low-yielding palm oil trees with average yield less than 16 tonnes per hectare per year for the past three years should not exceed 5% of total planted areas.

Incentives

- The Government will provide independent smallholders a replanting grant of RM7,500 per hectare for Peninsular Malaysia and RM9,000 per hectare for Sabah and Sarawak; and
- Subsistence allowance of RM500 per month for two years to independent smallholders owning 2.5 hectares or less.

Source: Malaysian Palm Oil Board.

Total planted areas of oil palm increased substantially by 77,106 hectares to five million hectares as at end-June 2012. Of the total planted areas, 28.4% or 1.5 million hectares are located in Sabah. With the acceleration of planting activity, total planted areas are expected to increase to 5.1 million hectares in 2012. This is in line with the Government's efforts to increase FFB yields to 26.2 tonnes per hectare by 2020. As at end-June 2012, 26% or 117,806 hectares of low-yielding oil palm areas have been replanted. In addition, matured oil palm acreage is estimated to increase to 4.4 million hectares in 2012 (2011: 4.3 million hectares) accounting for 85.7% of total planted areas.

Following slower demand amid global uncertainties, the average CPO price moderated to RM3,110 per tonne during the first eight months of 2012 (January – August 2011: RM3,355 per tonne). However, the widening price premium of soybean due to the drought in the US is expected to support CPO prices. Hence, despite concerns of a weakening global economy, the CPO price is expected to be sustained at RM3,100 per tonne in 2012 (2011: RM3,219 per tonne).

Value-added of the **rubber subsector** declined 6.1% during the first six months of 2012 (January – June 2011: 8.8%). Rubber production contracted 6.4% to 0.46 million tonnes

TABLE 3.8

Rubber Areas, Yield and Production 2011 – 2012

	2011	2012[1]	Change (%) 2011	Change (%) 2012[1]
Total areas ('000 hectares)	**1,019**	**1,033**	***-0.1***	***1.4***
Smallholdings	955	969	*-0.1*	*1.4*
Estates	64	64	*0.0*	*0.0*
Yield (kg per hectare)	**1,507**	**1,510**	***1.8***	***0.2***
Smallholdings	1,500	1,520	*2.0*	*1.3*
Estates	1,620	1,640	*1.3*	*1.2*
Total production ('000 tonnes)	**996**	**1,000**	***6.1***	***0.4***
Smallholdings	943	941	*6.8*	*-0.3*
Estates	53	60	*-5.3*	*12.2*
% of world production	***9.1***	***8.8***	***1.1***	***-3.3***

[1] Estimate.

Note: Total may not add up due to rounding.

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

(January – June 2011: 8.5%; 0.49 million tonnes) due to reduced latex production during the wintering season from February to April. However, production is expected to pick up during the second half of the year to reach one million tonnes in 2012 (2011: 6.1%; 996,210 tonnes) supported by good agricultural practices such as utilisation of labour-saving technologies. Taking into account the higher production during the second half of the year, the overall performance of the subsector is envisaged to improve with a smaller contraction of 0.6% for 2012.

Rubber planted areas are expected to expand 1.4% to 1.03 million hectares in 2012 (2011: -0.1%; 1.02 million hectares) following the opening of new areas, particularly in Sabah and Sarawak. To ensure adequate supply of rubber and latex for downstream activities, the Government has embarked on replanting programmes to expand rubber planted areas to 1.2 million hectares by 2020. Towards this end, 40,000 hectares of land will be replanted annually. To further support rubber production by smallholders, the annual replanting grant per hectare has been increased to RM9,230 in the Peninsular, RM13,500 in Sarawak and RM14,000 in Sabah.

The Malaysian Rubber Board Research Stations and the Malaysian Rubber Budwood Centre

- On 28 January 2011, the Malaysian Rubber Board (MRB) launched its first station at Similajau, Sarawak. The station with a total area of 1,180 hectares also hosts the 45-hectare Malaysian Rubber Budwood Centre (MRBC).
- The objectives of the MRB station and MRBC are to produce as well as distribute high-yielding and quality latex clones to rubber planters in line with the MRB and the Malaysian Rubber Industry Strategic Plan (2010 – 2020).
- The station will also provide technology transfer in the production of new clones and encourage good agronomic practices among smallholders. MRBC also focuses on the production of quality rubberwood clones.
- As at end-June 2012, one MRBC was established in Sarawak and Johor, respectively, while one each will be set up in Pahang and Sabah.

Source: Malaysian Rubber Board.

Apart from encouraging rubber smallholders to undertake good agriculture practices to improve yields, the Government has also established the Malaysian Rubber Budwood Centre (MRBC) in Sarawak and Johor to produce high-yielding and quality latex as well as rubberwood clones.

The **marine fishing subsector** contracted 3.5% (January – June 2011: -2.1%), affected by lower marine fish landings, particularly from coastal areas. Landings of marine fish declined 5.7% to 656,711 tonnes. The Government has set a target to achieve 1.7 million metric tonnes of marine fish landings by 2020. Towards this end, the industry will be modernised and transformed through the establishment of 15 marine sanctuaries in Peninsular Malaysia to breed high-value commercial species. In addition, the fishing zone regulations will be strengthened to prevent depletion of coastal fishery resources.

The **aquaculture subsector** expanded strongly by 7.3% (January – June 2011: -6.9%) attributed to an increase in aquaculture produce. For 2012, aquaculture output is expected to rebound strongly by 11.5% (2011: -3.4%) mainly contributed by higher production from the 32 HIP in the Aquaculture Industrial Zones (HIP-AIZs). To achieve the target of 0.8 million metric tonnes of aquaculture produce by 2020, more HIP-AIZs will be established. Taking cognisance of the high-value products with strong export potential such as seaweed and

TABLE 3.9

Production of Other Agriculture 2011 – 2012
('000 tonnes)

	2011	2012[1]	Change (%) 2011	Change (%) 2012[1]
Cocoa	4.6	4.5	*-70.6*	*-2.1*
Paddy	2,576	2,750	*-0.1*	*6.8*
Livestock				
Meat[2]	283	287	*4.5*	*1.4*
Poultry	1,334	1,373	*3.0*	*2.9*
Eggs (million)	10,358	10,771	*5.4*	*4.0*
Milk (million litre)	71	74	*5.8*	*4.2*
Miscellaneous agriculture				
Fruits[3]	1,169	1,175	*0.5*	*0.5*
Pepper	25.6	25.5	*5.7*	*-0.4*
Vegetables	875	879	*0.5*	*0.5*
Coconut (million unit)	578	607	*5.1*	*5.0*
Tobacco (million kg)[4]	29	31	*-6.6*	*6.9*
Flowers (million cutting)	417	419	*0.5*	*0.5*

[1] Estimate.
[2] Including beef, mutton and swine.
[3] Consists of star fruit, papaya, durian, guava, mango, mangosteen, 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.

Venturing into Commercial-Scale Seaweed Farming in Sabah

Rationale:
- Sabah is well placed to grow seaweed in the highly productive Coral Triangle bordering with Indonesia and the Philippines.
- This triangle supplies nearly 80% of Kappaphycus seaweed, which is highly sought after in the processed food and pharmaceutical industries.

Limitation:
- Traditional and labour-intensive farming practices have resulted in a low average yield of 1.5 metric tonnes per hectare per year over the total cultivated area of 8,000 hectares.

Targets:
- To increase yield from 1.5 metric tonnes to 5 metric tonnes of dried seaweed per hectare per year in a farmed area totalling 28,000 hectares.
- To develop 20 seaweed mini-estates covering an area of 3,000 hectares involving 11 anchor companies in 2012.

Source: Performance Management Delivery Unit and Ministry of Agriculture, Malaysia.

ornamental fish, three entry point projects (EPPs), namely the Integrated Zone for Aquaculture, Integrated Cage Farming and Seaweed Mini-Estates are being implemented to further develop the export-oriented aquaculture industries.

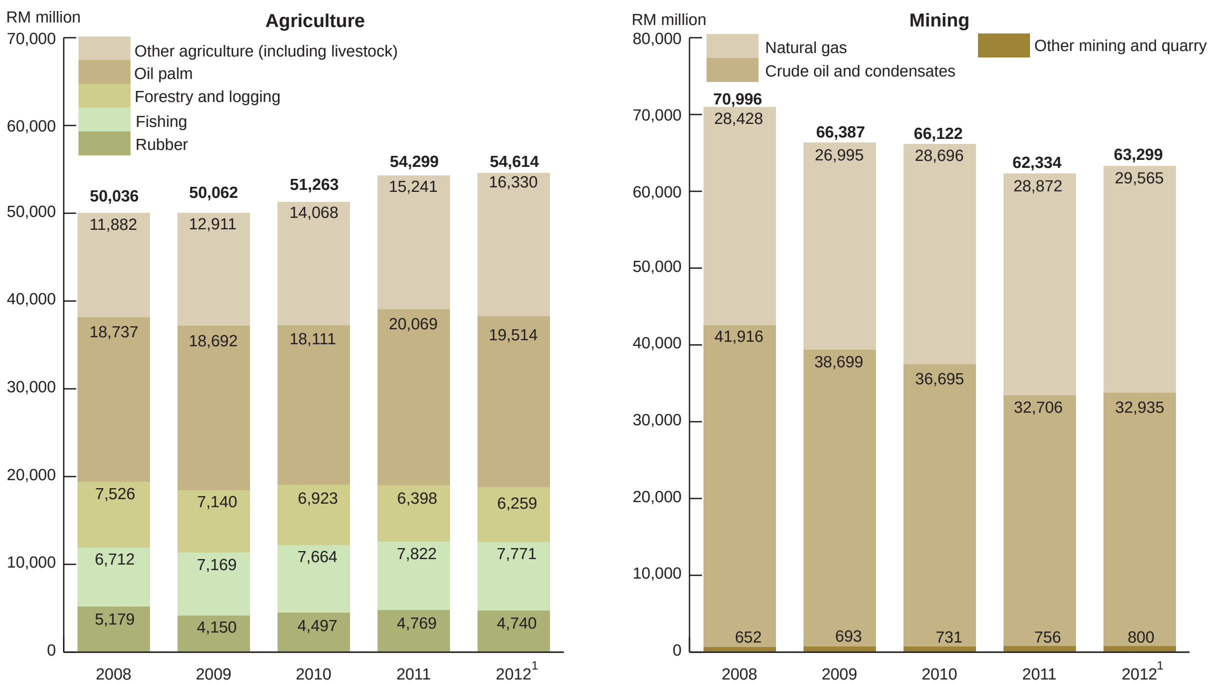
The **livestock subsector** grew strongly by 9.3% (January – June 2011: 9.5%) supported by higher production of poultry and cattle. Under the EPPs, the Government will provide allocation for anchor companies to purchase cattle and equipment to increase production and quality of milk. The Government also encourages integrated rearing in oil palm estates; production of in-house ruminant feeds for own consumption or as supply to other breeders; and promotion of artificial insemination to improve breeding performance. To further boost cattle production and increase self-sufficiency level, the Government aims to establish 180 units of satellite farms. As at end-June 2012, 57 satellite farms were established with 10,500 cattle.

The **other agriculture subsector** expanded 6.7% (January – June 2011: 8.5%) buoyed by higher production of paddy, vegetables and fruits. For 2012, paddy production is expected to increase 6.8% to 2.8 million tonnes (2011: 4.5%; 2.6 million tonnes) mainly due to the introduction of high-yielding paddy varieties, large-scale farming and adoption of best agriculture practices as well as improvements in irrigation system. The Government's initiative in introducing new varieties of fragrant and organic rice for non-irrigated rice farming is expected to reduce the dependency on imported rice and increase farmers' income.

During the first six months of 2012, value-added of vegetables and fruits increased strongly by 12% and 8.2% (January – June 2011: 10%; 12.4%), respectively. Growth is estimated to remain strong during the second half of the year supported by the implementation of EPP initiatives which include intercropping in oil palm plantations.

CHART 3.6

Value-added of Major Commodities
(at constant 2005 prices)



[1] Estimate.
Note: Total may not add up due to rounding.
Source: Department of Statistics and Ministry of Finance, Malaysia.

Other initiatives such as the Malaysia Farm Certification Scheme for Good Agricultural Practices, Malaysian Organic Scheme Certification and Malaysia Best Branding provide assurance of quality and food security which will boost domestic and external demand for fruits and vegetables.

In addition, the Government will encourage the setting up of large-scale farms, introduce modern harvesting technology and mechanisation as well as better disease control, processing and quarantine procedures. The Government has also established the Rural Transformation Centre (RTC) in Gopeng, Perak and Kota Bharu, Kelantan, which also functions as a centre for collection, distribution and marketing of agriculture products.

Mining Sector

Crude oil production rebounds

Value-added of the **mining sector** rebounded 1.3% (January – June 2011: -6.6%) after experiencing seven consecutive quarters of contraction. The sector is expected to grow 1.5% in 2012 underpinned by improvement in crude oil output and a moderate increase in natural gas during the second half of the year. During the first seven months of 2012, production of crude oil (including condensates) turned around by 1.9% to 577,144 barrels per day (bpd) (January – July 2011: -12.4%; 566,458 bpd) supported by output from new oil fields and efforts to rejuvenate matured oil fields in Peninsular Malaysia. In 2012, production of crude oil (including condensates) is targeted to increase 1.6% to 579,000 bpd (2011: -10.7%; 569,778 bpd) partly due to higher production from new oil fields at East Piatu and Sepat Oil in offshore Peninsular Malaysia.

Petroliam Nasional Berhad (PETRONAS) has intensified its exploration activities to increase domestic O&G reserves, resulting in the discovery of two new oil fields in offshore Peninsular Malaysia (Irong 6 and Bertam 2) as at end-June 2012. In line with the Government's incentives for the development and production of marginal oil fields, PETRONAS has signed several new Production Sharing Contracts involving offshore and deep-water explorations in Sabah and Sarawak to sustain production and increase the lifespan of the reserves. As at 1 January 2012, crude oil reserves stood at 5.95 billion barrels and are estimated to last 29 years (1 January 2011: 5.86 billion barrels; 25 years).

Output of natural gas declined 5.3% to 5,616 million standard cubic feet per day (mmscfd) during the first seven months of 2012 (January – July 2011: -0.1%; 5,933 mmscfd) mainly due to operational challenges. However, for 2012, production of natural gas is expected to expand 5.5% to 6,259 mmscfd

TABLE 3.10

Production and Reserves of Crude Oil and Natural Gas
2011 – 2012

	2011	2012[1]	Change (%) 2011	Change (%) 2012[1]
Crude oil				
Production[2] ('000 barrels per day)	570	579	*-10.7*	*1.6*
Reserves (billion barrels)	5.86	5.95	*1.0*	*1.5*
Reserves/production (years)	25	29		
Natural gas				
Production[3] (million standard cubic feet per day) (mmscfd)	5,932	6,259	*0.3*	*5.5*
Reserves (trillion cubic feet)	88.9	92.1	*0.3*	*3.6*
Reserves/production (years)	39	37		

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

Note: Total may not add up due to rounding.
Source: Petroliam Nasional Berhad.

Economic Performance and Prospects

(2011: 0.3%; 5,932 mmscfd) resulting from the increase in production capacity to meet growing domestic demand, particularly from power producers and petrochemical industries. As at end-June 2012, the discovery of six new gas fields in offshore Peninsular Malaysia, Sabah and Sarawak will further increase production of gas and reserves in Malaysia. In addition, the completion of the LNG Regasification Terminal in Melaka is expected to ensure a sufficient supply of gas to meet domestic demand in Peninsular Malaysia. Gas reserves stood at 92.1 trillion standard cubic feet as at 1 January 2012, sufficient to last 37 years (1 January 2011: 88.9 trillion standard cubic feet; 39 years).

During the first eight months of 2012, the average price of Malaysian crude oil Tapis Blend remained elevated at USD120 per barrel (pb) (January – August 2011: USD118 pb). However, global oil prices were volatile due to geopolitical tensions in the early part of the year and the worsening euro area debt crisis. Escalating unrest in the Middle East has resulted in the benchmark Dated Brent trading at a six-month peak of USD127 pb in February 2012. However, as the euro area debt crisis took centre stage in May, global oil prices slumped with the price of Dated Brent declining to USD95 pb. Price of Tapis Blend was also volatile and moved to a high of USD134 pb in March 2012 and a low of USD95 pb in June. Moving forward, market sentiment will continue to be influenced by the escalation of Middle East tensions due to the sanctions on Iran and the prolonged euro area debt crisis, which will affect the supply and demand of crude oil. According to the International Energy Agency, global demand for crude oil was lower at 88.8 million bpd as at end-June 2012 due to the weaker global economic outlook, while global supply was slightly higher at 90.8 million bpd. Tapis price is expected to soften during the second half of 2012 due to lower demand for crude oil following the slowdown in emerging economies. Notwithstanding the possible disruption in oil output due to geopolitical tensions in the Middle East, which could result in higher oil prices, Tapis price is forecast to average USD105 pb for 2012.

Construction Sector

Robust construction activity

The **construction sector** posted a strong growth of 18.9% during the first half of 2012 (January – June 2011: 3.4%), the fastest pace since 1995. This impressive performance was underpinned by robust construction activity in the civil engineering and residential subsectors. Reflecting the buoyant construction activities, the total value of construction works rose 24.6% to RM38.1 billion (January – June 2011: 0.9%; RM30.6 billion). The private sector contributed 69.8% of the total value of construction works. The non-residential and civil engineering subsectors were the main contributors constituting 36.5% and 31.2% respectively, followed by the residential subsector (26.4%). For the year, the sector is expected to grow 15.5% (2011: 4.6%), contributing 0.5 percentage points to the overall GDP growth.

The **civil engineering subsector** registered a sterling growth of 27.5% (January – June 2011: -3.4%) supported by the implementation of large infrastructure projects. These include the Ipoh – Padang Besar electrified double-tracking, LPT2 Jabur – Kuala Terengganu, Second Penang Bridge, Besraya Eastern Extension (BEE) and LRT line extension projects. Growth was also

TABLE 3.11

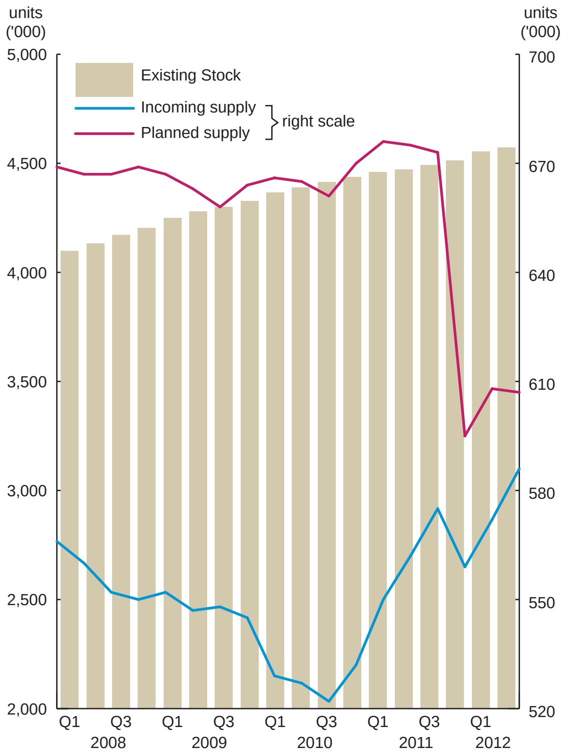
Major Ongoing Construction Projects

- LNG Regasfication Terminal, Melaka
- Sabah Oil and Gas Terminal (SOGT)
- Second Penang Bridge
- Offshore pipelines for Gumusut-Kakap
- Manjung coal fired plant
- Sabah-Sarawak Gas Pipeline (SSGP)
- Ipoh – Padang Besar electrified double-tracking
- Seremban – Gemas electrified double-tracking
- East Coast Expressway Phase 2 Jabur – Kuala Terengganu

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

CHART 3.7

Supply Indicators of Residential Property



Source: National Property Information Centre.

boosted by the ongoing projects under the National Key Result Area (NKEA) on O&G such as the Kimanis Power Plant and LNG Regasification Terminal, Melaka as well as rural infrastructure development, particularly in Sabah and Sarawak. In addition, several corridor development projects contributed significantly to the growth of the subsector. Among the projects are the upgrading of coastal roads in Iskandar Malaysia, Palm Oil Industrial Cluster (POIC) project in Sabah Development Corridor (SDC) and construction of the Central Spine Federal Road between Kota Bharu (Kelantan) – Simpang Pelangai (Pahang) in the East Coast Economic Region (ECER). Meanwhile, several HIPs namely, the Refinery and Petrochemicals Integrated Development Project (RAPID) in Pengerang, Johor; Sipitang Oil and Gas Industrial Park, Sabah; and SBK-MRT will have a positive impact on the property market and provide strong impetus for growth in the construction sector over the medium term.

The **residential subsector** expanded significantly by 22% during the first half of 2012 (January – June 2011: 9.9%) supported by strong demand for housing and investment purposes arising from higher household disposable income. Additionally, improved accessibility following the development of infrastructure projects further stimulated the demand for houses, especially in the suburban areas. Housing starts increased 13.1% to 60,975 units (January – June 2011: 37.8%; 53,912 units). Selangor recorded the highest number of housing starts, increasing 65.9% to 16,382 units, while Kuala Lumpur and Johor increased 49.4% and 30%, respectively. New housing approvals in Kuala Lumpur, Pulau Pinang and Selangor increased more strongly by 250%, 77.9% and 18.3%, respectively during the first half of 2012. Taking advantage of the Government's continuous efforts to increase home ownership, developers are embarking on building more affordable homes. In this regard, launches for houses priced between RM150,000 and RM250,000 increased 2.7% to 5,628 units as at end-June 2012 (end-December 2011: 5,481 units). As at end-June 2012, a total of 2,801 units of *Rumah Mesra Rakyat 1Malaysia* (RMR1M) were completed, while 8,752 units are under construction. This new residential supply will add to the existing stock and match the growing demand for affordable residential houses.

In terms of demand, the take-up rate of newly launched residential units improved to 17.6% (January – June 2011: 10.3%). Following this, total properties transacted increased 1.1% to 217,160 transactions valued at RM69.1 billion (January – June 2011: 18.2%; RM64.8 billion) with the residential sector accounting for 63% of the total number of transactions and 48% of total value transacted. In tandem with the better performance of new launches, the residential overhang declined 32% with a total value of RM3.8 billion during the first half of 2012 (January – June 2011: -1.4%; RM4.7 billion). The Malaysian All-House Price Index trended upwards by 7.9% to 167.3 points during the second quarter of 2012 (Q2 2011: 10.6%; 155.1 points), with Klang Valley recording the highest index at 185.3 points followed by Pulau Pinang

Role of Construction Sector in the Economy

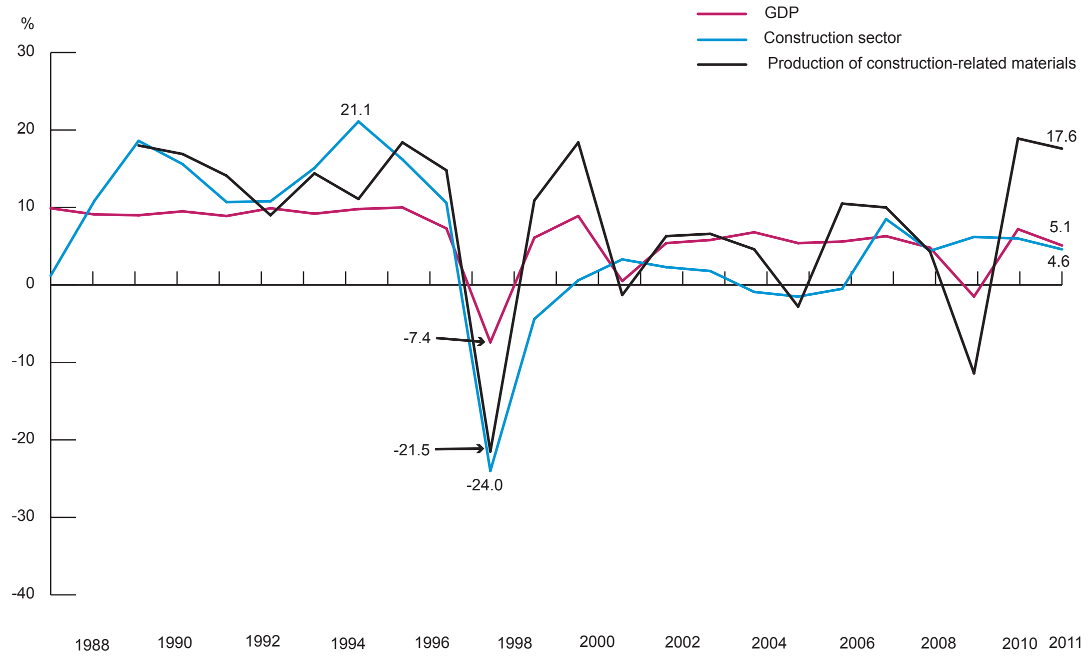
Introduction

The construction sector consists of four subsectors: residential, non-residential, civil engineering and special trade works[1]. During a period of rapid economic expansion, the sector generally outperforms Gross Domestic Product (GDP) growth. However, during an economic downturn, the sector tends to undergo a sharper correction. During the previous cycle of construction boom in Malaysia between 1989 – 1997, the construction sector recorded an average growth of 14.3% vis-a-vis economic growth of 9.2%. The implementation of several large-scale projects such as Kuala Lumpur International Airport, Petronas Twin Towers, Sepang International Circuit and the development of Putrajaya and Cyberjaya contributed to the construction boom during this period.

CHART 1

Growth of Gross Domestic Product (GDP), Construction Sector and Production of Construction-related Materials

(at constant 2005 prices)



Source: Department of Statistics, Malaysia.

From 2000 to 2006, following the completion of large-scale projects, the construction sector experienced stagnated growth, particularly after the Asian Financial Crisis. During this period, construction grew marginally by 0.7%. However, the sector has improved during 2007 – 2011 with an average growth rate of 5.9%, boosted by construction of new infrastructure projects such as the low-cost carrier terminal (LCCT), Jabur – Kuala Terengganu East Coast Expressway and electrified double-tracking rail between Seremban – Gemas and Ipoh – Padang Besar as well as the acceleration of low and medium-cost housing projects initiated by the Government. The sector was also boosted by the implementation of the Government stimulus package during the global financial crisis in 2008/2009. During the first half of 2012, the sector expanded strongly by 18.9% supported by strong activities in the residential and civil engineering subsectors. Going forward, the sector is expected to experience

[1] Special trade works include maintenance activities such as electrical, tiling, plumbing, painting and carpentry.

a robust growth given the many construction projects in the pipeline or under implementation such as the MY Rapid Transit (MRT), River of Life, Tun Razak Exchange (TRX), Bandar Malaysia at Sungai Besi, LRT extension and the Rubber Research Institute of Malaysia (RRIM) land development in Sungai Buloh.

Economic Impact

The construction sector impacts Malaysia's economy by influencing both the supply and demand for goods and services that are closely linked to the sector. Even though the construction sector contributes around 3% to the GDP, it has strong forward and backward linkages with the rest of the economy. Analysis shows that a RM1 spending in construction will induce an additional expenditure of RM0.75 along the supply chain, indicating the significant output multiplier of the construction sector in the economy.

The construction sector in Malaysia also plays an important role in employment generation as it requires a large number of semi-skilled workers to high-skilled professionals such as engineers, architects, quantity surveyors and project managers. It employed 766,000 workers in 2010. Given the large number of construction workers, the sector contributes significantly to the overall economy through employment and consumption.

Workers in this sector were paid a total of RM19.8 billion in 2010. Despite the amount of wages paid by this sector, there were some leakages due to its reliance on low-skilled foreign labour. Foreign labour accounted for about 55% of the construction workforce and around RM6 billion in wages. On average, RM3.5 billion or 60% of their wages were remitted to their home countries. Taking into account these remittances and the assumption of a marginal propensity to consume of about 0.8, it is estimated that a disposable income of RM13 billion was spent domestically in 2010 through private consumption by the workers.

Apart from employment, the construction sector utilises raw materials such as cement, steel and iron products. The output of these materials increases in tandem with the boom in construction. During the construction boom period (1990 – 1997), the production of construction-related materials registered an average annual growth of 14.6%. In contrast, it contracted significantly by 21.5% during the Asian Financial Crisis in 1998. The high demand for construction inputs such as steel bars, fabricated metals and non-metallic minerals attracted a significant amount of domestic and foreign investments. From 2007 to 2011, a total of RM77.5 billion had been approved for investment in these construction-related industries.

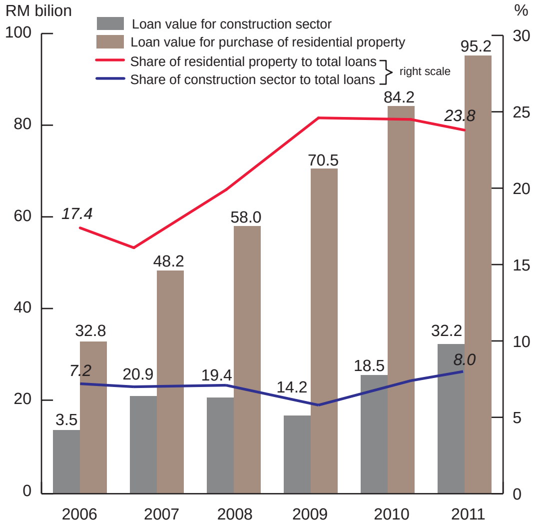
The construction sector also requires substantial financing. In 2011, loans approved by the banking system for construction activities amounted to RM32.2 billion or 8% of the total loans. Loans approved for the purchase of residential properties amounted to RM95.2 billion or 23.8% while for non-residential properties, RM52.2 billion or 13%. Therefore, growth of the construction sector also spurred the growth of the financial sector and capital market by increasing the demand for project financing and property loans from the banking sector.

As a result of the large-scale projects built in the 1990s, Malaysian construction expertise is known worldwide. Malaysian developers were involved in 255 projects overseas with a total value of RM66.8 billion during 2006 – 2011. Among the well-known Malaysian construction projects abroad are the steel works for Burj Al Arab Hotel in the United Arab Emirates (UAE), the Mumbai – Pune expressway in India and the Western Access Tollway in Argentina.

Infrastructure construction has also partly contributed to Malaysia's above-average score in the World Bank's Logistics Performance Index (LPI) report. Malaysia scored an LPI of 3.49 in 2012, surpassing the world average including most Southeast Asian countries and many other regional peers. With the continuous enhancements of the public delivery system under

CHART 2

Loan Approved: Construction Sector and Residential Property



Source: Bank Negara Malaysia.

TABLE 1

Logistics Performance Index 2012

	Score
Singapore	4.13
Hong Kong	4.12
Japan	3.93
Taiwan	3.71
Republic of Korea	3.70
China	3.52
Malaysia	**3.49**
Thailand	3.18
Philippines	3.02
Vietnam	3.00
Indonesia	2.94
World Average	**2.87**
Southeast Asia Average	**2.72**

Source: World Bank.

the Government Transformation Programme (GTP) and implementation of new infrastructure projects such as the MRT, the LPI is expected to improve further and hence increase the attractiveness and competitiveness of Malaysia as an investment destination.

Government Initiatives

Given the importance of the construction sector to the economy, the Government has taken several initiatives to further boost the sector. Under the Economic Transformation Programme (ETP), several new infrastructure projects have been planned or implemented. Among the construction-based ETP projects are:

- MRT;
- River of Life – revitalising the Klang River;
- Development of Bukit Bintang City Centre at the previous site of Pudu Jail;
- TRX;
- Bandar Malaysia, Sungai Besi; and
- Development of RRIM land, Sungai Buloh.

Realising that sustainability of the sector also depends on a sufficient supply of skilled workers, education and training in the construction sector are given priority. Towards this end, the Government has established a Malaysian Building Academy which offers courses such as skills accreditation, construction skill training and continuous professional development programme.

The Government has also undertaken several measures to ease regulations and improve the public delivery system for the construction sector. These include introducing a self-regulatory system whereby project engineers, architects or registered draftsmen are authorised to issue the Certificate of Fitness for Occupancy of buildings to enable faster handover of the completed properties. Additionally, one-stop centres were established in 2007 in various local authorities using a 'fast-track' approach to reduce approval and processing time.

The Government is also actively promoting the use of Industrialised Building System (IBS) to reduce dependency on foreign labour and automate production processes as well as standardise and improve the quality of buildings. A roadmap has been formulated to encourage and promote the use of IBS. The Government also granted accelerated capital allowance for a period of three years for companies which purchase moulds used in the production of IBS components.

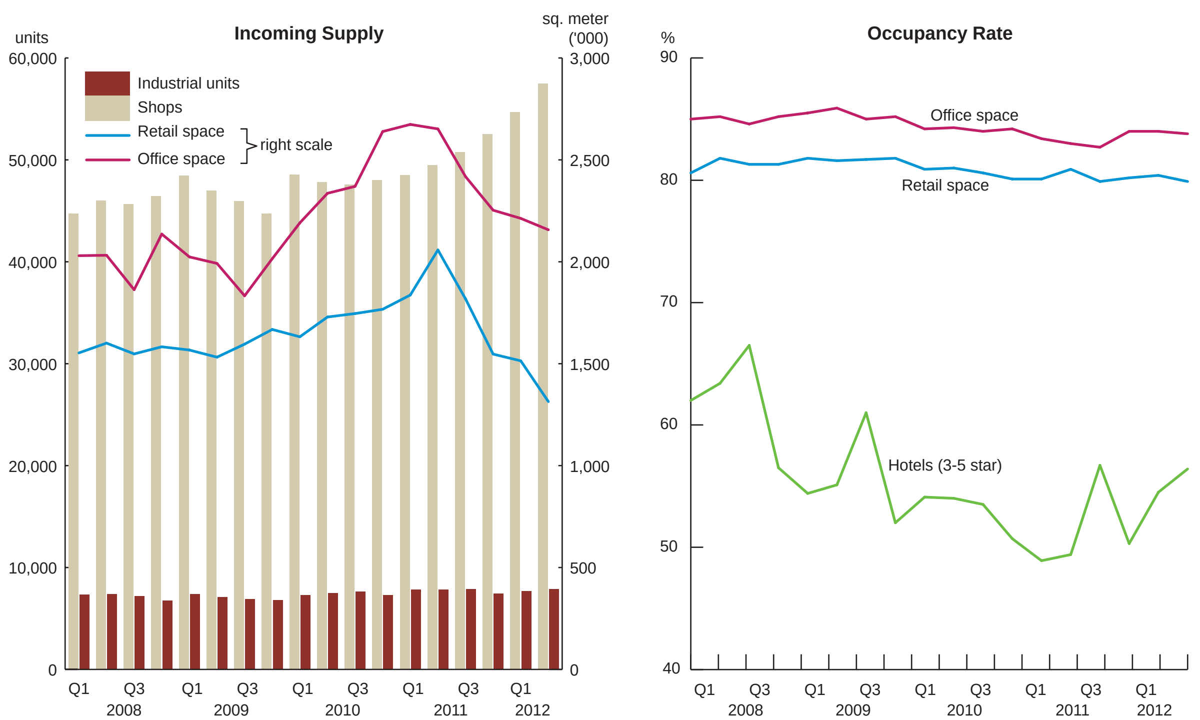
Taking cognisance of the need for sustainable development and energy efficiency, the Government has introduced the Green Building Index (GBI) and provided tax exemption of up to 100% for expenditure incurred in obtaining the first GBI certificate. In addition, exemption of stamp duty is given for the transfer of ownership of buildings with the GBI certificate. The construction of green buildings will not only reduce adverse impact to the environment, but is also a crucial step in transforming Malaysia into an eco-friendly nation.

Conclusion

The implementation of the ETP promises tremendous growth opportunities for the construction industry, even though Malaysia is in an advanced stage of physical development. Given the fast-changing environment, construction industry players must continuously upgrade themselves in knowledge, skills and productivity. The Government, will on its part, constantly review its policies to create a conducive environment to facilitate the transformation of the industry to bring it to new heights.

CHART 3.8

Supply Indicators of Non-Residential Property



Source: National Property Information Centre.

Purpose-Built Office Rent Index in Wilayah Persekutuan Kuala Lumpur

- The Purpose-Built Office Rent Index in Wilayah Persekutuan Kuala Lumpur (PBO-RI WPKL) provides an overview of the office rental index for Kuala Lumpur with special focus on investment-grade buildings. The PBO-RI WPKL, a quarterly publication, is the latest product by the Valuation and Property Services Department (JPPH), Ministry of Finance.
- The publication can be used as a guide for international companies to benchmark Kuala Lumpur's price competitiveness as a destination for locating regional headquarters, thus attracting inflows of foreign direct investment (FDI) into the country.
- For the locals, this index serves as a useful guide to the current PBO rental trend in Wilayah Persekutuan Kuala Lumpur.
- Given the importance of the property sector to the economy, the Government will continue to provide new and regular updates as well as data on the property market to reflect the changing conditions affecting the supply and demand of properties.

Source: Valuation and Property Services Department, Ministry of Finance, Malaysia.

at 181 points, respectively. Kuala Lumpur continued to record the highest average all-house price at RM491,388 followed by Selangor (RM364,722) and Pulau Pinang (RM261,601).

The **non-residential subsector** grew 12.8% (January – June 2011: 4.2%) largely driven by construction of industrial buildings, particularly in the Samalaju Industrial Park, Sarawak and shophouses. Industrial building starts increased 47.8% to 501 units (January – June 2011: 48%; 339 units). Meanwhile, construction starts for purpose-built office (PBO) decreased substantially to 22,758 square metres (sm) (January – June 2011: 281,647 sm) due to higher supply following the completion of several office buildings and shopping malls in 2011. The incoming supply of retail space decreased 36.1%, while construction starts dropped 56.9% during the first half of 2012. Meanwhile, planned supply for PBO and retail space contracted 53.6% and 24.9% (January – June 2011: -14.7%; -9.9%), respectively. As at end-June 2012, the stock for PBO and retail space stood at 17.56 million sm and 11.62 million sm (end-June 2011: 17.05 million sm; 10.86 million sm), respectively.

Overall occupancy rate in the various segments of commercial buildings remained steady, reflecting strong domestic economic activities. In the PBO segment, the national PBO occupancy rate remained high at 83.8% (January – June 2011: 83%) despite an additional 120,234 sm space. Kuala Lumpur, accounting for 50% of the total space, experienced an increase in occupancy rate to 80.5% during the second quarter of 2012 (Q2 2011: 79.4%). Likewise, the occupancy rate in the shopping complex segment remained high at 80%, reflecting strong retail activities and robust private consumption during the first half of 2012. The newly released Purpose-Built Office Rent Index Wilayah Persekutuan Kuala Lumpur (PBO-RI WPKL) showed that the PBO in Kuala Lumpur continued to experience stable demand despite the increase in supply of floor space. The PBO-RI WPKL improved to record 103.3 points during the fourth quarter of 2011 (Q3 2011: 100.7 points). The average rental of PBO in the KLCC/Golden Triangle areas remained firm at RM4.66 per square foot (psf), while the Central Business District averaged RM3.27 psf during the fourth quarter of 2011 (Q3 2011: RM4.68 psf; RM3.21 psf).

Domestic Demand Performance

Robust private investment activity

Aggregate domestic demand is projected to increase further by 9.4% in 2012 (2011: 8.2%) driven by strong private sector activity. **Private sector expenditure** is projected to sustain its growth momentum of 8% (2011: 8.2%) boosted

TABLE 3.12

Gross Domestic Product (GDP) by Aggregate Demand
2011 – 2013
(at constant 2005 prices)

	Change (%)			Share of GDP (%)			Contribution to GDP growth (percentage point)		
	2011	2012[1]	2013[2]	2011	2012[1]	2013[2]	2011	2012[1]	2013[2]
GDP	***5.1***	***4.5 – 5.0***	***4.5 – 5.5***	***100.0***	***100.0***	***100.0***	***5.1***	***4.5 – 5.0***	***4.5 – 5.5***
Domestic Demand[3]	***8.2***	***9.4***	***5.6***	***86.5***	***90.2***	***90.8***	***6.9***	***8.1***	***5.1***
Private Expenditure	***8.2***	***8.0***	***7.4***	***63.1***	***65.0***	***66.5***	***5.0***	***5.0***	***4.8***
Consumption	*7.1*	*7.0*	*5.7*	*49.8*	*50.8*	*51.1*	*3.5*	*3.5*	*2.9*
Investment	*12.2*	*11.7*	*13.3*	*13.4*	*14.3*	*15.4*	*1.5*	*1.6*	*1.9*
Public Expenditure	***8.4***	***13.3***	***1.2***	***23.3***	***25.2***	***24.3***	***1.9***	***3.1***	***0.3***
Consumption	*16.1*	*11.3*	*-1.2*	*13.2*	*14.1*	*13.2*	*1.9*	*1.5*	*-0.2*
Investment	*-0.3*	*15.9*	*4.2*	*10.1*	*11.1*	*11.1*	*0.0*	*1.6*	*0.5*
Change in Stocks				***0.5***	***0.1***	***0.4***	***-0.7***	***-0.4***	***0.4***
External Sector	***-7.4***	***-22.2***	***-4.3***	***13.1***	***9.7***	***8.8***	***-1.1***	***-2.9***	***-0.4***
Exports[4]	*4.2*	*1.6*	*2.8*	*100.6*	*97.5*	*95.4*	*4.3*	*1.6*	*2.8*
Imports[4]	*6.2*	*5.1*	*3.6*	*87.5*	*87.8*	*86.6*	*5.4*	*4.5*	*3.2*
GDP (RM billion, current value)	***881.1***	***936.2***	***1,001.8***						
Change *(%)*	*10.8*	*6.3*	*7.0*						

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

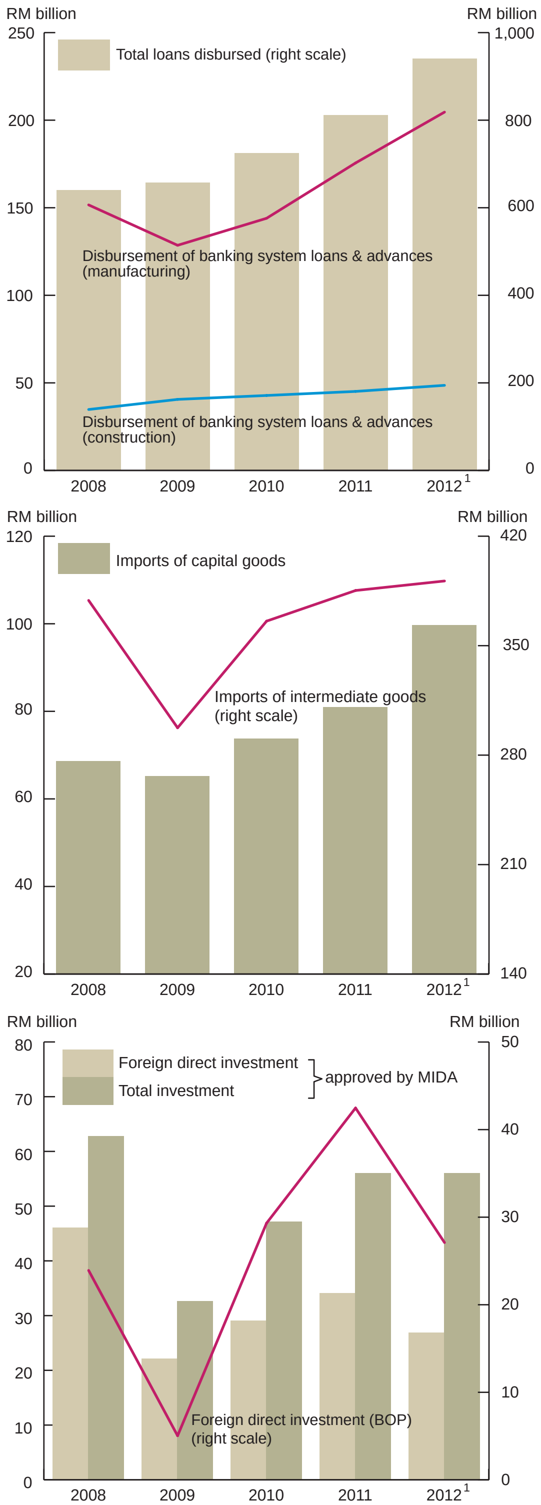
Note: Total may not add up due to rounding.

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

by higher consumption and investment activities. The resilient private consumption is supported by the steady increase in disposable income and stable labour market conditions. Private investment continues to play a more significant role in driving the economy. Favourable domestic conditions, such as a conducive financial market, strong corporate balance sheets, an improving public sector delivery system, new initiatives in attracting foreign and local investments as well as implementation of ETP projects, are expected to support vibrant domestic demand during the year. Meanwhile, **public sector expenditure** is expected to record a double-digit growth of 13.3% (2011: 8.4%) supported by the implementation of major infrastructure projects under various Government programmes, including the Tenth Malaysia Plan (10MP) and ETP as well as higher capital outlay by the NFPEs.

After registering a robust expansion in 2011, the strong growth momentum of **private investment** continued into 2012 with a double-digit increase of 22.4% in the first half of 2012. For 2012, growth is expected to remain robust at 11.7% (2011: 12.2%) underpinned by acceleration of capital spending across all sectors, particularly in domestic-oriented investment activities.

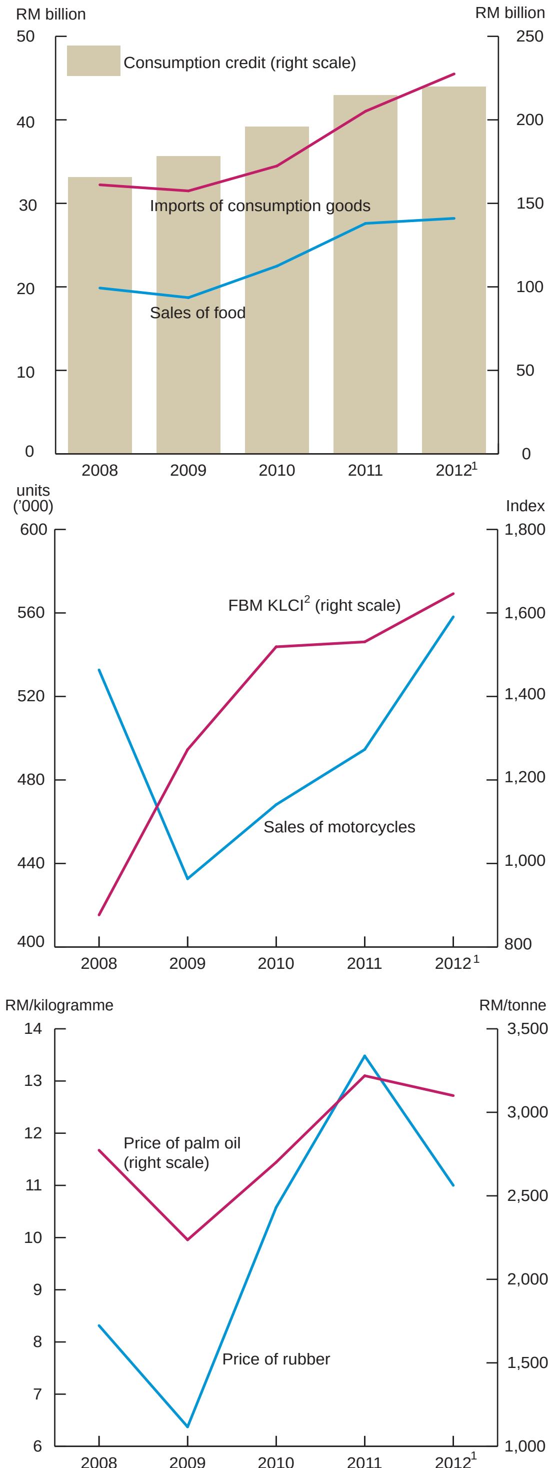
CHART 3.9
Private Investment Indicators



[1] Estimate.

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

CHART 3.10
Private Consumption Indicators



[1] Estimate.

[2] As at 19 September 2012.

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.

Economic Performance and Prospects

The continued expansion in private investment activity corresponded with increases in major investment indicators. Imports of capital goods and sales of commercial vehicles registered a strong growth of 25.7% and 15.7% during the first seven months of 2012 (January – July 2011: 9.4%; 7%), respectively. The supportive financing environment also helped to accelerate private investment, as reflected by the total loans disbursed by the banking system to the business sector which recorded a double-digit growth of 32.2% (January – July 2011: 6.1%). The positive business sentiment, as reflected by the Malaysian Institute of Economic Research's (MIER) Business Conditions Index (BCI), remained above the 100-point threshold during the first two quarters of 2012 (Q2 2012: 111.5 points; Q1 2012: 116.5 points).

The Government continues to support the private sector through various initiatives to spur private investment. These include the implementation of the ETP, further liberalisation of 17 services subsectors and allocation under the Public-Private Partnership (PPP) Facilitation Fund. Additionally, the Government announced five new initiatives in July 2012 to transform the domestic investment landscape, including setting up a Domestic Investment Strategic Fund worth RM1 billion.

Amid the external uncertainties and increased competition from emerging countries for foreign investment, Malaysia attracted net inflow of FDI worth RM13.6 billion during the first half of 2012 (January – June 2011: RM21 billion). The O&G sector accounted for the largest share of net FDI

Incentives to Promote Domestic Investments

On 3 July 2012, the Government announced several incentives to stimulate domestic investment and to fast-track the participation of Malaysian companies in the global supply chain, which include:

- Establishment of a Domestic Investment Strategic Fund of RM1 billion. This Fund will be managed by Malaysian Investment Development Authority (MIDA) to accelerate the participation of Malaysian-owned companies in targeted industries, namely high value-added, high-technology, knowledge-intensive and innovation-based industries. The Fund aims to harness and leverage outsourcing opportunities created by multinational corporations (MNCs) operating in Malaysia, intensify technology acquisition by Malaysian-owned companies and enable Malaysia-owned companies to secure international standards/certifications in strategic industries.
- Re-introduction of the incentive for acquiring foreign companies to enable Malaysian-owned companies to acquire state-of-the-art technologies to move up the value chain or to diversify into new areas. This initiative will facilitate innovation activities among Malaysian-owned companies.
- Malaysian-owned manufacturing and services companies that are already in operation and undertaking promoted products/activities under the Promotion of Investments Act, 1986 are now eligible to apply for tax incentives. This flexibility is to facilitate new investments by Malaysian-owned companies.
- Enhancement of tax incentives eligibility for Malaysian-owned companies by increasing the shareholders' funds threshold from RM500,000 to less than RM2.5 million under the Promotion of Investments Act, 1986.
- Introduction of a special tax rate to encourage Malaysian service providers to merge into larger entities to enhance competitiveness in line with the Government's efforts to further liberalise the services sector.

Source: Malaysian Investment Development Authority (MIDA).

inflow accounting for 37.2% followed by the services (36.8%) and manufacturing (23.7%) sectors.

Total investments in the manufacturing sector approved by Malaysian Investment Development Authority (MIDA) amounted to RM25.8 billion during the first six months of 2012 (January – June 2011: RM27.4 billion). Of the total approved investments, RM12.8 billion or 49.8% were foreign investments while the remaining were domestic investments. The five largest foreign investors during the period were Saudi Arabia with total investments of RM2.6 billion followed by Japan (RM1.8 billion), Norway (RM1.1 billion), Indonesia (RM1.1 billion) and Singapore (RM1 billion). Meanwhile, in terms of location, Selangor attracted the highest amount of approved investments worth RM5.5 billion followed by Sabah (RM4.8 billion), Sarawak (RM4.6 billion), Johor (RM2.9 billion) and Terengganu (RM2.3 billion).

TABLE 3.13

Cumulative Investments in Five Economic Growth Corridors
(RM billion)

Corridor	End-June 2012[1]		Jan – June 2012	
	Committed	Realised	Committed	Realised
SDC	112.0	12.0	36.0	9.5
Iskandar Malaysia	95.5	41.4	10.7	3.6
ECER	32.7	22.0	11.9	1.0
NCER	25.9	25.9	8.5	8.5
SCORE	24.6	9.4	3.4	1.7

[1] From launching date of respective corridors until end-June 2012.

Source: Unit Kerjasama Awam Swasta (UKAS) and respective corridors.

In ensuring inclusive and balanced development across the country, the Government has identified five economic growth corridors under the Ninth Malaysia Plan (9MP). Efforts in attracting investment to the corridors have yielded positive results. As at end-June 2012, SDC has attracted the largest committed investments worth RM112 billion from domestic and foreign investors in various sectors. Meanwhile, Iskandar Malaysia recorded investment amounting to RM95.5 billion followed by ECER (RM32.7 billion), the Northern Corridor Economic Region or NCER[5] (RM25.9 billion) and the Sarawak Corridor of Renewable Energy or SCORE (RM24.6 billion).

During the first half of 2012, SDC received investments worth RM36 billion. Flagship projects in SDC include the POIC in Lahad Datu and Sandakan, Keningau Integrated Livestock Centre (KLIC) and Sabah Agro-Industrial Precinct (SAIP) at Kimanis. In addition, Iskandar Malaysia attracted RM10.7 billion committed investments. Among the projects in Iskandar Malaysia include ATT Tanjung Bin Terminal Phase 2 and Dato' Onn International Specialist Hospital. ECER managed to secure investments amounting to RM11.9 billion during the same period. Major investments received include projects to build the world's first bioisobutanol factory in Kertih BioPolymer Park (KBP), Terengganu and tourism projects in Mersing, Johor. Meanwhile, NCER which encompasses the states of Perlis, Kedah, Pulau Pinang and Northern Perak attracted RM8.5 billion worth of investments. Of the total investments received by NCER, 78% were from foreign investors with the bulk of investments in the manufacturing sector, particularly in the E&E subsector. SCORE recieved investments worth RM3.4 billion mostly in the manufacturing sector in Samalaju Industrial Park.

The Government has taken aggressive efforts to boost private investment, particularly under the ETP. As of 13 September 2012, a total of 138 initiatives under 86 EPPs have been announced with a total committed investment of RM205.2 billion. These investments are expected to generate

[5] NCER: Investment under the Northern Corridor Implementation Authority (NCIA) only.

An Update on Developments in Iskandar Malaysia

Background

Iskandar Malaysia, one of Malaysia's five growth corridors, was officially launched on 9 November 2006. It covers 221,634 hectares (2,217 sq km) within the southern-most part of Johor. Iskandar Malaysia is about three times the size of Singapore and twice the size of Hong Kong and is one of the largest development projects to be undertaken in Southeast Asia.

The corridor is divided into five flagship zones – the JB City Centre, Nusajaya, Western Gate Development, Eastern Gate Development and Senai – Skudai. The zones have been demarcated to help focus development efforts, either by building on existing economic clusters or developing new ones in areas where a comparative advantage might be gained and benefits advanced to local communities. The zones are thus catalysts for the region's development.

Nine key economic pillars were identified for Iskandar Malaysia, grouped under manufacturing-based and services-based pillars. The manufacturing-based pillars are electrical and electronics (E&E), petrochemical and oleo-chemical as well as food and agro-processing, while the services-based pillars consist of logistics, tourism and four newly identified pillars, namely health services, educational services, financial services and creative industries. To increase economic opportunities in Iskandar Malaysia, emphasis will be placed on the four new services-based pillars while reinforcing the existing manufacturing-based pillars. These pillars will maximise linkages with existing activities, facilitate and generate new economic activities and spur job creation.

Developments

CHART 1

Cumulative Committed Investments

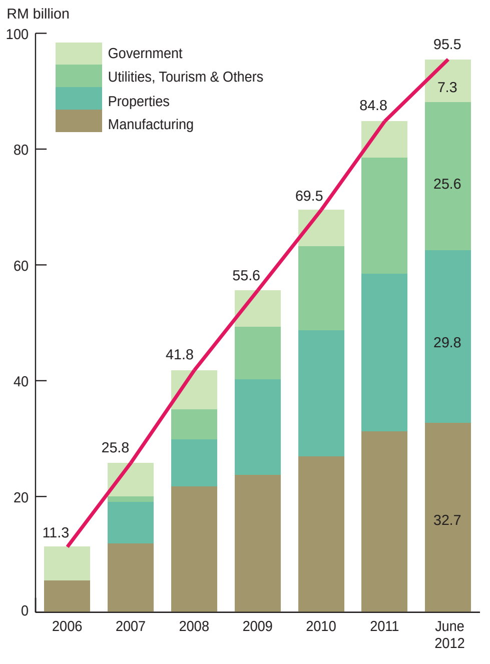
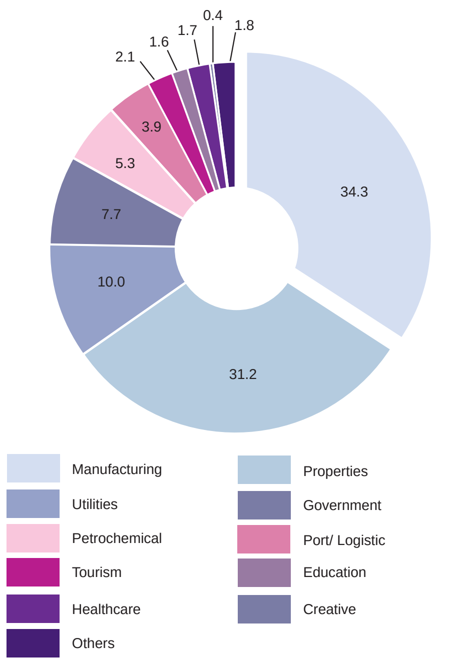


CHART 2

Composition of Investments by Sector (%)



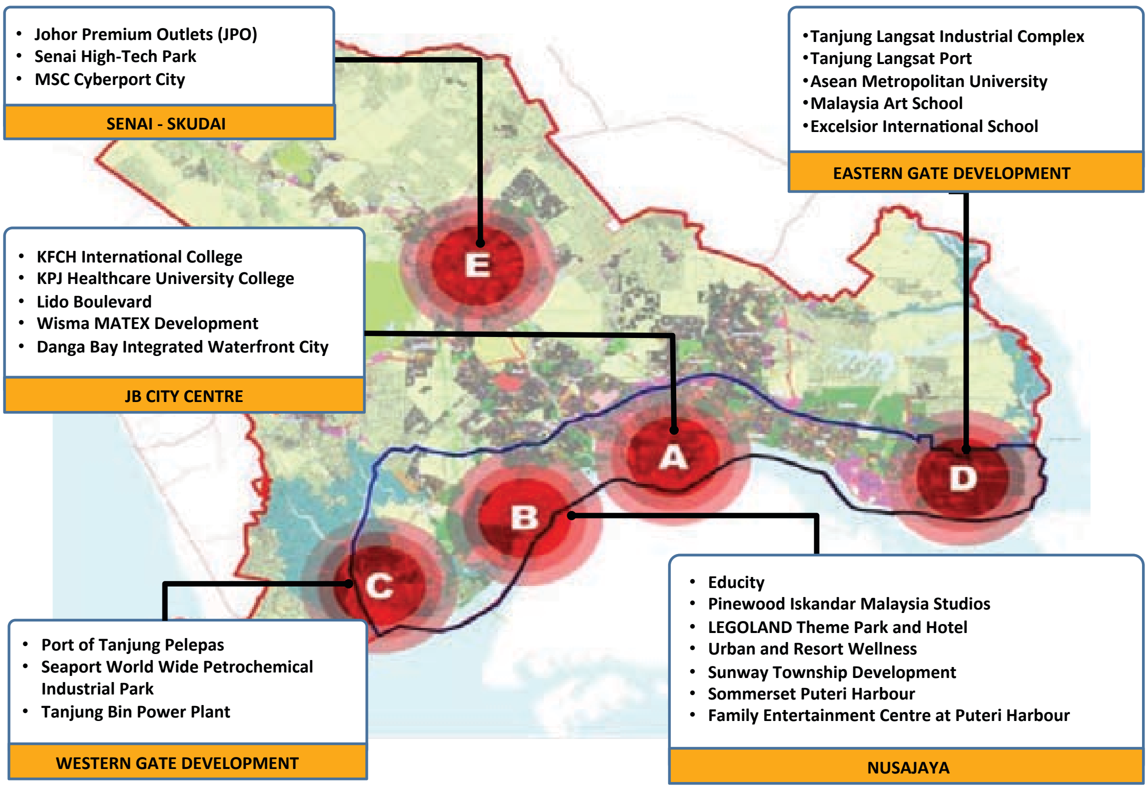
Investment

Iskandar Malaysia has attracted RM95.5 billion worth of committed investments since its inception up to June 2012. A total of RM41.4 billion or 43% of the committed investments have been realised, with a number of major projects under various stages of implementation. Domestic investors accounted for 62% of the committed investments worth RM59 billion, while the remaining were from foreign direct investments (FDI). The largest committed investments are in the manufacturing sector (34.3%) followed by the property sector (31.2%).

Since its inception, several key projects have been progressing at various phases of development, which include:

- **Johor Premium Outlets (JPO)** in Senai – Skudai was officially opened on 11 December 2011 with over 80 designers and branded stores.
- **LEGOLAND Malaysia Theme Park,** which was opened on 15 September 2012, targets mainly families with younger children. It is the first LEGOLAND in Asia with seven unique themed areas.
- **Pinewood Iskandar Malaysia Studios,** which is expected to be operational by end-2013, aims to spur the development of Iskandar Malaysia as a regional and international film production hub.
- **Educity** is positioned to be a fully integrated knowledge-based hub comprising renowned universities and international schools. These include Newcastle Medical University, Netherlands Maritime Institute of Technology, Raffles University Iskandar, University of Southampton, University of Reading as well as international schools such as Raffles American School and Marlborough College Malaysia.

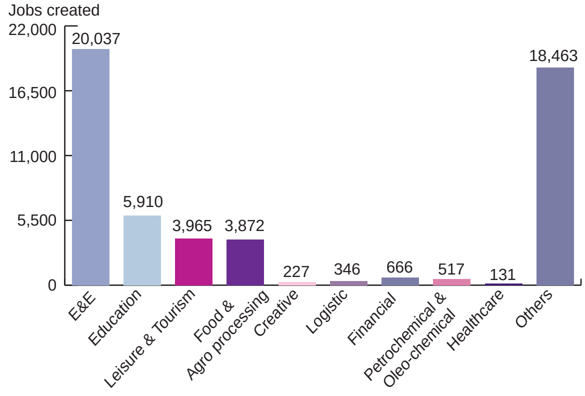
Major Projects in Iskandar Malaysia



Employment

The rising investments in Iskandar Malaysia have generated higher economic activity and hence, demand for workers. As at end-June 2012, about 54,000 jobs have been created in the targeted economic sectors. The E&E subsector recorded the highest number of jobs created (20,037) followed by education (5,910), leisure and tourism (3,965), and food and agro (3,872) subsectors. With key catalytic projects such as Pinewood Iskandar Malaysia Studios, MSC Cyberport City as well as Urban and Resort Wellness expected to be operational over the next five years, the number of jobs created are expected to double.

CHART 3
Jobs Created by Economic Sector as at end-June 2012



Social Development

The scale and pace of development in Iskandar Malaysia will have a significant impact on the general population in the area. In this regard, development efforts have been designed to ensure the local population reaps significant benefits from Iskandar Malaysia's growth. A systematic broad-based social development frame is in place covering human capital, economic inclusion, social inclusion, housing and spatial development as well as safety and security issues to ensure benefits accrue to the local population.

- **Human Capital Development**

  Objective: To ensure a ready and sustainable supply of talent for Iskandar Malaysia's growing employment demand.

  Key initiatives:
  - Career, Entrepreneurship and Skills Carnival - one of the largest outreach programmes combining opportunities in employment, business and skills enhancement;
  - Motivational and Mindset Change Programme;
  - Contractor Development Programme; and
  - Young Graduate Core Training Programme.

- **Economic Inclusion**

  Objective: To ensure socio-economic mobility of the locals towards a high-income nation through economic activities.

  Key initiatives:
  - Smart Biz Kid Programme;
  - Small and Medium Enterprise (SME) Networking Programme;
  - Bookkeeping Consultancy Services;
  - Internet Marketing Entrepreneur Development; and
  - Franchise Business Programme.

- **Social Inclusion**

  Objective: To reduce inequalities as well as promote unity and integration across socio-economic classes and ethnic background.

  Key initiatives:
  - *1Azam – Azam Niaga* (business opportunities), *Azam Tani* (agriculture businesses), *Azam Khidmat* (services sector) and *Azam Kerja* (job matching opportunities);
  - Ecotourism projects for identified villages to elevate their income level;
  - Programmes for Orang Asli including youth skills development and health awareness; and
  - Racial Integration Programmes, leveraging common interest such as sports, food and arts.

- **Housing and Spatial Development**

  Objective: To create liveable communities.

  Key initiatives:
  - PRISMA – Public Housing in Iskandar Malaysia;
  - Sungai Tebrau Squatter Relocation; and
  - Bus services.

- **Safety and Security**

  Objective: To ensure safety and security of the people residing in Iskandar Malaysia.

  Key initiatives:
  - Installing closed-circuit television (CCTV) cameras;
  - Completed 16 new community police posts; and
  - Establishing an auxiliary police force (42 auxiliary personnel have been deployed in critical locations).

The Government's Role

As of June 2012, the Government has allocated a total of RM7.3 billion mostly for key infrastructure projects in Iskandar Malaysia. These include road infrastructure, drainage and river-cleaning projects. Among the completed infrastructure projects are the Coastal Highway from Johor Bahru to Nusajaya, new interchanges and bridges as well as upgrading of roads to improve traffic flow and dispersal in and around Johor Bahru. In addition, 11 drainage and six river cleaning projects have been completed.

Besides investments in physical infrastructure, efforts have also been made to significantly enhance the "soft" enablers that are critical to the development of Iskandar Malaysia, such as safety and security and social development. The Government also provides a range of fiscal and non-fiscal incentives to attract quality investments and high-skilled workers in specific sectors in Iskandar Malaysia, including tax exemptions to qualified companies. Government investment in infrastructure is expected to attract more private investment which, in turn, will further spur growth. Hence, a strong public-private partnership is crucial in ensuring the continued success of the development in Iskandar Malaysia.

Conclusion

The year 2012 is pivotal for Iskandar Malaysia with completion of several catalytic projects, demonstrating tangible evidence of the Government's commitment in making Iskandar Malaysia a success. The success of these projects will continue to spur economic growth and attract more private investments to the region. This will provide positive and significant potentials for Iskandar Malaysia to achieve the targeted cumulative investments of RM383 billion by 2025.

Source: Iskandar Regional Development Authority (IRDA).

TABLE 3.14

Economic Transformation Programme (ETP) Updates

Announcement	Initiatives	RM billion		Job Creation
		Total Investments	GNI Increase	
Update 1 (25 Oct 2010)	9	4.08	5.72	15,293
Update 2 (30 Nov 2010)	9	7.91	8.50	42,815
Update 3 (11 Jan 2011)	19	57.25	33.86	55,065
Update 4 (8 Mar 2011)	23	22.10	40.94	58,626
Update 5 (19 Apr 2011)	12	12.54	7.34	81,567
Update 6 (13 Jun 2011)	15	68.67	20.28	32,609
Update 7 (8 Sept 2011)	10	1.66	5.26	10,860
Update 8 (10 Nov 2011)	13	4.96	7.55	16,906
Update 9 (28 May 2012)	21	20.46	4.59	39,918
Update 10 (13 Sept 2012)	7	5.61	2.36	18,522
Total	**138**	**205.23**	**136.41**	**372,181**

Note: Total may not add up due to rounding.

Source: Performance Management and Delivery Unit (PEMANDU).

RM136.4 billion in GNI and 372,181 jobs by 2020. Of the total committed investment, 85% have commenced or are operational. Among the projects are those in the O&G industry which include marginal and deep-water oil field projects and catalytic projects within the Greater Kuala Lumpur/Klang Valley such as the MRT and River of Life.

The Government's efforts in improving the public sector delivery system and reducing the cost of doing business have enhanced foreign investors' perception of Malaysia as an attractive investment destination. This was also supported by the World Bank's Report on Ease of Doing Business 2012, which ranked Malaysia at 18th position out of 183 economies (2011: 23rd position).

In addition, compared to 2011, Malaysia's global competitiveness ranking improved two notches from the 16th to 14th position, ahead of China, Japan and the Republic of Korea (ROK) as reported in the 2012 World Competitiveness Yearbook by the Institute for Management Development (IMD). In the Foreign Direct Investment Confidence Index released by the global management consulting firm A T Kearney, Malaysia also improved its ranking from 21st to 10th position. Improvements in these international rankings will further enhance investors' confidence and provide the impetus for private investment to grow.

Public investment is projected to rebound significantly by 15.9% (2011: -0.3%) spurred by implementation of the second rolling plan (RP2) projects under the 10MP and higher capital spending by the NFPEs. The Government's development expenditure is channelled largely towards implementation of initiatives under the seven NKRAs, 12 NKEAs and new projects under the 10MP. In addition, RM20 billion has been allocated under the PPP Facilitation Fund as a tipping point for strategic and HIPs. Meanwhile, capital spending by the NFPEs is expected to grow strongly on account of significant expenditure in the O&G industry, infrastructure, telecommunications and utilities.

PETRONAS' upstream and downstream projects which include the Sabah-Sarawak Gas Pipeline (SSGP), Gumusut-Kakap deep-water development, Sabah, and LNG Regasification Terminal, Melaka will enhance production of O&G and increase gas storage capacity. Malaysia Airports Holdings Berhad's (MAHB) capital expenditure is largely for the construction of klia2, which will be the largest purpose-built low cost terminal in the world. UEM Group Berhad's (UEM) projects comprise mainly mixed development projects in Nusajaya and construction of the Second Penang Bridge. TM is continuing its expansion of the HSBB project to meet the increasing demand for broadband services. Meanwhile, Tenaga Nasional Berhad's (TNB) capital spending is on upgrading power generation and transmission systems as well as improving the distribution of power supply.

Private consumption is expected to sustain its growth momentum at 7% (2011: 7.1%) and continues to support domestic demand. The growth is attributed to firm household disposable income, supported by improvement in labour market conditions, strong stock market performance and relatively firm commodity prices. The listing of Felda Global Ventures Holdings (FGVH) on Bursa Malaysia has benefited a total of 112,635 settlers involving RM1.7 billion with each family receiving a reward of RM15,000. Furthermore, in appreciation of the settlers' contribution towards FELDA's development, the Government also announced an ex-gratia payment totalling RM43.2 million. These measures are expected to boost income and purchasing power of rural households.

The Government's initiatives to alleviate the burden of the lower and middle-income groups in addressing cost of living under the 2012 Budget have also enhanced private consumption spending. These initiatives include BR1M which provides RM500 financial assistance to households earning less than RM3,000 a month, RM100 schooling assistance to all primary and secondary students and the provision of BB1M worth RM200 to all Malaysian students in form six and tertiary education institutions. Furthermore, the Government has introduced various quality yet affordable 1Malaysia products and services. These include *Kedai Ikan Rakyat 1Malaysia* (KIR1M), *Kedai Kain Rakyat 1Malaysia* (KKR1M), *Kedai Rakyat 1Malaysia* (KR1M) and *Menu Rakyat 1Malaysia* (MR1M).

The positive trend in private consumption was supported by major consumption indicators such as services tax collection and imports of consumption goods which registered a strong growth of 20.8% and 15.2% during the first seven months of 2012 (January – July 2011: 19.4%; 12.8%), respectively. This encouraging performance was also reflected by MIER's Consumer Sentiments Index (CSI), which increased to 114.9 points during the second quarter of 2012 (Q1 2012: 114.3 points) on account of positive employment prospects and easing inflationary pressures.

Public consumption is expected to grow at a strong pace of 11.3% (2011: 16.1%) following higher expenditure on emoluments as well as supplies and services. Expenditure on emoluments, the largest component of public consumption, is expected to increase due to salary revision under the improved Malaysian Remuneration Scheme (SSM) and the half-month bonus with a minimum payment of RM500 to 1.27 million civil servants. The supplies and services component is also expected to increase in line with the Government's efforts to enhance its public service delivery. These include expenditure on professional and technical services as well as repairs and maintenance, which have positive impact on various sectors of the economy.

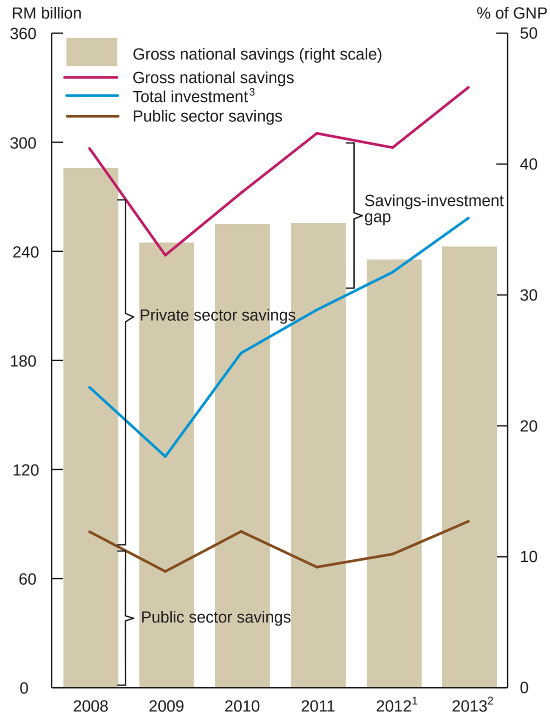
National Resource Position

Narrower savings-investment gap

Gross National Savings (GNS) is estimated to remain steady at RM297.1 billion. The bulk of GNS is estimated to be contributed by the private sector, accounting for 75.3% of total

CHART 3.11

Savings-Investment Gap



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

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

TABLE 3.15

Savings-Investment Gap
2009 – 2013
(in current prices)

	RM million				
	2009	**2010**	**2011**	**2012[1]**	**2013[2]**
Public sector					
Savings	63,905	85,898	66,324	73,458	91,464
Gross Capital Formation	75,633	81,050	83,213	99,965	106,077
Surplus/Deficit	**-11,728**	**4,848**	**-16,889**	**-26,507**	**-14,613**
Private sector					
Savings	173,965	186,216	238,583	223,616	238,694
Gross Capital Formation[3]	51,510	102,984	124,587	128,577	152,220
Surplus/Deficit	**122,455**	**83,232**	**113,996**	**95,039**	**86,475**
Overall					
Gross national savings	237,870	272,114	304,907	297,074	330,158
(as % of GNI)	*34.0*	*35.4*	*35.5*	*32.7*	*33.7*
Gross capital formation[3]	127,143	184,034	207,800	228,542	258,297
(as % of GNI)	*18.2*	*23.9*	*24.2*	*25.2*	*26.4*
Surplus/Deficit	**110,726**	**88,079**	**97,108**	**68,532**	**71,862**
(as % of GNI)	*15.8*	*11.5*	*11.3*	*7.5*	*7.3*

[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.

savings (2011: 78.2%). Total investment (including change in stocks) is expected to increase 10% to RM228.5 billion or 25.2% of GNI. With the pace of investment increasing at a faster rate than savings, the **savings-investment gap** is expected to register a lower surplus of RM68.5 billion or 7.5% of GNI in 2012 (2011: RM97.1 billion; 11.3%). This resource surplus will enable Malaysia to continue to finance its economic development primarily from domestic sources.

External Sector

Trade Performance

External position remains favourable

Growth in Malaysia's total trade is envisaged to expand 4.4% to RM1.32 trillion in 2012 (2011: 8.7%; RM1.27 trillion) amid the more challenging external environment. Gross exports are expected to grow 2.7% to RM713 billion (2011: 8.7%; RM694.5 billion) attributed to moderating manufacturing and lower commodity exports. Gross imports are estimated to expand faster than exports at 6.5% to RM611.5 billion (2011: 8.6%; RM574.2 billion) on account of strong domestic activity. Nevertheless, the external position is expected to remain favourable with the trade surplus registering RM101.5 billion, equivalent to 10.8% of GDP (2011: RM120.3 billion; 13.7%).

Export Performance

Slower exports growth

In 2012, given the uncertainties in the external environment, gross exports are expected to expand at a moderate pace of 2.7% (2011: 8.7%). This is on account of the continued slowdown in global demand for manufactured products, particularly

Table 3.16

External Trade 2011 – 2012

	RM million		Change (%)	
	2011	2012[1]	2011	2012[1]
Total trade	**1,268,780**	**1,324,451**	***8.7***	***4.4***
Gross exports	**694,548**	**712,954**	***8.7***	***2.7***
of which:				
Manufactures	504,182	524,240	*3.3*	*4.0*
Agriculture	91,358	82,466	*32.9*	*-9.7*
Mining	88,049	91,039	*20.3*	*3.4*
Gross imports	**574,232**	**611,496**	***8.6***	***6.5***
of which:				
Capital goods	80,945	99,674	*9.7*	*23.1*
Intermediate goods	385,269	391,357	*5.4*	*1.6*
Consumption goods	41,027	45,495	*19.0*	*10.9*
Trade balance	**120,316**	**101,458**	***9.4***	***-15.7***

[1] Estimate.

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

E&E products and expected softening of commodity prices during the second half of 2012. Export earnings from manufactured goods are expected to grow moderately by 4% to RM524.2 billion (2011: 3.3%; RM504.2 billion) and remain a significant contributor to export earnings. The growth is supported by the non-E&E products, particularly resource-based products such as chemicals and chemical products, rubber and petroleum. Meanwhile, exports of E&E products are expected to moderate as shipments of semiconductors and electronic equipment to the advanced and regional economies are slowing down.

The overall export performance will also be affected by lower agriculture exports, which are projected to contract 9.7% to RM82.5 billion (2011: 32.9%; RM91.4 billion) due to lower prices and reduced shipments of palm oil and crude rubber. Meanwhile, mining exports are estimated to moderate 3.4% to RM91 billion (2011: 20.3%; RM88 billion) on account of slowing demand and easing crude oil prices. During the first seven months of 2012, gross exports expanded at a slower pace of 3.3% to RM409.3 billion (January – July 2011: 6.9%; RM396.3 billion) supported by regional demand for resource-based manufacturing exports and higher prices as well as strong demand for LNG, particularly from Japan and the ROK.

Exports of Manufactured Goods

Growth led by non-E&E products

Manufactured exports continued to expand 4.1% to RM301.8 billion during the first seven months of 2012 (January – July 2011: 2.3%; RM289.8 billion) following strong external demand for non-E&E (particularly major resource-based products) which contributed 55.7% to total manufactured exports. Demand for manufactured goods was mainly from the Asian region such as China, Japan, Singapore and Thailand.

Exports of **E&E** products declined, albeit at a slower pace of 2.2% to RM133.8 billion (January – July 2011: -6.5%; RM136.7 billion) on account of improved demand for electronic equipment and parts, particularly from major importers such as China, Japan, Singapore, Thailand and the US. Electronic equipment and parts turned around to record a growth of 2.3% (January – July 2011: -25.7%) driven mainly by higher receipts from automatic data processing machines, printed circuits and transformers. In contrast, shipments of semiconductors decreased 7% (January – July 2011: 9.8%) in line with slower worldwide sales of semiconductors. The contraction was due to the supply chain disruptions as a result of floods in Thailand in 2011 and lower demand for consumer electronic products amid weakening global economy.

TABLE 3.17

Gross Exports
January — July

	RM billion		Change (%)		Share (%)	
	2011	2012	2011	2012	2010	2011
Manufactures	289.8	301.8	*2.3*	*4.1*	*73.1*	*73.7*
Primary agriculture	48.7	41.3	*37.5*	*-15.3*	*12.3*	*10.1*
Mining	46.5	52.8	*7.6*	*13.6*	*11.7*	*12.9*
Others	11.3	13.4	*27.0*	*18.6*	*2.9*	*3.3*
Gross exports	**396.3**	**409.3**	***6.9***	***3.3***	***100.0***	***100.0***

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

Non-E & E exports increased 9.8% to RM168 billion (January – July 2011: 11.6%; RM153.1 billion). Resource-based products such as rubber, petroleum and non-metallic minerals exhibited a robust performance, while other product segments such as machinery and equipment also registered a strong growth.

Receipts from **rubber products** surged 18.7% (January – July 2011: 7.8%) following higher sales backed by a stronger US dollar coupled with lower prices of raw materials. Growth was largely supported by higher demand for materials of rubber (42.5%) and rubber gloves (9.2%). Demand was largely from China, Germany, Japan, Thailand and the US.

Petroleum product exports expanded 36.2% (January – July 2011: 35.5%) largely supported by refined petroleum products (43.5%), residual petroleum products (68.5%) as well as petroleum gas and gaseous hydrocarbons (8.5%). The strong performance was partly attributed to sustained high global oil prices.

Exports of **chemicals, chemical and plastic products** increased 3.5% (January – July 2011: 10.1%) mainly supported by organic chemicals (2.1%). Exports of dyeing, tanning and colouring materials (21.9%) and inorganic chemicals (11.9%) also supported growth of the segment.

Receipts from **iron, steel and metal products** increased at a moderate pace of 2.9% (January – July 2011: 13.9%) largely driven by steady exports of iron and steel at 10.4% (January – July 2011: 11.4%). The moderate growth was attributed to slower construction activities in major markets, particularly China. Meanwhile, **non-metallic mineral products** expanded 5.2% (January – July 2011: 16.8%) on account of higher demand from major export destinations such as Indonesia, Japan, the ROK and Singapore.

Shipments of **wood products** rebounded 3% (January – July 2011: -3.9%) mainly supported by higher exports of wooden furniture and sustained external demand for plywood. Exports of wooden furniture turned around sharply by 15% (January – July 2011: -9.4%) following stronger sales in China, Japan, the United Kingdom (UK) and the US. Export volume of plywood increased 1.3% to 1,983 million cubic meters supported by sustained demand from Japan for ongoing post-tsunami reconstruction activities as well as stronger orders from the ROK, United Arab Emirates (UAE) and the US. Export receipts of plywood contracted 4.1% affected by lower average export prices amid high inventory levels. However, with the recent increase in plywood prices from a low of RM1,285 per cubic meter in May 2012 to RM1,553 per cubic meter in July, coupled with the improving housing starts in

TABLE 3.18

Exports of Manufactured Goods
January – July

	RM million		Change (%)		Share (%)	
	2011	2012	2011	2012	2011	2012
E&E	**136,714**	**133,756**	***-6.5***	***-2.2***	***47.2***	***44.3***
Semiconductors	63,190	58,747	*9.8*	*-7.0*	*21.8*	*19.5*
Electronic equipment and parts	43,523	44,520	*-25.7*	*2.3*	*15.0*	*14.8*
Machinery and electrical products	30,001	30,489	*-0.3*	*1.6*	*10.4*	*10.1*
Non-E&E	**153,060**	**167,996**	***11.6***	***9.8***	***52.8***	***55.7***
Chemicals, chemical and plastic products	29,855	30,885	*10.1*	*3.5*	*10.3*	*10.2*
Petroleum products	22,798	31,061	*35.5*	*36.2*	*7.9*	*10.3*
Iron, steel and metal products	17,603	18,114	*13.9*	*2.9*	*6.1*	*6.0*
Machinery and equipment	13,520	15,218	*5.8*	*12.6*	*4.7*	*5.0*
Wood products	7,718	7,952	*-3.9*	*3.0*	*2.7*	*2.6*
Textiles, apparel and footwear	6,367	5,538	*16.9*	*-13.0*	*2.2*	*1.8*
Food, beverages and tobacco	12,082	12,332	*19.3*	*2.1*	*4.2*	*4.1*
Rubber products	9,957	11,815	*7.8*	*18.7*	*3.4*	*3.9*
Transport equipment	5,390	5,388	*-14.4*	*0.0*	*1.9*	*1.8*
Non-metallic mineral products	3,281	3,450	*16.8*	*5.2*	*1.1*	*1.1*
Other manufactured goods	24,488	26,242	*6.3*	*7.2*	*8.5*	*8.7*
Total	**289,773**	**301,751**	***2.3***	***4.1***	***100.0***	***100.0***

Source: Department of Statistics, Malaysia.

Japan, export receipts of plywood are expected to increase during the second half of the year.

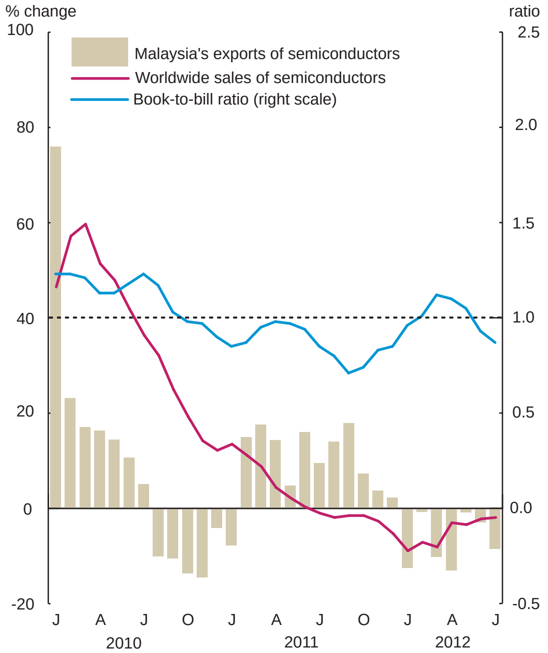
Exports of **food, beverages and tobacco** increased at a moderate pace of 2.1% (January – July 2011: 19.3%) affected by lower exports of food products. In particular, exports of cocoa products and food supplements declined 20.6% and 8.5%, respectively. Nevertheless, growth was supported by higher demand from regional economies for beverages and tobacco, which expanded further by 21.2% (January – July 2011: 8.1%). Of significance, non-alcoholic beverages and tobacco manufactures grew strongly by 26.8% and 50.4%, respectively.

Textiles, apparel and footwear contracted sharply by 13% (January – July 2011: 16.9%) with all items recording a negative growth due to sluggish orders from major importers especially the US. However, the ability of local industry players in developing and establishing their brand names in the regional as well as the Middle Eastern markets are expected to boost the performance of the subsector.

Meanwhile, exports of **transport equipment** improved to record a marginal decline of 0.03% (January – July 2011: -14.4%) cushioned by a sharp turnaround of road vehicle exports at 20.5% (January – July 2011: -10.2%). The strong performance of road vehicles was attributed to effective marketing strategies and higher market penetration to regional economies. Moving forward, the launching of car models with global appeal as well as rising income levels, especially in regional economies are expected to drive exports of the subsector.

CHART 3.12

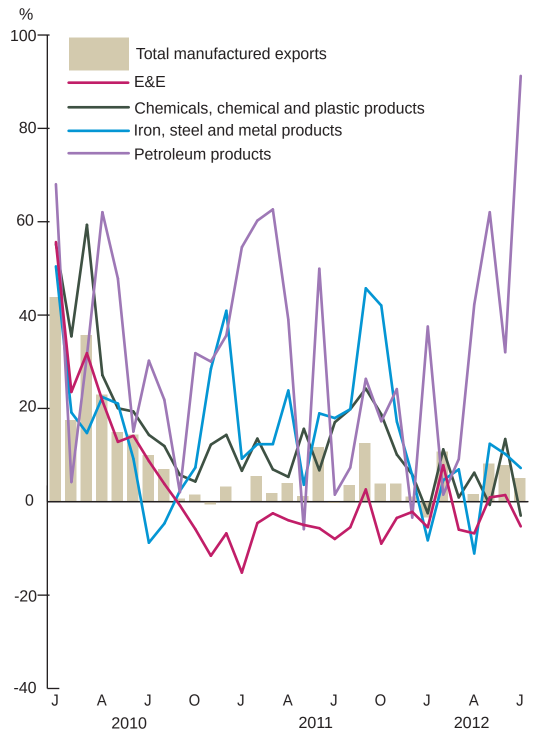
Malaysia's Exports of Semiconductors, Worldwide Sales of Semiconductors and Book-to-Bill Ratio



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

CHART 3.13

Performance of Selected Manufactured Exports
(% annual change)



Source: Department of Statistics, Malaysia.

Exports of **machinery and equipment** registered a double-digit growth of 12.6% (January – July 2011: 5.8%) mainly driven by general industrial machinery and equipment as well as specialised machinery for specific industries, particularly food production, which rose 13.9% and 20.2% (January – July 2011: 8.4%; 3.5%), respectively.

Exports of Primary Commodities

Lower prices of agricultural commodities

Export earnings from **primary commodities** declined 1.2% to RM94.1 billion during the first seven months of 2012 (January – July 2011: 21.1%; RM95.2 billion) following lower export earnings of palm oil and rubber. Export earnings of agriculture commodities contracted 15.3% to RM41.3 billion (January – July 2011: 37.5%; RM48.7 billion) attributed to moderating demand and weaker prices. Meanwhile, export earnings of mining grew 13.6% to RM52.8 billion (January – July 2011: 7.6%; RM46.5 billion) largely on account of higher export earnings of LNG. However, due to the combined effects of the global economic slowdown and weakening prices, export earnings from the overall primary commodities are projected to contract 4.4% to RM162.7 billion in 2012 (2011: 25.9%; RM170.1 billion).

Export volume of **palm oil** contracted 1.7% to 9.7 million tonnes (January – July 2011: -0.4%; 9.9 million tonnes) due to lower demand, particularly from China. In addition, export receipts declined 8.6% to RM31.5 billion (January – July 2011: 35%; RM34.4 billion) due to lower export prices which

TABLE 3.19

Primary Commodity Exports January — July

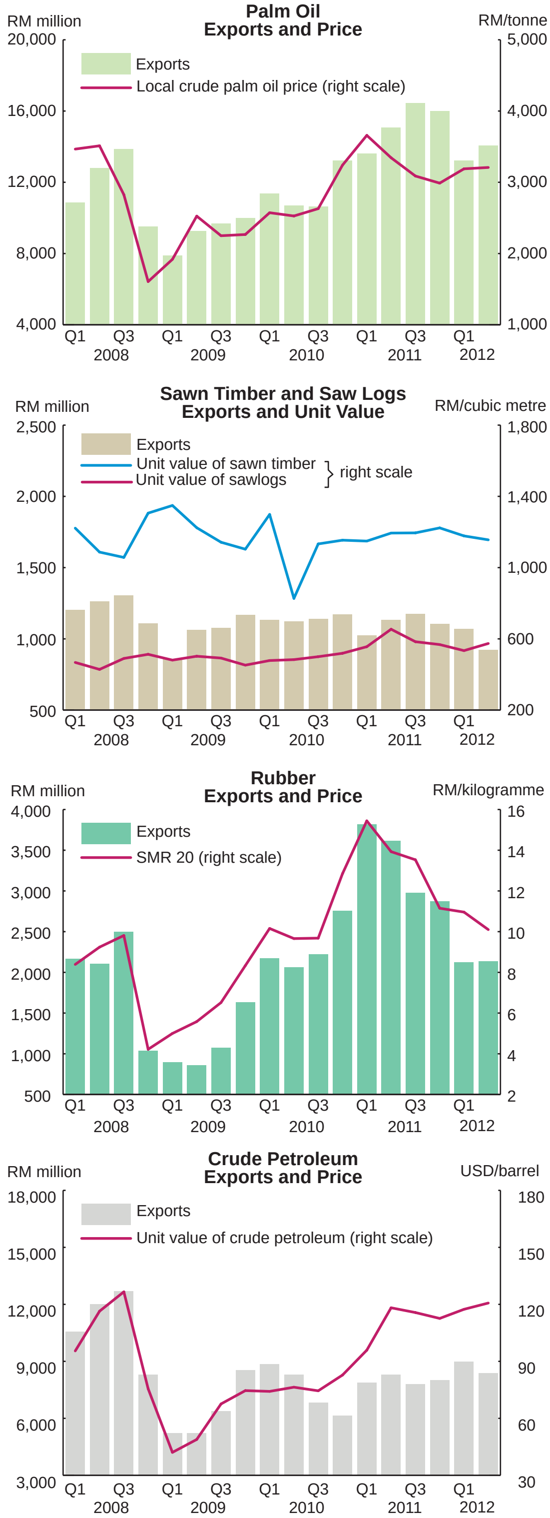
	2011	2012	Change (%) 2011	Change (%) 2012
Commodity exports (RM million)	**95,238**	**94,096**	***21.1***	***-1.2***
Agriculture exports (RM million)	**48,720**	**41,271**	***37.5***	***-15.3***
Palm oil[1]				
Volume ('000 tonnes)	9,900	9,730	*-0.4*	*-1.7*
Unit Value (RM/tonne)	3,475	3,233	*35.5*	*-7.0*
Value (RM million)	34,406	31,458	*35.0*	*-8.6*
Palm kernel oil				
Volume ('000 tonnes)	542	511	*-3.0*	*-5.7*
Unit Value (RM/tonne)	5,955	4,290	*76.4*	*-28.0*
Value (RM million)	3,226	2,192	*71.2*	*-32.1*
Saw logs				
Volume ('000 cubic metres)	1,871	1,697	*-29.6*	*-9.3*
Unit Value (RM/cubic metres)	607	555	*25.6*	*-8.7*
Value (RM million)	1,136	941	*-11.6*	*-17.2*
Sawn timber				
Volume ('000 cubic metres)	1,209	1,197	*-25.0*	*-1.0*
Unit Value (RM/cubic metres)	1,179	1,174	*-41.3*	*-0.4*
Value (RM million)	1,425	1,405	*-5.3*	*-1.4*
Rubber				
Volume ('000 tonnes)	565	442	*11.7*	*-21.8*
Unit Value (RM/kilogramme)	14.55	11.08	*48.4*	*-23.9*
Value (RM million)	8,224	4,896	*65.7*	*-40.5*
Pepper				
Volume ('000 tonnes)	7	6	*-0.3*	*-25.2*
Unit Value (RM/tonne)	18,010	23,728	*31.5*	*31.7*
Value (RM million)	133	131	*31.2*	*-1.5*
Cocoa				
Volume ('000 tonnes)	16	31	*-6.1*	*93.2*
Unit Value (RM/tonne)	10,733	8,128	*-8.6*	*-24.3*
Value (RM million)	170	248	*-14.2*	*46.3*
Mining exports (RM million)	**46,518**	**52,825**	***7.6***	***13.6***
Crude petroleum				
Volume ('000 tonnes)	7,595	6,944	*-26.0*	*-8.6*
Unit Value (RM/tonne)	2,479	2,765	*31.6*	*11.6*
Value (RM million)	18,825	19,203	*-2.6*	*2.0*
Liquefied natural gas				
Volume ('000 tonnes)	14,625	13,107	*10.4*	*-10.4*
Unit Value (RM/tonne)	1,785	2,440	*4.1*	*36.7*
Value (RM million)	26,109	31,985	*14.9*	*22.5*
Tin				
Volume ('000 tonnes)	19	25	*-8.4*	*30.6*
Unit Value (RM/tonne)	84,540	66,254	*49.8*	*-21.6*
Value (RM million)	1,584	1,637	*35.9*	*3.4*

[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 3.14

Primary Commodity Exports



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

averaged RM3,233 per tonne (January – July 2011: RM3,475 per tonne). For 2012, exports of palm oil are expected to decline 9.7% to RM55.2 billion (2011: 34.9%; RM61.1 billion) on account of the weakening global economic outlook.

Due to weaker demand and lower prices, export receipts of **rubber** contracted sharply by 40.5% to RM4.9 billion (January – July 2011: 65.7%; RM8.2 billion). Likewise, shipments of rubber declined 21.8% to 0.4 million tonnes (January – July 2011: 11.7%; 0.6 million tonnes) reflecting lower global demand, particularly from China, which accounted for 36% of rubber exports. The average prices of rubber declined 23.9% which affected the overall receipts. However, it is envisaged that the sharp decline in rubber prices is expected to taper off following the move by the International Tripartite Rubber Council to rebalance global supply of natural rubber.

Despite lower export volume (-8.6%), exports of **crude petroleum** grew 2% to RM19.2 billion (January – July 2011: -2.6%; RM18.3 billion) attributed to higher export prices at 11.6% which averaged RM2,765 per tonne (January – July 2011: 31.6%; RM2,479 per tonne) Export receipts from crude oil will be affected by global economic uncertainties and geopolitical tensions, which impact negatively on both demand and prices. For the year, export receipts of crude petroleum are expected to contract 3.3% to RM30.9 billion (2011: 4%; RM32 billion).

LNG, which contributed 7.8% of total exports, expanded 22.5% to RM32 billion (January – July 2011: 14.9%: RM26.1 billion) attributed to higher prices despite lower volume. Export prices averaged RM2,440 per tonne (January – July 2011: RM1,785 per tonne) while export volume declined 10.4% to 13.1 million tonnes (January – July 2011: 10.4%; 14.6 million tonnes) partly due to supply constraints. For the year, exports are envisaged to grow 10.5% to RM55.2 billion (2011: 29%: RM50 billion) following sustained export prices.

Import Performance

Strong expansion in imports

Gross imports are estimated to grow 6.5% to RM611.5 billion in 2012 (2011: 8.6%; RM574.2 billion) following strong private consumption spending and strengthening private investment. Imports of capital goods are expected to increase 23.1% (2011: 9.7%) as imports of transport equipment and machineries grow in tandem with capacity expansion, particularly in the O&G and transport services sectors. Amid slower overall manufacturing activity, growth in imports of intermediate goods is expected to moderate to 1.6% (2011: 5.4%) as manufacturers reduce their production in line with the slower export orders. In tandem with higher consumer spending, imports of consumption goods are expected to increase 10.9% (2011: 19%).

During the first seven months of 2012, gross imports surged 8.2% to RM354.6 billion (January – July 2011: 8.7%; RM327.7 billion) driven by strong imports of capital and consumption goods. Imports of **capital goods** grew significantly by 25.7% (January – July 2011: 9.4%) mainly for the O&G, manufacturing and services sectors. Increased exploration and development of marginal oil fields amid firm crude oil prices resulted in higher imports of mining equipment and machinery. Higher imports of capital goods in the services sector were led by capacity expansion of the transport and telecommunication industries. In tandem with resilient consumer spending, imports of **consumption goods** surged 15.2% (January – July 2011: 12.8%), reflecting the increasing demand for imported food and transport equipment. Meanwhile, imports of durables, semi-durables and non-durables increased 21.3%, 20.3% and 13.1%, respectively. Imports of **intermediate goods**, the largest component of imports, contracted 0.9% (January – July 2011: 7%) partly due to moderating manufacturing activities.

TABLE 3.20

Gross Imports by End Use
January – July

	RM million		Change (%)		Share (%)	
	2011	2012	2011	2012	2011	2012
Capital goods	**43,539**	**54,734**	***9.4***	***25.7***	***13.3***	***15.4***
Capital goods (except transport equipment)	38,233	45,284	*9.3*	*18.4*	*11.7*	*12.8*
Transport equipment (industrial)	5,306	9,451	*10.3*	*78.1*	*1.6*	*2.7*
Intermediate goods	**224,250**	**222,167**	***7.0***	***-0.9***	***68.4***	***62.6***
Food and beverages, primary and processed, mainly for industry	12,674	12,529	*34.2*	*-1.2*	*3.9*	*3.5*
Fuel and lubricants, primary processed, others	30,048	33,081	*40.4*	*10.1*	*9.2*	*9.3*
Industrial supplies, n.e.s.[1] primary and processed	90,735	92,569	*18.1*	*2.0*	*27.7*	*26.1*
Parts and accessories of transport equipment	7,369	9,376	*-0.4*	*27.2*	*2.2*	*2.6*
Parts and accessories of capital goods (except thermionic valves and tubes)	29,341	21,738	*-16.4*	*-25.9*	*9.0*	*6.1*
Thermionic valves and tubes	54,083	52,874	*-8.9*	*-2.2*	*16.5*	*14.9*
Consumption goods	**22,525**	**25,939**	***12.8***	***15.2***	***6.9***	***7.3***
Food and beverages, primary and processed, mainly for household consumption	9,810	10,968	*13.0*	*11.8*	*3.0*	*3.1*
Transport equipment (non-industrial)	417	570	*23.1*	*36.7*	*0.1*	*0.2*
Other consumer goods	12,298	14,401	*12.3*	*17.1*	*3.8*	*4.1*
Durables	2,735	3,318	*11.9*	*21.3*	*0.8*	*0.9*
Semi-durables	3,696	4,446	*15.0*	*20.3*	*1.1*	*1.3*
Non-durables	5,867	6,637	*10.9*	*13.1*	*1.8*	*1.9*
Others (including dual-use goods)	**12,872**	**15,012**	***13.5***	***16.6***	***3.9***	***4.2***
Imports for re-exports	**24,561**	**36,774**	***17.6***	***49.7***	***7.5***	***10.4***
Total	**327,747**	**354,626**	***8.7***	***8.2***	***100.0***	***100.0***

[1] Not elsewhere stated.

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

Direction of Trade

Stronger regional trade ties

Malaysia's total trade expanded 5.5% to RM764 billion during the first seven months of 2012 on account of greater market diversification (January – July 2011: 7.7%; RM724.1 billion). With imports outpacing exports, Malaysia's trade surplus narrowed to RM54.7 billion (January – July 2011: RM68.6 billion). Given the tepid growth in the advanced economies and the deepening euro area crisis, trade with major trading partners such as Japan, EU and the US accounted for a lower share of Malaysia's total trade at 29.4% (January – July 2011: 30.7%). Trade with emerging markets, particularly Northeast Asia (excluding Japan), India and Southeast Asia remained high at 54.6% (January – July 2011: 53.8%). China remains to be Malaysia's largest trading partner accounting for 13.6% of Malaysia's total trade, followed by Singapore (13.4%), Japan (11.3%) and the US (8.4%).

Despite the slowdown in **China's** economic growth, it remains Malaysia's largest trading partner with trade rising 12.5% to RM103.9 billion during the first seven months of 2012 (January – July 2011: 8.2%; RM92.3 billion). Exports increased 0.9% on account of higher receipts of chemicals and chemical products, compounded rubber and E&E products, particularly hybrid integrated circuits and data storage units (January – July 2011: 8.8%). Meanwhile, imports grew significantly by 26.7%, contributed by E&E products, parts and accessories for machines, data processing machines and television broadcast receivers (January – July 2011: 7.4%). Consequently, the trade balance with China registered a deficit of RM1.3 billion (January – July 2011: RM9.3 billion).

Trade with **Singapore** expanded 10% to RM102.6 billion (January – July 2011: 12%; RM93.2 billion) and recorded a surplus of RM7.8 billion (January – July 2011: RM7.7 billion). Exports increased 9.4% on account of higher shipments of refined petroleum products following growing demand and consumption by Singapore's O&G industry, while imports grew 10.7% (January – July 2011: 3.7%: 23.7%).

Malaysia's trade with **Japan** also grew 6% to RM86.4 billion (January – July 2011: 8.4%; RM81.6 billion) with exports expanding 11.9% and imports declining 1% (January – July 2011: 18%; -1.2%). Exports to Japan were underpinned by strong growth in LNG and refined petroleum products attributed to higher demand from the energy sector and petrochemical industry, particularly after the shutdown of several nuclear plants.

During the first seven months of 2012, exports to **the US** expanded 6.3%, while imports contracted 11.9% (January – July 2011: -8.7%; 0.9%) with total trade declining 2.7% to RM63.9 billion (January – July 2011: -4.2%; RM65.7 billion). The increase in exports was contributed by higher shipments of E&E products mainly photosensitive semiconductor devices and electric control panels as well as transport equipment, particularly aircraft parts. However, imports from the US declined due to lower demand for intermediate input related to E&E products, reflecting slower manufacturing activities going forward.

Malaysia's trade within **ASEAN (excluding Singapore)** remained robust at RM106.8 billion, increasing 8.6% during the first seven months of 2012 (January – July 2011: RM98.4 billion; 5.9%). The trade balance turned around to record a surplus of RM2.3 billion (January – July 2011: -RM1.6 billion) as exports grew 12.8%, outpacing imports at 4.6% (January – July 2011: 5%; 6.8%). Among the trading partners, trade with Vietnam registered a higher growth of 27.8%, with exports and imports increasing 5.3% and 54.7%, respectively. The higher imports were for telecommunication equipment and parts as well as crude rubber. Trade with Thailand increased 6% as exports and imports expanded 5.8% and 6.2%, respectively reflecting higher demand for parts and accessories for machines and data processing machines. Exports to Indonesia grew significantly by 35.1% mainly due to higher shipments of refined petroleum products as well as chemicals and chemical products. However, imports from Indonesia declined 9.1% on account of lower imports of palm oil. Nevertheless, trade with Indonesia increased 6.8% to RM35.4 billion during the period.

TABLE 3.21

Direction of External Trade
January – July

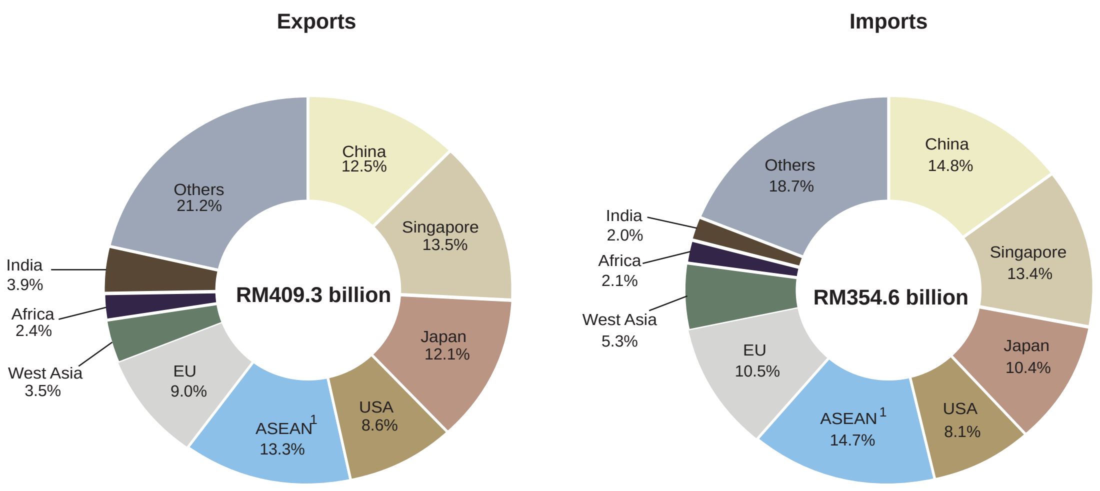
	RM million						Change (%)				Share (%)			
	Exports		Imports		Trade balance		Exports		Imports		Exports		Imports	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
China	50,838	51,272	41,508	52,590	9,330	-1,317	8.8	0.9	7.4	26.7	12.8	12.5	12.7	14.8
Singapore	50,453	55,191	42,769	47,363	7,684	7,828	3.7	9.4	23.7	10.7	12.7	13.5	13.0	13.4
Japan	44,141	49,405	37,422	37,036	6,719	12,369	18.0	11.9	-1.2	-1.0	11.1	12.1	11.4	10.4
United States	33,075	35,166	32,619	28,742	456	6,424	-8.7	6.3	0.9	-11.9	8.3	8.6	10.0	8.1
North East Asia (not including China & Japan)	46,552	44,127	36,716	36,786	9,835	7,340	2.8	-5.2	-2.1	-108.1	11.7	10.8	11.2	10.4
Hong Kong SAR	18,273	17,389	7,399	8,421	10,874	8,968	-3.3	-4.8	-0.9	13.8	4.6	4.2	2.3	2.4
Republic of Korea	15,411	14,500	13,679	14,141	1,732	359	4.8	-5.9	-16.5	3.4	3.9	3.5	4.2	4.0
Taiwan	12,761	12,141	15,611	14,209	-2,850	-2,068	10.1	-4.9	14.4	-9.0	3.2	3.0	4.8	4.0
ASEAN (not including Singapore)	48,375	54,561	49,990	52,273	-1,614	2,288	5.0	12.8	6.8	4.6	12.2	13.3	15.3	14.7
Thailand	21,201	22,427	19,884	21,125	1,317	1,303	0.9	5.8	4.1	6.2	5.3	5.5	6.1	6.0
Indonesia	11,930	16,116	21,175	19,251	-9,245	-3,135	8.7	35.1	25.5	-9.1	3.0	3.9	6.5	5.4
Philippines	6,466	6,222	2,840	2,831	3,627	3,391	14.6	-3.8	-51.9	-0.3	1.6	1.5	0.9	0.8
European Union	41,338	36,717	33,136	37,236	8,202	-519	3.8	-11.2	7.6	12.4	10.4	9.0	10.1	10.5
Germany	11,139	9,647	12,472	14,132	-1,333	-4,485	16.9	-13.4	4.3	13.3	2.8	2.4	3.8	4.0
Netherlands	10,871	10,398	2,026	2,752	8,845	7,646	-12.8	-4.3	7.9	35.9	2.7	2.5	0.6	0.8
United Kingdom	4,140	4,067	3,391	3,856	750	211	-3.1	-1.8	-4.7	13.7	1.0	1.0	1.0	1.1
South Asia	25,250	24,084	6,743	7,886	18,507	16,198	32.0	-4.6	34.4	16.9	6.4	5.9	2.1	2.2
India	16,165	15,968	5,845	7,102	10,321	8,866	37.8	-1.2	31.2	21.5	4.1	3.9	1.8	2.0
Pakistan	4,347	3,700	454	492	3,893	3,207	11.0	-14.9	21.5	8.5	1.1	0.9	0.1	0.1
West Asia	14,771	14,314	15,523	18,855	-752	-4,541	13.9	-3.1	63.7	21.5	3.7	3.5	4.7	5.3
United Arab Emirates	7,501	7,596	4,770	7,364	2,732	232	5.6	1.3	16.7	54.4	1.9	1.9	1.5	2.1
Saudi Arabia	2,441	2,357	5,445	4,555	-3,004	-2,198	41.9	-3.4	95.0	-16.4	0.6	0.6	1.7	1.3
Iran	1,868	1,679	868	1,027	1,000	653	29.6	-10.1	41.4	18.2	0.5	0.4	0.3	0.3
Australia	14,281	17,156	7,057	8,319	7,224	8,836	-1.6	20.1	31.0	17.9	3.6	4.2	2.2	2.3
New Zealand	1,661	1,975	1,529	1,533	131	443	-6.6	19.0	23.8	0.2	0.4	0.5	0.5	0.4
Africa	10,387	9,884	6,142	7,326	4,245	2,559	16.4	-4.8	5.6	19.3	2.6	2.4	1.9	2.1
Rest of the World	15,225	15,477	16,592	18,682	-1,366	-3,205	12.9	1.7	3.5	12.6	3.8	3.8	5.1	5.3
Total	396,348	409,329	327,747	354,626	68,600	54,703	6.9	3.3	8.7	8.2	100.0	100.0	100.0	100.0

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

CHART 3.15

Direction of External Trade January – July 2012
(% share)



[1] Not including Singapore.
Source: Department of Statistics, Malaysia.

Following the deepening euro area crisis, total trade with **the EU** contracted 0.7% to RM74 billion (January – July 2011: 5.5%; RM74.5 billion). Exports to the EU, which constituted 9% of total exports, declined 11.2%, reflecting lower demand for E&E products, particularly photosensitive semiconductors and electronic integrated circuits (January – July 2011: 3.8%). However, imports from the EU increased 12.4% driven by higher imports of transport equipment, machinery, appliances and parts as well as chemicals and chemical products (January – July 2011: 7.6%). Meanwhile, exports to Portugal, Italy, Ireland, Greece and Spain (PIIGS), which constituted 0.9% of Malaysia's total exports, declined 16.1% (January – July 2011: 1.1%; 8.9%).

Balance of Payments

Current account remains favourable

Malaysia's **overall BOP** continued to record a lower surplus of RM5.5 billion during the first half of 2012 (January – June 2011: +RM77.6 billion), with the current account surplus surpassing the net outflow in the financial account. The current account surplus narrowed to RM27.7 billion or 6.3% of GNI (January – June 2011: RM47.3 billion; 11.4%), of which the surplus in the goods account was more than sufficient to offset the deficit in the services, income and current transfers accounts. During the period, the financial account recorded a lower net outflow of RM4.8 billion in line with moderate inflows of FDI and portfolio investment.

Given the rising imports and moderating exports, the current account surplus is projected to narrow, but remains sizeable at RM68.5 billion or 7.5% of GNI in 2012 (2011: RM97.1 billion; 11.3%). The surplus in the goods account is expected to remain large, while the services, income and current transfers accounts are expected to remain in deficit. Malaysia is expected to continue to attract inflows of FDI in 2012, reflecting investors' confidence in the strong fundamentals of the domestic economy and the Government's economic transformation initiatives. Meanwhile, Malaysian companies will continue to invest abroad, albeit at a slower pace, due to greater external uncertainties.

The surplus in the **goods account** rose at a slower pace to RM65.3 billion during the first half of 2012 (January – June 2011: RM73.5 billion) in line with the moderating trade activities. Import growth outpaced the expansion in exports, consistent with increasing domestic demand for imports of capital and consumption goods. Imports increased 8% to RM286.4 billion (January – June 2011: 9.7%; RM265.2 billion) while exports grew 3.8% to RM351.6 billion (January – June 2011: 7.2%; RM338.8 billion). Despite the envisaged weaker performance in commodity prices and continued slowdown in manufactured exports in the second half of the year, the surplus in the goods account is expected to remain large at RM128.8 billion in 2012 (2011: RM148.1 billion). Thus, exports of goods are projected to record a modest growth of 2.4% while imports of goods are expected to expand at a faster pace of 6.5% (2011: 8.8%; 8.6%), reflecting strong domestic economic activities.

During the first six months of 2012, the deficit in the **services account** widened to RM7.4 billion (January – June 2011: -RM3.2 billion) due to

TABLE 3.22

Current Account
January – June
(RM million)

	2011			2012		
	Receipts	**Payments**	**Net**	**Receipts**	**Payments**	**Net**
Balance on goods and services	**391,003**	**320,635**	**70,367**	**408,446**	**350,543**	**57,903**
Goods	**338,753**	**265,229**	**73,524**	**351,643**	**286,388**	**65,256**
Services	**52,250**	**55,406**	**-3,157**	**56,803**	**64,155**	**-7,353**
Transportation	7,639	19,812	-12,174	6,618	20,673	-14,055
Travel	27,649	15,229	12,420	29,143	17,943	11,201
Other services	16,822	19,965	-3,143	20,936	25,233	-4,297
Government transactions n.i.e.[1]	140	400	-260	105	307	-202
Income	**23,392**	**36,087**	**-12,695**	**18,613**	**38,909**	**-20,296**
Compensation of employees	1,806	2,851	-1,045	1,997	3,401	-1,404
Investment income	21,586	33,236	-11,650	16,616	35,507	-18,892
Current transfers	**2,001**	**12,372**	**-10,372**	**3,820**	**13,758**	**-9,937**
Balance on current account	**416,396**	**369,094**	**47,301**	**430,879**	**403,210**	**27,671**
% of GNI			*11.4*			*6.3*

[1] Not included elsewhere.

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

an increase in net payments for transportation and other services. Gross payments in the transportation account increased at a slower pace to RM20.7 billion (January – June 2011: RM19.8 billion) following the moderate growth in trade activities. Likewise, transportation account receipts also declined to RM6.6 billion (January – June 2011: RM7.6 billion) due to lower earnings from passenger, cargo and charter services by domestic shipping and airline companies. Subsequently, the transportation account registered a deficit of RM14.1 billion (January – June 2011: -RM12.2 billion). The other services account recorded a larger deficit of RM4.3 billion (January – June 2011: -RM3.1 billion) following higher net payments for royalties and licence fees, insurance and construction services. The higher gross payment for construction services was in tandem with the acceleration of construction activity and exploration in O&G.

Net inflow in the travel account expanded moderately to RM11.2 billion on account of higher gross outflows to RM17.9 billion (January – June 2011: RM12.4 billion; RM15.2 billion). The larger travel outflows were attributed to higher expenditure for business, holiday and education. Despite global economic uncertainties, tourism receipts remained the major contributor to total earnings in the services account and expanded to RM29.1 billion (January – June 2011: RM27.6 billion), in line with increased tourist arrivals at 2.4% (January – June 2011: -4.3%).

In 2012, the deficit in the services account is expected to increase to RM9.9 billion (2011: -RM8 billion) on account of larger net payments for transportation and other services. Net payment for transportation is expected to expand to RM27.7 billion (2011: -RM25.8 billion) following continued reliance on foreign freight services for transportation of goods. In addition, the deficit in the other services account is expected to be higher at RM9 billion (2011: -RM8.7 billion) as domestic companies continue to import foreign professional, business and technical services. However, net inflow in the travel account is projected to increase to RM27.3 billion (2011: RM27 billion) following the Government's initiatives to promote Malaysia as a preferred tourist destination.

During the first half of 2012, the **income account** registered a larger net outflow of RM20.3 billion (January – June 2011: -RM12.7 billion), reflecting a higher deficit in the investment income and compensation of employees. Gross outflows of investment income increased to RM35.5 billion (January – June 2011: RM33.2 billion) due to higher repatriation of profits and dividends by foreign MNCs operating in Malaysia, particularly in the manufacturing, services and O&G sectors. Investment income from Malaysian companies investing abroad declined to RM16.6 billion (January – June 2011: RM21.6 billion) due to lower profits and dividends from the mining and services sectors, particularly finance and insurance subsectors. For 2012, the income account is projected to record a higher deficit of RM28.1 billion (2011: -RM22 billion) on account of higher repatriation of profits and dividends by foreign companies operating in Malaysia. Nevertheless, a substantial portion of the investment income is expected to be retained in Malaysia for reinvestment.

During the first six months of 2012, the **current transfers account** recorded a lower net outflow of RM9.9 billion (January – June 2011: -RM10.4 billion). Gross outflows increased to RM13.8 billion largely on account of higher remittances by foreign workers in various sectors, while gross receipts expanded to RM3.8 billion (January – June 2011: RM12.4 billion; RM2 billion). Taking into account the higher requirement of foreign workers as well as to support the robust construction and investment activities, the current transfers account is expected to record a larger net outflow of RM22.3 billion in 2012 (2011: -RM21 billion).

Meanwhile, the **financial account** reversed to record a net outflow of RM4.8 billion

(January – June 2011: +RM45 billion) largely on account of lower inflows of FDI and portfolio investment. During the first half of 2012, net inflow of FDI amounted to RM13.6 billion (January – June 2011: RM21 billion) supported by continued inflows of equity capital and earnings retained for reinvestments by foreign MNCs operating in Malaysia. The O&G sector accounted for the largest share of net FDI inflow, accounting for 37.2%, followed by the services (36.8%) and manufacturing (23.7%) sectors. FDI in the O&G sector increased 30.8% mainly from exploration and production activities, while investments in the services sector were focused on the finance and insurance subsectors. In the manufacturing sector, the bulk of the inflows were channelled to the E&E and petrochemical industries. The major contributors of net FDI inflow were from Singapore, Japan and Hong Kong.

TABLE 3.23

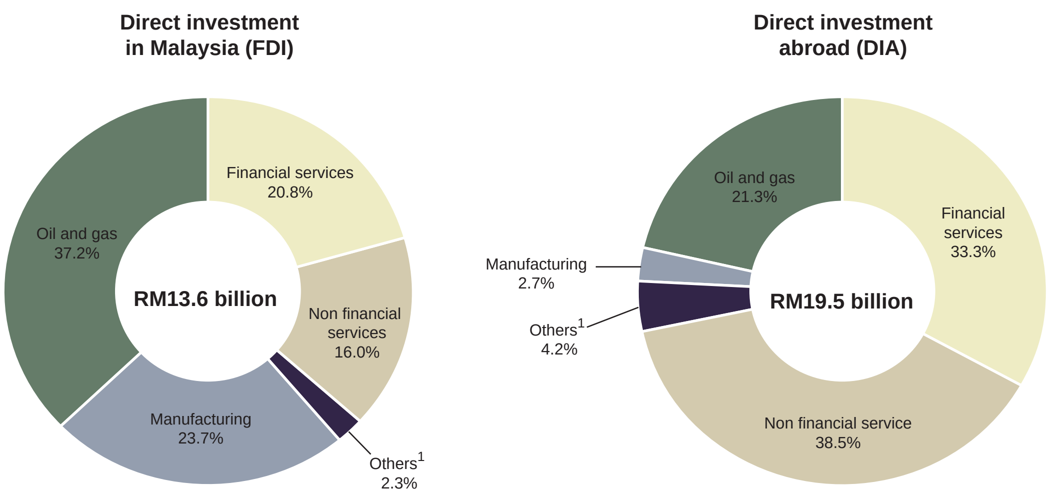
Financial Account (net)
January – June
(RM million)

	2011	2012
Financial account	**44,964**	**-4,836**
Direct investment	**2,045**	**-5,904**
Abroad (DIA)	-18,963	-19,453
In Malaysia (FDI)	21,008	13,550
Portfolio investment	**56,465**	**20,341**
Financial derivatives	**560**	**953**
Other investment	**-14,106**	**-20,227**
Public sector	-735	-739
Private sector	-13,371	-19,489

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

CHART 3.16

FDI and DIA by Sector (net)
January – June 2012
(% share)



[1] Refers to agriculture and construction sectors.
Source: Department of Statistics, Malaysia.

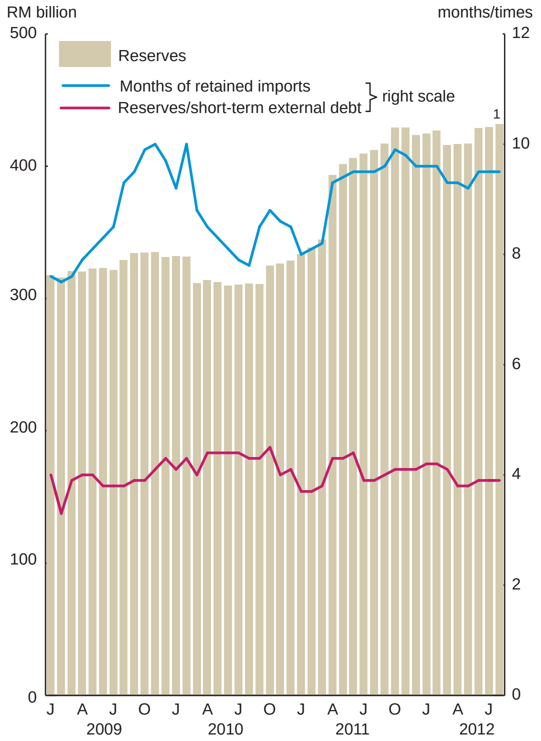
The net outflow of direct investment abroad (DIA) by Malaysian companies was sustained at RM19.5 billion (January – June 2011: -RM19 billion) due to large net outflow of equity capital and higher net extension of intercompany loans to subsidiaries abroad, particularly in the first quarter of 2012. Investments abroad focused on the services sector which accounted for 71.8% of the total, particularly in the finance and insurance, and wholesale and retail trade subsectors.

Portfolio investment continued to record net inflow of RM20.3 billion during the first six months of 2012 (January – June 2011: +RM56.5 billion) on account of rising inflows of capital into equity and debt securities, particularly in the first quarter of 2012. However, investors turned risk adverse as global economic activity moderated due to the protracted euro area debt crisis. Consequently, portfolio investment recorded a net outflow of RM5 billion in the second quarter (Q1 2012: +RM25.3 billion) following the liquidation of debt securities by foreign investors. Meanwhile, other investment registered a higher net outflow of RM20.2 billion with the private sector registering a higher net outflow of RM19.5 billion (January – June 2011: -RM14.1 billion; -RM13.4 billion). This was due to higher extension of trade credit by Malaysian exporters and placement of assets abroad by the banking sector. After adjusting for errors and omissions, net international reserves increased by RM5.5 billion to RM428.8 billion (USD134.2 billion) as at 29 June 2012.

For 2012, the gross inflows of FDI are envisaged to moderate, reflecting increasing uncertainties in the global environment. The manufacturing sector is expected to continue to attract foreign investments, driven by ETP projects and rising confidence over Malaysia's economic growth potential. The Government's initiative to further liberalise 17 services subsectors is expected to attract inflows of FDI to the services sector.

CHART 3.17

International Reserves



[1] As at 30 August 2012.
Source: Bank Negara Malaysia.

Likewise, FDI in the resource-based industries, particularly O&G, high value-added industries as well as new growth areas such as solar and light emitting diode (LED) industries, are expected to increase. Meanwhile, the DIA is expected to record a net outflow, albeit at a moderating pace, as investment activities abroad will be affected by the global slowdown and increasing uncertainties.

As at 30 August 2012, Malaysia's international reserves remained strong at RM431.1 billion or USD134.9 billion (2011: RM423.3 billion; USD133.6 billion). The level is adequate to finance 9.5 months of retained imports and is 3.9 times the short-term external debt. The strong reserves position further enhances Malaysia's resilience to external funding pressures.

Prices

Easing inflationary pressures

The headline inflation rate, as measured by the annual change in the **Consumer Price Index (CPI)**, registered a modest growth of 1.9% in the first seven months of 2012 (January – July 2011: 3.1%). The increase was largely due to the more moderate prices registered in the food and non-alcoholic beverages; housing, water, electricity, gas and other fuels; miscellaneous goods and services; and transport groups. These four groups accounted for 1.6 percentage points of the CPI growth.

For the period under review, prices in the food and non-alcoholic beverages group increased 3% (January – July 2011: 4.6%). This was due to the lower price increases in most subgroups as well as the decline in the prices of vegetables and meat by 3.3% and 0.9%, respectively. In contrast, the fish and seafood subgroup registered a higher increase of 7.8% due to tight supply arising from unfavourable weather conditions. However, price pressures on several essential consumer food items were contained by price controls imposed during festive seasons and improved supplies through contract farming programmes. In addition, the overall price increase in the food at home category also moderated to 2.5% (January – July 2011: 4.9%).

TABLE 3.24

Consumer Price Index (CPI)
January – July
(2010 = 100)[1]

	Weights	Change (%) 2011	Contribution to CPI growth (%) 2011	Change (%) 2012	Contribution to CPI growth (%) 2012
Food and non-alcoholic beverages	30.3	*4.6*	*44.8*	*3.0*	*50.5*
Alcoholic beverages and tobacco	2.2	*6.3*	*4.4*	*0.0*	*0.1*
Clothing and footwear	3.4	*-0.4*	*-0.5*	*-0.4*	*-0.7*
Housing, water, electricity, gas and other fuels	22.6	*1.6*	*12.5*	*1.7*	*19.4*
Furnishings, household equipment and routine household maintenance	4.1	*1.5*	*1.9*	*2.1*	*4.4*
Health	1.3	*2.5*	*1.1*	*2.2*	*1.4*
Transport	14.9	*5.0*	*24.1*	*0.9*	*6.3*
Communication	5.7	*-0.1*	*-0.3*	*-0.7*	*-1.9*
Recreation services and culture	4.6	*1.1*	*1.6*	*2.0*	*4.6*
Education	1.4	*2.1*	*1.0*	*2.6*	*2.0*
Restaurants and hotels	3.2	*5.6*	*5.9*	*3.4*	*5.9*
Miscellaneous goods and services	6.3	*1.8*	*3.5*	*2.6*	*8.0*
Total	**100.0**	***3.1***	***100.0***	***1.9***	***100.0***

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

Source: Department of Statistics, Malaysia.

Meanwhile, prices in the housing, water, electricity, gas and other fuels group, the second largest component in the CPI basket, increased 1.7% (January – July 2011: 1.6%). The increase was driven by higher prices in other service charges relating to dwellings (3.6%), service charges for maintenance and repair of dwellings (3.4%) as well as materials for maintenance and repair of dwellings (2.4%). However, prices in the miscellaneous goods and services group registered a higher increase of 2.6% (January – July 2011: 1.8%). The main contributor to the higher prices was the jewellery rings and precious stones subgroup (14.3%), which increased in tandem with the higher gold prices.

The lower inflation rate during the first seven months of 2012 was also contributed by a slight increase of prices in the transport group at 0.9% (January – July 2011: 5%). The increase came mainly from higher prices in the spare parts and accessories for personal transport equipment (4.3%) as well as repair and maintenance for personal transport (2.9%) subgroups. In contrast, prices in the clothing and footwear as well as communication groups continued to decline by 0.4% and 0.7% (January – July 2011: -0.4%; -0.1%), respectively as a result of strong competition.

In terms of income groups, the CPI for those with earnings less than RM3,000, less than RM1,500 and less than RM1,000, recorded the same rate of increase of 1.9% (January – July 2011: 3.3%; 3.4%; 3.4%). The main contributor to the CPI was from the food and non-alcoholic beverages group, as a larger proportion of the income of these groups was spent on food. However, the lower CPI was partly attributed to measures taken by the Government to reduce the burden of high cost of living faced by these groups, which included the establishment of KR1M and KIR1M outlets as well as MR1M, which supply affordable essential consumer products and food. The CPI for urban and rural areas also improved with a lower increase of 1.9% and 1.8% (January – July 2011: 3.1%; 3.1%), respectively.

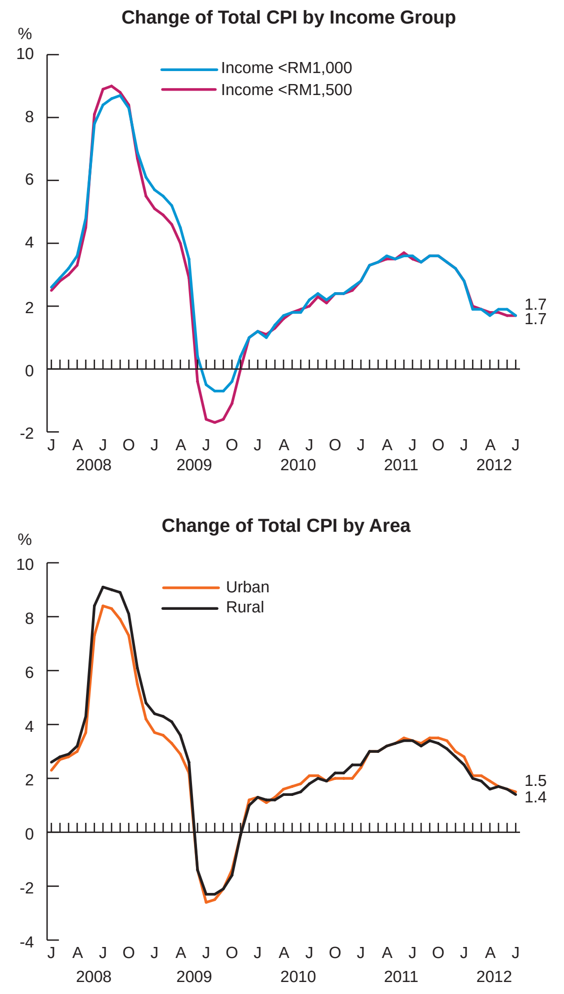
In August 2012, the CPI increased at the same rate of 1.4% year-on-year as in the previous month. On a monthly basis, inflation increased marginally by 0.2% (July 2012: 0%). This was mainly attributed to price increases in the food and non-alcoholic beverages as well as housing, water, electricity, gas and other fuels groups. However, inflation for January to August 2012 moderated further to 1.8% (January – August 2011: 3.1%).

The **Producer Price Index (PPI)**, a measure of change in the prices of commodities charged by

CHART 3.18

CPI in Malaysia

(% annual change)

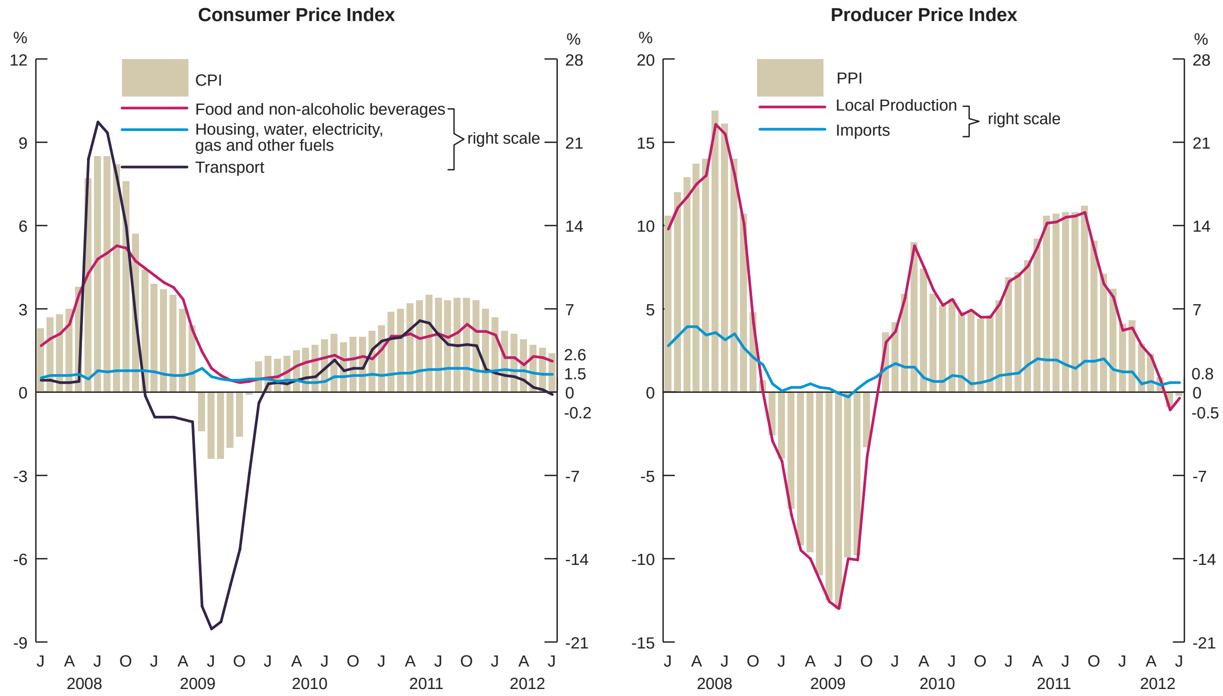


Source: Department of Statistics, Malaysia.

CHART 3.19

CPI and PPI Trends

(% annual change)



Source: Department of Statistics, Malaysia.

domestic producers and those paid by importers, rose at a slower rate during the first seven months of 2012. The PPI increased 1.9% compared to 9.1% during the corresponding period last year. This was on account of the lower price increases in the local production and import components. The main contributor to the overall increase in the PPI was the mineral fuels, lubricants and others group, which increased 13.1%.

The PPI for local production, which constitutes 66.4% in terms of weightage in the aggregate PPI, increased moderately by 2.3% (January – July 2011: 12.1%). This was mainly attributed to the 14.2% price increase in the mineral fuels, lubricants and others group. However, this was partly offset by the downturn in prices of four groups, namely the animal and vegetable oils and fats; crude materials, inedible; manufactured goods; and chemicals. The PPI for local production also moved up in all stages of processing. Leading the increase was the intermediate materials, supplies and components, which contributed 1.3 percentage points, followed by crude materials for further processing, with 0.8 percentage point.

The PPI for imports, which comprises the remaining 33.6% of total PPI, increased marginally by 1% (January – July 2011: 2.4%) and contributed 0.3 percentage point to the overall PPI growth. This was mainly due to price increase in the mineral fuels, lubricants and others group by 6.1%, contributing 0.6 percentage point to the increase in the PPI for imports. At the same time, the lower prices in the animal and vegetable oils and fats as well as manufactured goods groups also contributed to the decrease in the import index. Price increases were also recorded in all stages of processing.

TABLE 3.25

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

	Weights	Change (%) 2011	Contribution to PPI growth (%) 2011	Change (%) 2012	Contribution to PPI growth (%) 2012
Domestic economy	**100.0**	***9.1***	***100.0***	***1.9***	***100.0***
Food	5.4	*8.0*	*5.2*	*1.4*	*4.5*
Beverages and tobacco	0.9	*2.6*	*0.2*	*1.2*	*0.5*
Crude materials, inedible	5.4	*32.0*	*24.5*	*-5.8*	*-26.1*
Mineral fuels, lubricants, etc.	17.4	*17.7*	*37.7*	*13.1*	*144.8*
Animal and vegetable oils and fats	4.2	*37.6*	*22.2*	*-10.1*	*-36.2*
Chemicals	7.0	*9.0*	*6.5*	*0.1*	*0.3*
Manufactured goods	10.9	*3.9*	*4.5*	*-0.7*	*-3.6*
Machinery and transport equipment	42.9	*-0.7*	*-2.8*	*0.7*	*12.5*
Miscellaneous manufactured articles	5.4	*2.1*	*1.1*	*1.1*	*2.7*
Miscellaneous transactions and commodities	0.5	*2.2*	*0.1*	*4.2*	*1.0*
Local production	**66.4**	***12.1***	***91.7***	***2.3***	***84.8***
Imports	**33.6**	***2.4***	***8.3***	***1.0***	***15.2***

[1] Effective from 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.

Labour Market

Labour market remains stable

The labour market remains stable in 2012 supported by robust domestic activities. A total of 249,471 jobs are expected to be generated by all sectors in the economy. Concurrently, the **labour force** is estimated to increase 2.2% to 12.9 million persons in 2012 (2011: 2.3%; 12.6 million). With sufficient new jobs in the market, the **unemployment rate** will remain low at 3.2% in 2012 (2011: 3.1%).

Total **vacancies** registered with JobsMalaysia stood at 888,842 positions in the first seven months of 2012 (January – July 2011: 1,224,670). The manufacturing sector reported the highest number of vacancies (38.9%), followed by the services (23%), agriculture (21.9%) and construction (16.1%) sectors.

TABLE 3.26

Labour Market Indicators

	('000) 2011	('000) 2012[1]	Change (%) 2011	Change (%) 2012[1]
Labour force	12,645.7	12,923.9	*2.3*	*2.2*
Employment	12,255.5	12,505.0	*2.5*	*2.0*
Unemployment	390.2	418.9	*3.1*[2]	*3.2*[2]

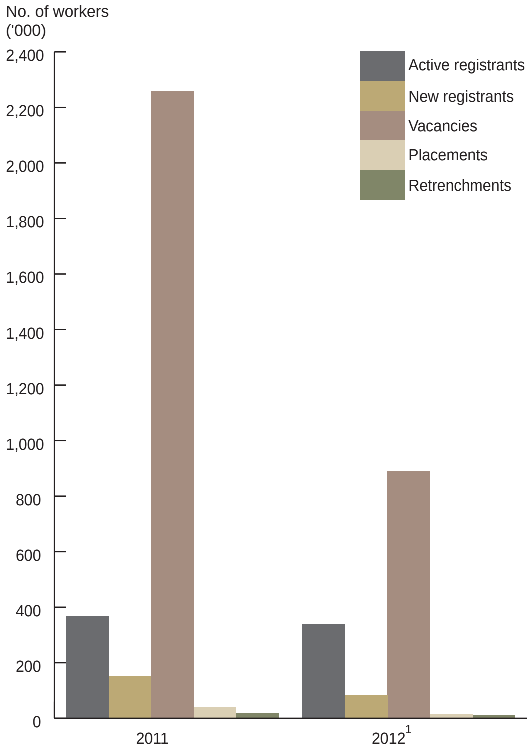
[1] Estimate.
[2] Percentage of labour force.

Source: Economic Planning Unit, Malaysia.

In terms of occupational groups, a total of 75,615 vacancies were reported for highly skilled jobs, while low-skilled jobs recorded 548,328 positions

CHART 3.20

Job Market Indicators



[1] January – July.

Source: Ministry of Human Resources, Malaysia.

(January – July 2011: 263,200; 615,639). The number of **retrenched workers** remained low at 5,323 workers (January – July 2011: 4,206), of which 93.1% were locals and the remaining 6.9% foreigners. About 57.7% of retrenchments were in the manufacturing sector, mainly in establishments engaged in the manufacture of computer, electronic and optical products. The retrenchments in the manufacturing sector were mainly due to the lower demand from the external sector. This was followed by the services (28.2%) and construction (11.9%) sectors.

The working age population is expected to increase 1.7% to 20 million persons in 2012 (2011: 1.9%; 19.7 million) with 64.9% of the working age population below the 40 age group (2011: 65.2%). In tandem with the increase in the labour force, the overall **labour force participation rate** is expected to remain relatively high at 64.1% in 2012 (2011: 63.5%). The male and female participation rates are expected to increase further to 80% and 48.4% in 2012 (2011: 79.8%; 47.9%), respectively.

Despite an increase in the labour force, the number of **active job seekers** registered with JobsMalaysia declined to 338,083 persons as at end-July 2012 (end-July 2011: 346,760). Of this, about 62.6% were in the 20 – 24 age group while another 18.6% were in the 25 – 29 age group. The majority of registered job seekers were degree and diploma holders accounting for 28.8% and 24.6%, respectively while 27.7% were Sijil Pelajaran Malaysia (SPM) school leavers.

With ample job creation in the economy, the number of employed persons is expected to increase to 12.5 million persons in 2012 (2011: 12.3 million). The services sector will remain the largest employer accounting for 53.5% of **total employment**, with the wholesale and retail trade, hotels and restaurants subsectors contributing 36.3%. The manufacturing sector is expected to account for 28.9% of total employment, followed by the agriculture (11.1%) and construction (6.2%) sectors.

Productivity growth plays an important role in helping to achieve robust economic growth and higher standards of living. Malaysia's productivity growth has been generally lower after the global financial crisis compared to the year before the crisis. However, productivity growth has picked up in the last two years. Generally, there is a correlation between productivity and wages. **Wage growth** has, however, been slow and lagged productivity growth in the manufacturing sector. Labour productivity in the manufacturing sector grew by an average of 2.91% between 2002 and 2011, while real average wages in the manufacturing sector expanded by a much slower rate of 0.99% during the same period. As a result, the estimated share of wages in manufacturing value-added declined from 38.5% in 2002 to 33.1% in 2011. This suggests that firms in the manufacturing sector have wage-setting powers in the labour market. Due to higher commodity prices, wages in the commodity-related industries such as petroleum, palm oil and related industries rose the fastest compared to other industries in the manufacturing sector between 2002 and 2011.

Foreign workers have increased over the past decade due to the tight labour market situation. As a long-term measure to ensure sustainable growth as well as minimise socio-economic implications, a medium to longer-term policy on foreign workers

TABLE 3.27

Employment by Sector

	('000)		Change (%)		Share (%)	
	2011	2012[1]	2011	2012[1]	2011	2012[1]
Agriculture, forestry, livestock and fishing	**1,388.6**	**1,386.9**	***-0.1***	***-0.1***	***11.3***	***11.1***
Mining & quarrying	**41.0**	**41.1**	***-2.8***	***0.2***	***0.3***	***0.3***
Manufacturing	**3,511.2**	**3,616.6**	***3.6***	***3.0***	***28.7***	***28.9***
Construction	**769.5**	**773.6**	***0.4***	***0.5***	***6.3***	***6.2***
Services	**6,545.2**	**6,686.8**	***2.7***	***2.2***	***53.4***	***53.5***
Electricity, gas and water	101.5	102.8	*1.4*	*1.3*	*0.8*	*0.8*
Transport, storage and communications	706.7	723.8	*3.4*	*2.4*	*5.8*	*5.8*
Wholesale and retail trade, hotels and restaurants	2,342.6	2,424.8	*4.6*	*3.5*	*19.1*	*19.4*
Finance, insurance, real estate and business	853.6	864.8	*1.5*	*1.3*	*7.0*	*6.9*
Government services	1,251.8	1,254.9	*0.2*	*0.2*	*10.2*	*10.1*
Other services	1,289.0	1,315.7	*2.5*	*2.1*	*10.5*	*10.5*
Total	**12,255.5**	**12,505.0**	***2.5***	***2.0***	***100.0***	***100.0***

[1] Estimate.

Source: Economic Planning Unit, Malaysia.

has been introduced to reduce the over-dependence on foreign workers while attracting more skilled and trained professionals. The number of foreign workers totalled 1.8 million in 2010, and by 2011, the number decreased 13.5% to 1.6 million accounting for 12.8% of total employment. As at end-July 2012, there were more than 1.6 million registered foreign workers in Malaysia (end-July 2011: 1.3 million). Of this total, 37.7% were employed in manufacturing, 19.4% plantation, 14.6% construction and 9.1% in agriculture. The majority of foreign workers are from Indonesia, comprising nearly half of the total number of foreign workers (48.5%), followed by Nepal (17.7%), Myanmar (8.7%) and Bangladesh (8.5%).

As at end-July 2012, a total of 47,157 **expatriates** (end-July 2011: 40,938) were employed in the country. This indicates that only 3% (end-July 2011: 3%) of foreign workers in Malaysia were highly skilled while the remaining were low-skilled. The expatriates were mainly employed in the services (28,298; 60%), manufacturing (10,350; 21.9%) and construction (3,406; 7.2%) sectors. The majority of them were from India (9,360; 19.8%), followed by China (5,396; 11.4%) and Japan (3,384; 7.2%).

The Government aims to transform the economy into a high-income and developed nation by 2020 through 131 EPPs under the NKEAs. With the implementation of the EPPs, more than RM1 trillion worth of new investments are expected to be generated and 3.3 million new jobs created by 2020. About 60% of the jobs will be in the high and medium-skilled categories which require creativity, specialisation, flexibility and higher productivity. Therefore, the development of the nation's workforce is of utmost importance if Malaysia is to meet its strategic goals. Towards this, several measures have been introduced to improve the labour market ecosystem as well as upgrade the quality and productivity of the labour force.

Reforms in the Labour Market

Introduction

The labour force is one of the critical elements to support the nation's quest to become a high-income and developed nation by 2020. In this regard, the New Economic Model (NEM) has identified several issues in the labour market which may hinder the nation's progress towards this vision. Among the main issues highlighted, include restrictive labour regulations, low wages, high number of unskilled labour and over-dependence on foreign workers. To address these challenges, the Government has introduced the Human Capital Development Strategic Reform Initiative (HCD SRI) under the National Transformation Policy (NTP). The focus of the HCD SRI is on making the labour market more flexible, upgrading the skills and capabilities of the existing workforce and enhancing Malaysia's ability to attract and retain top talent. In 2012, the Government has introduced several measures to transform the workplace and the workforce. Measures to transform the workplace include amendments to the Employment Act 1955, implementation of the national minimum wages, introduction of the private retirement scheme and the extension of the retirement age in the private sector. Major initiatives under the workforce transformation include the establishment of the Institute of Labour Market Information and Analysis (ILMIA) and the launching of the Talent Roadmap 2020.

Amendments to the Employment Act 1955

The Employment (Amendment) Act 2012 was passed by Parliament in December 2011 and enforced effective from 1 April 2012. It comprised 28 amendments to the existing provisions, incorporated 17 new provisions and repealed 2 existing provisions. The amendments were made to ensure that the law is in line with the current needs and to strengthen enforcement activities. Among the amendments are:

i. New definition of contractor for labour to clarify the relationship between a principal, contractor and sub-contractor who supplies labour;

ii. Inclusion of new provisions to address incidences of sexual harassment at the workplace and application of these provisions to all employees irrespective of wages;

iii. Flexibility on the time of payment for overtime allowance by employers;

iv. Inclusion of Malaysia Day as a mandatory public holiday;

v. Payment of wages through bank accounts (including wages for domestic servants);

vi. Maternity protection to all female employees irrespective of wages; and

vii. Expansion of the scope of coverage and investigation of complaints to employees earning up to RM2,000, an increase from RM1,500 previously. With this amendment, the number of workers covered under the Act will increase from 50% to 70%.

Minimum Wages

Currently, wages in the private sector are predominantly determined by market forces, with marginal collective bargaining and very limited regulation of wage floors. Furthermore, the annual growth of labour productivity exceeds that of average wages and many unskilled workers in the country are foreigners. To address these issues, the 2011 Budget announced the establishment of the National Wages Consultative Council (NWCC) as the main platform for the determination of the mechanism and minimum wage rates in the country. In this respect, the National Wages Consultative Council Act 2011 was passed in Parliament in July 2011. The NWCC was subsequently established based on the “tripartite principle” comprising workers, employers and the Government as well as experts from related fields such as labour economics. Following its establishment, the NWCC proceeded to conduct studies and engage key stakeholders before making recommendations to the Government on all aspects of minimum wages. The final recommendations of the NWCC were gazetted as the Minimum Wages Order 2012 on 16 July 2012.

Minimum wages will be implemented across the nation effective from 1 January 2013 which also include foreign workers. However, for employers who employ five workers or less, excluding professional firms, minimum wages will take effect from 1 July 2013. Minimum wages which cover all sectors and types of occupations, do not apply to domestic servants as defined under the Employment Act 1955, and the Sabah Labour Ordinance (Cap 67) and Sarawak Labour Ordinance (Cap 76). The minimum wages, which are set at an appropriate level to minimise disruptions in the labour market, are as follows:

TABLE 1

Minimum Wage Rates by Region

Region	Minimum Wage Rates	
	Monthly	Hourly
Peninsular Malaysia	RM900	RM4.33
Sabah, Sarawak & the Federal Territory of Labuan	RM800	RM3.85

Source: Minimum Wages Order 2012.

Private Retirement Scheme

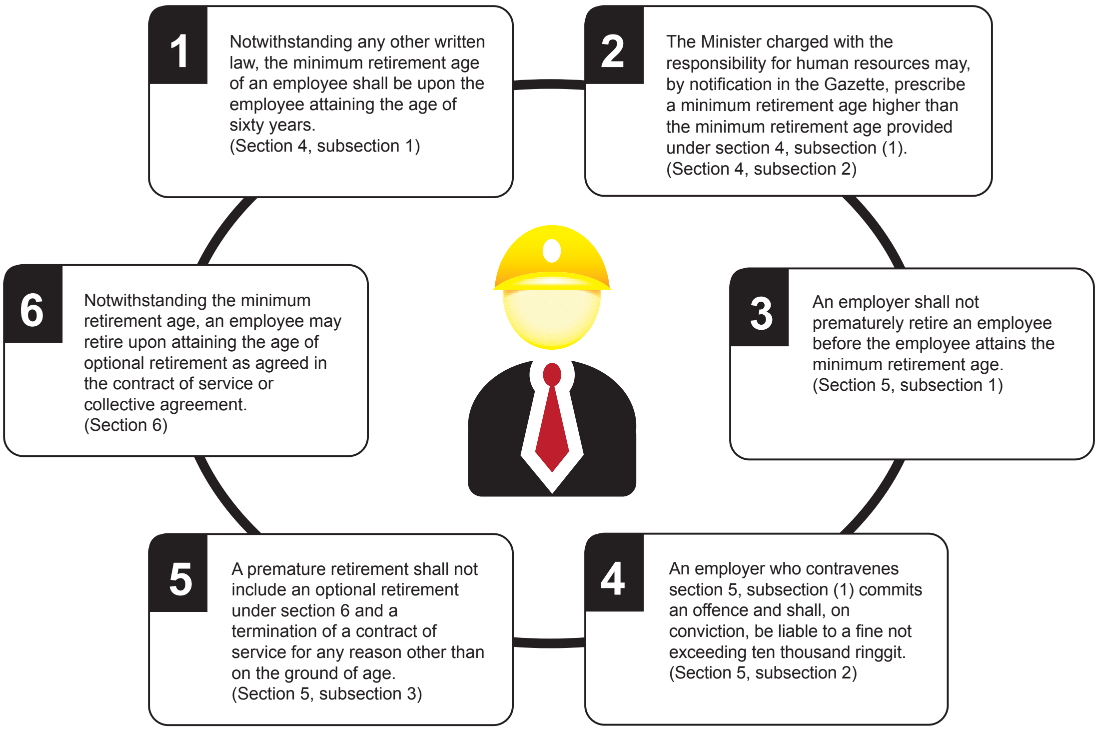
The 2012 Budget announced three new tax incentives to encourage salaried workers and the self-employed to accumulate savings for their retirement as well as provide opportunities for employers to offer more attractive remuneration packages in the form of higher contribution to their workers' retirement benefits. As a follow-up to the Budget, the private pension framework was launched on 18 July 2012. The move marked an important step in enabling individuals to save based on their own retirement needs, goals and risk appetite. The first set of schemes, comprising 24 funds offered by eight Private Retirement Scheme (PRS) providers, has been approved by the Government. The funds will be available to the public in October 2012. The PRS will enable employees to save beyond their contributions to the Employees Provident Fund (EPF) and other mandatory pension schemes.

Minimum Retirement Age

The Minimum Retirement Age Act 2012 was passed by Parliament on 17 July 2012 and gazetted on 16 August 2012. Several factors were taken into consideration before the drafting of the Act, including the absence of a mandatory retirement age in existing labour laws, increase of life expectancy and decreasing birth rates, stagnant retirement age for the private sector since independence and inadequate retirement savings for many workers. Furthermore, this initiative will synchronise the retirement age of the private sector with the public sector and makes it comparable with other countries in the Association of Southeast Asian Nations (ASEAN).

CHART 1

Highlights of the Minimum Retirement Age Act 2012



Source: Minimum Retirement Age Act 2012.

Establishment of the Institute of Labour Market Information and Analysis

The National Institute of Human Resources (NIHR) under the Ministry of Human Resources was restructured and renamed the Institute of Labour Market Information and Analysis (ILMIA) on 1 May 2012. ILMIA aims to provide comprehensive and timely labour market information for workforce planning and skills development in industries, especially in the National Key Economic Areas (NKEAs). Among others, ILMIA is tasked to:

- Provide an interactive and centralised database as the basis for an in-depth analysis on the labour market to support the formulation of government policies and decision-making;
- Reduce the existing information gap, particularly in relation to labour market information;
- Provide information on the labour market for benchmarking purpose with foreign counterparts;
- Undertake research in collaboration with international research bodies, including the World Bank, International Labor Organization (ILO) and the Institute of Labour in other countries; and
- Forecast labour demand and supply for each sector of the economy.

In addition to improving the information gap between the demand for and supply of labour, ILMIA is expected to further enhance the nation's capacity in addressing labour related issues. Currently, ILMIA is developing the Labour Market Information Data Warehouse which is expected to be completed by December 2012. At the same time, ILMIA is undertaking several studies.

TABLE 2

Current Studies Undertaken by ILMIA

• **Malaysia: Developing Skills for Innovation and High-Income Economy**
• **Study on the Wages Structure in the Economic Sector Particularly in NKEA Industries and its Impact Towards Labour Productivity and Capital Intensity.**
• **Green Jobs Malaysia**
• **A Study on Human Resources Manpower Requirement for:** ➢ **Business Services Sector in Malaysia** ➢ **Tourism Sector in Malaysia** ➢ **Healthcare Sector in Malaysia**

Source: Institute of Labour Market Information and Analysis, Malaysia.

The Talent Roadmap 2020

In efforts to achieve its aspiration of becoming a high-income and developed nation by 2020, Malaysia needs to emerge as a global talent destination to rival other high-income nations in retaining and attracting the best talent to drive the NTP. The Talent Roadmap 2020, launched in April 2012, identified three strategic thrusts to develop a sustainable pool of top talent to meet the needs of the nation. These are (i) Optimising Malaysian talent; (ii) Attracting and facilitating global talent; and (iii) Building networks of top talent. The strategic thrusts focus primarily on Malaysians in the country, who are clearly the nation's most important source of talent, supplemented by measures to attract top, highly skilled Malaysians abroad as well as foreign talent.

Furthermore, to ensure that domestic talent is optimised in line with the nation's growing needs, the Talent Roadmap has adopted a holistic, three-pronged approach which seeks to attract, nurture and retain Malaysia's homegrown talent in collaboration with key partners in the private and public sectors. These initiatives include raising career awareness, promoting enhanced internships, coordinating graduate upskilling programmes and optimising on Government scholars.

Additionally, TalentCorp's efforts to attract and facilitate the return of Malaysians abroad will focus on raising awareness of professional opportunities in Malaysia and providing platforms for leading employers to engage with students and professionals abroad. To realise these initiatives, effective partnerships will be established with leading employers to advance the talent agenda.

During the first phase of the Roadmap, which covers the period from 2011 to 2015, TalentCorp will focus on driving catalytic talent interventions and refining policies to address the immediate critical skills gaps and talent shortages. In Phase 2 of the Roadmap (2016 – 2020), greater emphasis will be placed on operationalising these interventions as they become institutionalised, with the aim of formulating a more integrated approach for the development of top talent in the country and ultimately, emerging as a global talent destination.

TABLE 3

TalentCorp's Three Strategic Thrusts

Strategic Thrust 1 Optimise Malaysian Talent	Strategic Thrust 2 Attract & Facilitate Global Talent	Strategic Thrust 3 Build Networks of Top Talent
Raise career awareness • Online awareness and career guidance • Career fairs and roadshows • Media and publications	**Outreach to Malaysians abroad** • Professional outreach • Student outreach	**Build networks of future leaders** • Developing future leaders through leadership development initiatives
Enhance school-to-work transition • Upskilling programmes • Competitions and internships	**Facilitate returning talent** • Returning Expert Programme • Recognition of professional qualifications	**Develop Diaspora networking platforms** • Build networks and engagement platforms
Build platforms to optimise talent • Scholarship Management • Latent talent • Human Capital Community	**Enhance expatriate facilitation** • Residence Pass - Talent • Premier service centre for leading companies	**Engage expatriate community** • Foreign Talent Outreach

Malaysian Talent | Malaysian Diaspora | Foreign Talent

Source: Talent Roadmap 2020.

Conclusion

The labour reform efforts reflect the Government's commitment in undertaking profound transformation to invigorate the behaviour of employers and employees to achieve the right 'workplace and workforce' towards advancing into a high-income and developed nation. The Government will continue to galvanise views from all stakeholders in the implementation of other policy measures under the HCD SRI. Ultimately, the beneficiary of this transformation is the rakyat, whose well-being remains at the core of all Government policies.

Prospects for 2013

Malaysian Economy

Domestic economy to remain resilient

The Malaysian economy is expected to strengthen further and projected to grow at a faster rate of 4.5% – 5.5% in 2013. Growth will be supported by improving exports and strong domestic demand on the assumption that global growth will pick up, especially during the second half of 2013. The growth projection is premised upon the expectation of an improvement in the resolution of the debt crisis in the euro area and stronger growth momentum in the economies of Malaysia's major trading partners. Domestic demand is expected to maintain its strong momentum driven by robust private investment and strong private consumption. Private sector activity will be supported by an accommodative monetary policy in an environment of low inflation coupled with a robust financial sector. Recovery in the external sector, particularly increasing external demand from regional economies and major trading partners will further provide the impetus for a private-led growth. The overall public expenditure is expected to increase, led by higher NFPE's capital investment which will further augment growth. Thus, nominal GNI per capita is expected to increase 6.4% to RM32,947 (2012: 4.4%; RM30,956). In terms of PPP, per capita income is expected to grow 4.4% to reach USD16,368 (2012: 3.2%; USD15,676).

Given that domestic economic activity is expected to strengthen further in 2013, inflation is estimated to increase moderately, partly mitigated by further capacity expansion in the economy. The key supply side factors that will influence inflation, namely prices of energy and food commodities are expected to ease during the first half of 2013, but are likely to trend up during the second half on the assumption that global growth continues to pick up pace. Hence, for 2013, the average inflation rate is estimated to be between 2% and 3%.

Sectoral Prospects

Broad-based growth

On the supply side, growth in 2013 is expected to be broad-based supported by expansion in all sectors of the economy. Of significance, external trade-related industries are envisaged to benefit from stronger global growth, particularly during the second half of 2013. The services and manufacturing sectors are expected to contribute 4.2 percentage points to the GDP growth. Growth in the manufacturing sector is expected to strengthen in tandem with the recovery in E&E demand from the US and euro area. The services sector is expected to benefit from the recovery in external trade-related activities while strong domestic economic activity will provide further impetus for wholesale and retail trade, and financial activities to grow. The agriculture sector is envisaged to turn around with improved output of plantation commodities while the mining sector is expected to expand with higher crude oil output. Likewise, the construction sector is expected to register a double-digit growth as the implementation of major construction-related ETP projects accelerates.

Prospects for the **services sector** are expected to remain upbeat in 2013, with the accelerated implementation of major initiatives under the NKRAs and continued investment in the seven services subsectors under the NKEAs. These initiatives are expected to drive the wholesale and retail trade, finance and insurance, and communication subsectors, which are expected to grow 6.8%, 5.2% and 8.2% (2012: 5.7%; 4.2%; 9.3%), respectively. Overall, value-added of the sector is estimated to remain strong at 5.6% (2012: 5.5%) supported by domestic consumption, investment and travel-related activities.

Value-added of the **manufacturing sector** is expected to grow 4.9% (2012: 4.2%). Export oriented-industries are expected to benefit from the higher growth of global trade, while domestic-oriented industries expand in line with the better consumer sentiment and business confidence.

The E&E subsector is expected to grow further driven by higher demand for electronic equipment and parts as well as semiconductors in line with the economic recovery in advanced economies. The resource-based industries are envisaged to grow steadily attributed to improved demand for petroleum, chemical, rubber and plastic products. With better job prospects and higher disposable income, the transportation equipment subsector, in particular, the passenger car segment is expected to expand. In addition, strong construction activities with continued expansion in the housing sector and civil engineering activities will augur well for the iron and steel as well as cement segments.

The **agriculture sector** is expected to grow 2.4% (2012: 0.6%) following the recovery in the output of plantation commodities. Production of CPO is envisaged to rebound 2.5% to 18.9 million tonnes (2012: -2.5%; 18.4 million tonnes) on account of expanded matured areas to 4.44 million hectares (2012: 4.38 million hectares). FFB yields are expected to improve to 19.8 tonnes per hectare (2012: 18 tonnes per hectare). Rubber output is projected to increase due to higher demand and relatively strong prices. The non-commodity subsector, mainly livestock and other agriculture produce such as paddy, fruits and vegetables, is projected to expand further as the implementation of various programmes under the National Agro-Food Policy (2011 – 2020) gathers pace. The fishing industry is projected to expand further underpinned by higher aquaculture produce.

The **mining sector** is expected to expand 2.7% (2012: 1.5%) on account of higher production of crude oil and natural gas. Production of crude oil is projected to increase 3.6% to 600,000 bpd (2012: 1.6%; 579,000 bpd) due to higher regional demand. Several new oil fields are expected to start production in 2013, contributing to higher production of crude oil. Production of natural gas is projected to increase 4.3% to 6,530 mmscfd (2012: 5.5%; 6,259 mmscfd) following higher demand from domestic and external markets. The Gumusut-Kakap deep water development in Sabah is expected to increase the overall production capacity of crude oil.

The **construction sector** is envisaged to expand strongly by 11.2% (2012: 15.5%), with all subsectors registering steady growth. The sector is expected to benefit from the acceleration of ongoing construction activities, particularly from the ETP and RP2 construction-related projects. Of significance, exploration activities in O&G industries and major projects such as the electrified double-tracking between Ipoh – Padang Besar, LPT2 Jabur – Kuala Terengganu, MRT and the River of Life are expected to drive the growth of the civil engineering subsector. The non-residential subsector is expected to expand spurred by the industrial building segment and the commencement of construction of the Tun Razak Exchange (TRX). The residential subsector is also projected to expand, albeit at a moderate pace, after recording several years of strong growth. Key housing development projects, particularly in Sungai Buloh and Bandar Malaysia in Sungai Besi, which are expected to commence in 2013, will support residential construction activities.

Domestic Demand

Private investment remains robust

Domestic demand, which is expected to grow 5.6% (2012: 9.4%), will remain the main driver of growth in 2013 underpinned by strong private sector expenditure. Private consumption is projected to expand 5.7% (2012: 7%) on account of higher disposable income arising from better employment outlook, firm commodity prices and the wealth effect from the stable performance of the stock market following strong domestic economic activities. In addition, the expected completion of major projects under the ETP, 10MP and the five growth corridors will spur high-value job creation and raise living standards. Hence, increasing net disposable income will contribute to higher consumption spending.

Private investment is expected to post a strong growth of 13.3% in 2013 (2012: 11.7%) attributed to the ongoing implementation of the ETP projects. Investment in the domestic-oriented industries is anticipated to be buoyant in line with strong domestic economic activities while investment in export-oriented industries is expected to pick up amid an improving global economic outlook. In addition, new measures to further promote domestic direct investment will accelerate the participation of local companies in targeted industries, including high-value added, high-technology, knowledge-intensive and innovation-based industries which will, in turn, support FDI inflows. The first phase of the TRX is expected to be completed in 2016 which will improve the investment landscape in Malaysia and boost foreign and domestic investments. Furthermore, the ongoing implementation of HIPs will be a catalyst in attracting more private investment.

Public investment will continue to support growth and is expected to expand 4.2% in 2013 (2012: 15.9%). Growth is anticipated to be driven by higher capital outlays by the NFPEs and development expenditure by the Federal Government. Capital expenditure of the NFPEs will focus on the upstream O&G, transport, communication and utility industries. Among the major projects undertaken by the NFPEs include construction of the Second Penang Bridge and extension of the rail network. Most of the Federal Government's development expenditure will be channelled towards improving the economic and social sectors of the economy. Investment in the economic services sector is allocated for providing transport and infrastructure development as well as upgrading and improving access to public utilities. Meanwhile, capital expenditure in the social services sector will be largely allocated for education and training as well as health. In line with the Government's measures in promoting prudent and efficient spending as well as the high-base effect, public consumption is expected to decrease 1.2% (2012: 11.3%).

National Resource Position

Savings-investment remains in surplus

In line with the expansion in domestic economic activities, national income in current prices is expected to increase 7.8% in 2013 (2012: 5.7%). **Gross National Savings (GNS)** is expected to expand strongly by 11.1%, with the private sector accounting for 72.3% of total savings. Meanwhile, total investment expenditure (including change in stocks) is projected to expand further by 13% to RM258.3 billion (2012: 10%; RM228.5 billion), leading to a **savings-investment** surplus of RM71.9 billion or 7.3% of GNI (2012: RM68.5 billion; 7.5%).This resource surplus will enable Malaysia to continue to finance its economic development primarily from domestic sources.

External Sector

Higher surplus in current account

Malaysia's external position is expected to remain strong in tandem with improved prospects for the global economy in 2013, coupled with the expansion in global trade and investment activities. The BOP position is projected to remain favourable with the **current account** continuing to record a higher surplus to RM71.9 billion or 7.3% of GNI (2012: RM68.5 billion; 7.5%). The surplus in the **goods account** is projected to expand to RM126.5 billion (2012: RM128.8 billion). In 2013, exports are estimated to grow 3.9% (2012: 2.4%) supported by higher commodity exports and improving global E&E demand. In line with increased domestic activity as well as to meet increased inputs for the manufacturing sector, imports are projected to grow at a faster rate of 5.2% (2012: 6.5%).

The **services account** is expected to improve with a lower deficit of RM8.2 billion (2012: -RM9.9 billion) driven by a large surplus in the travel account, following the expectations higher tourist arrivals. Other components in the services account are expected to remain in deficit. The **income account** is envisaged to register a lower net outflow of RM22.8 billion (2012: -RM28.1 billion) with the expected increase in repatriation of profits and dividends from Malaysian companies investing abroad. Meanwhile, the deficit in **current transfers account** is projected to increase to RM23.6 billion (2012: -RM22.3 billion) on account of rising remittances by foreign workers particularly from the construction sector in 2013.