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ECONOMIC PERFORMANCE AND PROSPECTS

ECONOMIC REPORT **2013/2014**

Economic Performance and Prospects

Overview

Growth anchored by domestic demand

The Malaysian economy remains resilient despite facing a more challenging external environment. While advanced economies, particularly the US and Japan showed firmer signs of recovery, new challenges have emerged during the first half of 2013. The uncertainty over the strength of China's economic growth and the possible tapering of the quantitative easing (QE) programme in the US have given rise to greater global economic and financial uncertainties. Emerging economies were particularly affected over concerns whether China's economic strength was able to support intra-regional trade and commodity prices. Emerging markets were also hard hit by the US Federal Reserve's (Fed) announcement of QE3 tapering which created increased financial and currency volatility as a result of reversal in global capital flows.

Against this backdrop, Malaysia being a highly open economy was also affected, with gross exports recording a negative growth of 3.8% during the first half of 2013. Nevertheless, strong domestic demand was able to cushion the negative impact from the external sector. The economy registered real GDP growth of 4.2% during the period. However, during the third quarter of 2013, key economic indicators signalled to better near-term prospects and firmer growth in the US, euro zone and Japan. Meanwhile, fears of China experiencing a sharp downturn has somewhat faded as the Purchasing Managers' Index (PMI) in August 2013 rose to a five-month high. The prospects of stronger recovery in advanced economies coupled with a moderate, but steady GDP growth in China, are expected to create a positive outlook for Malaysia's exports. While the impact of the Fed tapering its QE remains

a lingering concern, the Malaysian real GDP is expected to register a growth of 4.5% – 5% in 2013 (2012: 5.6%) supported by its resilient domestic economy and improving exports during the second half of 2013.

On the demand side, growth will be anchored by resilient private consumption, strong investment activity and reinforced by a gradually improving external sector. The continued strong domestic economic activity is underpinned by a more diversified and balanced economy, a stronger financial system and pragmatic macroeconomic policies. Private investment is envisaged to sustain its growth momentum supported by capital spending in all major sectors, particularly in domestic-oriented manufacturing and consumer-related services subsectors. Public investment is expected to increase, attributed to capital spending by Non-Financial Public Enterprises (NFPEs), particularly in the oil and gas (O&G) and utilities sectors. Meanwhile, private consumption will be supported by stable employment conditions, higher wage growth, especially in the domestic-oriented sectors and cash transfers to targeted households. Public consumption is expected to increase following the civil servants' recent salary increment in July 2013.

On the supply side, growth is expected to be supported by expansion in all economic sectors. In tandem with strong domestic demand, the services and manufacturing sectors are expected to drive growth. Strong domestic consumption is expected to boost growth in the services sector, especially in wholesale and retail trade, accommodation and restaurants as well as strong expansion in the telecommunication, finance and business services subsectors. Growth in the construction sector will continue to expand, supported by higher activity in the residential segment and key public infrastructure projects during the

TABLE 3.1

Gross Domestic Product (GDP) by Sector 2012 – 2014

(at constant 2005 prices)

	Change			Share of GDP			Contribution to GDP growth		
	(%)			(%)			(percentage point)		
	2012	2013 ¹	2014 ²	2012	2013 ¹	2014 ²	2012	2013 ¹	2014 ²
Agriculture	1.0	2.7	3.0	7.3	7.2	7.0	0.1	0.2	0.2
Mining	1.4	2.2	3.1	8.4	8.2	8.1	0.1	0.2	0.3
Manufacturing	4.8	3.2	3.8	24.9	24.5	24.2	1.2	0.8	0.9
Construction	18.1	10.6	9.6	3.5	3.7	3.9	0.6	0.4	0.4
Services	6.4	5.5	5.7	54.6	55.0	55.4	3.5	3.0	3.1
Add: Import duties	15.6	9.5	4.0	1.3	1.4	1.4	0.2	0.1	0.1
GDP	5.6	4.5 – 5.0	5.0 – 5.5	100.0	100.0	100.0	5.6	4.5 – 5.0	5.0 – 5.5

¹ Estimate.² Forecast.

Note: Total may not add up due to rounding.

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

second half of 2013. The manufacturing sector will be largely supported by strong expansion in domestic-oriented industries. The electrical and electronics (E&E) subsector is expected to stage a mild recovery in the later part of 2013 following the anticipated stronger recovery of advanced economies and continued efforts by E&E manufacturers to diversify their product range to cater to various consumer preferences. In the non-E&E segment, growth will be supported by construction and consumer-related industries, in particular the automotive subsector. Meanwhile, the agriculture sector is expected to expand further, reflecting higher output of crude palm oil (CPO) and food commodities. Given the strong investments in the upstream O&G sector in the past years, output of the mining sector is envisaged to expand supported by higher production of crude oil and natural gas.

Malaysia's external position is expected to remain resilient despite affected by the weak external demand during the first half of 2013. As a trading nation, Malaysia's current account is highly dependent on exports of goods and commodities. Given the weaker external demand and lower

commodity prices amid the strong expansion in private consumption and investment, growth of imports will continue to outpace exports, resulting in a smaller trade surplus. Meanwhile, the primary and secondary income as well as services accounts are expected to remain in deficit. Hence, the current account surplus in 2013 is expected to narrow to RM26.6 billion or 2.8% of Gross National Income (GNI). In the financial account, inflows of foreign direct investment (FDI) are expected to increase, encouraged by renewed investors' confidence on the Malaysian economy after the 13th General Election and better prospects of the global economy during the second half of the year. However, short-term capital inflows are likely to be volatile amid concerns on the tapering of QE3 by the Fed.

Headline inflation is expected to increase and average 2% – 2.5% in 2013 (2012: 1.6%). The higher inflation is mainly driven by the 20 sen subsidy reduction in domestic fuel prices on 3 September 2013. Inflation is, however, expected to be mitigated by moderating energy and global food prices. The report by the Food and Agriculture Organisation (FAO) in June 2013

indicated that the food commodity market is set to be more balanced in 2013 and 2014. In particular, cereals such as rice and wheat are likely to experience more stable conditions with generally lower prices. Demand-driven price pressures in the domestic market are expected to remain subdued as higher productivity and lower producer prices are expected to cushion some demand pressure arising from higher wages. In tandem with the expansion in economic activities, the GNI is estimated to expand 5.5% to RM955.1 billion with per capita income increasing 4.2% to RM32,144 (2012: 4.9%; RM905.2 billion; 3.6%; RM30,856).

Sectoral Performance

All sectors registered a positive growth during the first half of 2013. Growth continued to be driven by the services sector in line with strong activity in domestic-oriented services, particularly the wholesale and retail trade as well as communication subsectors. Meanwhile, trade-related services moderated on account of weaker external demand. Growth in the manufacturing sector was slower affected by weaker external demand for E&E products. Meanwhile, the construction sector sustained a strong growth driven mainly by ongoing civil engineering and residential activities. Growth in the agriculture sector rebounded with higher output of CPO and food commodities while growth in the mining sector expanded driven by increased output of natural gas.

Services Sector

Services sector continues to drive growth

The **services sector** expanded 5.4% during the first six months of 2013 (January – June 2012: 6.2%), mainly driven by resilient domestic consumption and investment activities. For 2013, the services sector is envisaged to grow 5.5%, accounting for 55% of GDP (2012: 6.4%;

54.6%). The **intermediate services** group is anticipated to grow 5.3% (2012: 7.4%) supported by the communication as well as real estate and business services subsectors. Meanwhile, the **final services** group is expected to increase 5.8% (2012: 4.6%) led by the wholesale and retail trade as well as accommodation and restaurant subsectors.

The *wholesale and retail trade subsector* grew 5.4% during the first half of 2013 (January – June 2012: 6.3%) due to strong household spending. The retail segment increased 7.1% (January – June 2012: 7.7%) supported by higher sales at hypermarkets and departmental stores. As at end-August 2013, a total of 189 foreign hypermarkets, superstores and departmental stores (end-August 2012: 180) were operating in Malaysia, with the majority located in Selangor (33.9%). Meanwhile, the wholesale segment grew 4.9% (January – June 2012: 5.4%), contributing 2.1 percentage points to the subsector (January – June 2012: 2.3 percentage points). This was on account of higher wholesale activity in household goods which expanded 9.4% (January – June 2012: 12.2%). However, the motor vehicle segment moderated to 1.5% (January – June 2012: 4.4%) due to slower sales of passenger vehicles. In 2013, the wholesale and retail trade subsector is expected to remain the key contributor to the overall services sector, with a growth of 5.7% and accounting for 26.1% (2012: 4.8%; 26.1%). Growth is anticipated to be buoyed by higher private consumption amid stable employment conditions and income levels, coupled with the Government cash assistance.

The *accommodation and restaurant subsector* grew 5.6% during the first half of 2013 (January – June 2012: 6.5%) benefiting from higher tourism activities and increased patronage of restaurant outlets. The value-added of accommodation activity rose 1.8% (January – June 2012: 4.2%), particularly driven by aggressive online promotion of hotel packages. As at end-June 2013, the total supply of hotel rooms increased 5.4% to 189,843 (end-June 2012: 5.2%; 180,078), with

TABLE 3.2

Services Sector Performance
2012 – 2014
 (at constant 2005 prices)

	Change (%)			Share of GDP (%)		
	2012	2013 ¹	2014 ²	2012	2013 ¹	2014 ²
Intermediate services						
Finance and insurance	7.8	2.8	3.6	9.4	9.2	9.1
Real estate and business services	7.2	6.8	6.8	5.5	5.6	5.7
Communication	9.2	9.4	9.6	3.8	4.0	4.2
Transport and storage	4.9	5.2	6.2	3.6	3.7	3.7
Final services						
Wholesale and retail trade	4.8	5.7	5.9	14.2	14.4	14.5
Accommodation and restaurant	5.4	5.7	6.6	2.5	2.5	2.5
Utilities	4.3	5.1	5.5	2.5	2.5	2.5
Other services	3.9	6.3	6.2	5.0	5.1	5.1
Government services	9.5	5.0	4.4	8.0	8.0	8.0
Total	6.4	5.5	5.7	54.6	55.0	55.4

¹ Estimate.² Forecast.

Note: Total may not add up due to rounding.

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

Kuala Lumpur continuing to contribute the highest share at 17.1% (end-June 2012: Kuala Lumpur; 17.7%). Meanwhile, the value-added of restaurant activity registered a growth of 6.9% (January – June 2012: 7.4%) driven by increased spending in fast food outlets. Growth in the restaurant segment was also contributed by the increasing number of franchisees in the food and beverage sector, which grew 4.9% to 235 franchisees as at end-June 2013 (end-December 2012: 13.7%; 224), and accounted for the largest share at 35% of total franchisees (end-December 2012: 35%). In 2013, the subsector is expected to increase 5.7% (2012: 5.4%) supported by strong consumption, particularly during the festivities and holiday seasons as well as higher tourism-related activities.

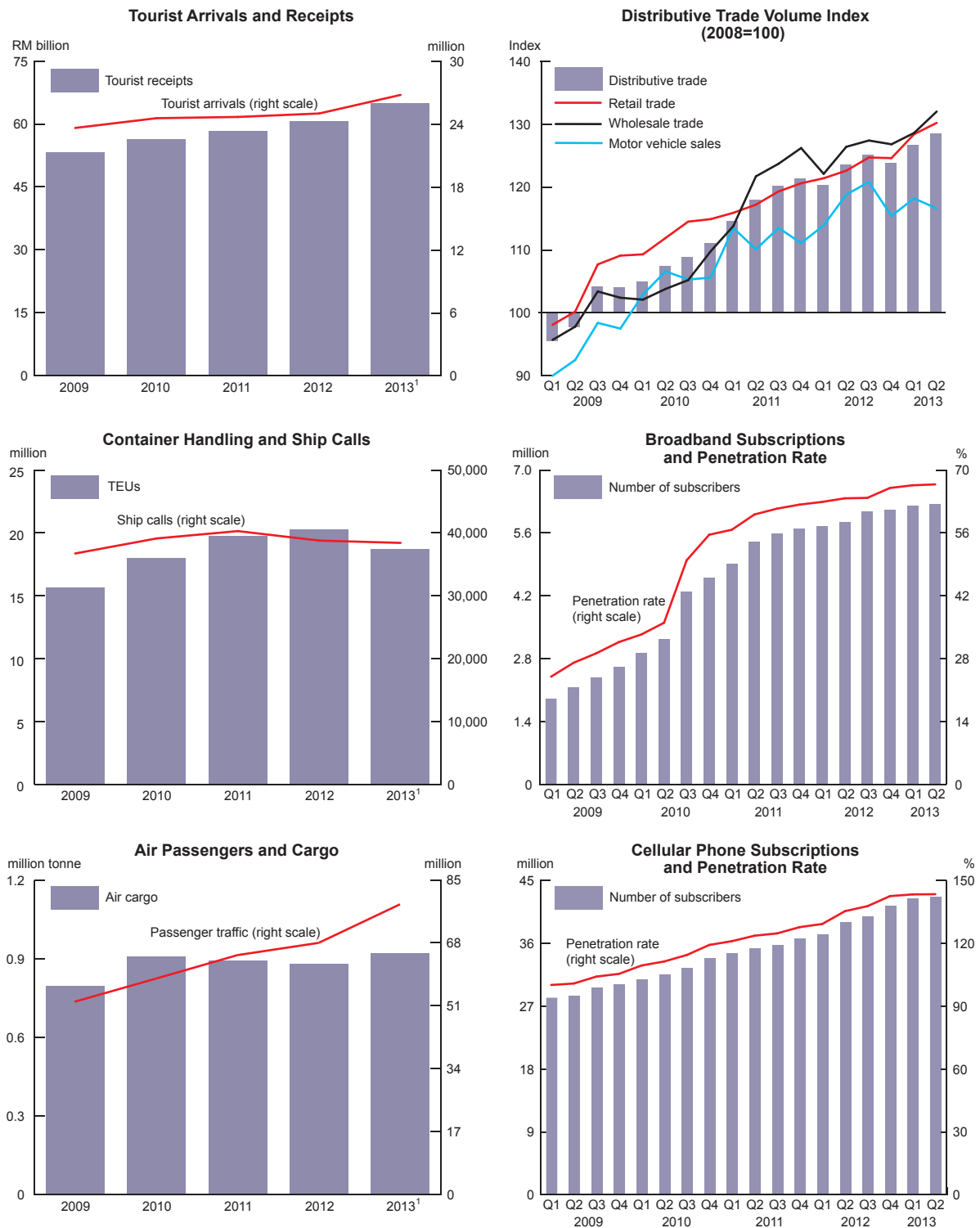
The tourism industry is expected to gain from higher tourist arrivals which grew 7.9% to 12.6 million during the first six months of 2013 (January – June 2012: 2.4%; 11.6 million). The top three

tourist-generating markets were Singapore (50.2%), Indonesia (9.9%) and China (7.5%). Other markets that offer high-growth opportunities for the tourism industry are Thailand, India, Europe and West Asia. In 2013, tourist arrivals are projected to reach 26.8 million and spending of RM65 billion (2012: 25 million; RM60.6 billion), benefiting from promotional campaigns ahead of Visit Malaysia Year (VMY) 2014.

During the first half of 2013, the *finance and insurance subsector* grew at a moderate pace of 2.9% (January – June 2012: 4.3%) on lower net interest income due to slower financing activities. As at end-August 2013, total loans outstanding of the banking system grew 9.3% to RM1,180 billion (end-August 2012: 12.3%; RM1,080 billion), with loans to businesses and households expanding 7.7% and 11.9% (end-August 2012: 13.8%; 11.7%), respectively. Loans to the business segment are expected to improve in the second half of 2013 supported by the ongoing implementation

CHART 3.1

Selected Indicators for the Services Sector

¹ Estimate.

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

of projects under the Economic Transformation Programme (ETP). Meanwhile, loan growth to households is anticipated to remain firm in line with resilient private consumption.

The moderation in the subsector was partly offset by the better performance in the general insurance segment. During the first eight months of 2013, gross direct premiums of general insurance rose 6.8% to RM11 billion, derived mainly from motor and aviation businesses. Furthermore, the insurance segment is expected to gain from the various insurance schemes announced in the 2013 Budget to assist small business owners and hawkers, fishermen, armed forces, policemen and school children. For 2013, the subsector is expected to grow 2.8% (2012: 7.8%).

The *real estate and business services subsector* grew 6.6% during the first six months of 2013 (January – June 2012: 7.3%) mainly driven by increased professional services in engineering for the O&G and construction industries; computer services related to hardware and software; and accounting services. Meanwhile, growth in the real estate segment was mainly contributed by the high-end property market. This was reflected by a slight increase in value of residential property transactions at 1% (January – June 2012: 8%), despite a 12.6% decline in transaction volume (January – June 2012: 1.5%). In 2013, the subsector is projected to increase 6.8% (2012: 7.2%).

During the first half of 2013, the *communication subsector* increased 9.4% (January – June 2012: 9.5%) driven by expansion in the cellular segment on increased use of data services. As at end-June 2013, cellular phone subscriptions grew 9.1% to 42.6 million to reach a penetration rate of 143.4% (end-June 2012: 10.7%; 39 million; 135.3%), with the prepaid segment dominating 83% of total subscriptions. Growth was spurred by increased take-up of affordable smartphones amid intense competition by service providers. In addition, under the 2013 Budget, the Government provided a one-off rebate of RM200 for purchase of third-generation (3G) smartphones to 1.5

million youths aged between 21 to 30 earning a monthly income of RM3,000 and below. As of August 2013, about 1.3 million youths have claimed the rebate.

Additionally, higher use of data services was reflected by increased 3G subscriptions which grew 36.2% to 16.4 million (end-June 2012: 23.2%; 12 million), supported by affordable pricing and offerings of attractive mobile Internet packages. Communication modes have increasingly shifted from traditional voice services to Internet application services, such as Skype and Tango, while short-message services (SMS) have moved to mobile instant messaging services, such as WhatsApp and WeChat. In addition, the launching of fourth-generation (4G) Long-Term Evolution (LTE) service and availability of diverse and competitive data packages will further intensify competition in the telecommunications industry.

The broadband segment continued to expand 6.9% to 6.2 million subscriptions with a penetration rate of 66.8% as at end-June 2013 (end-June 2012: 8.2%; 5.8 million; 63.7%). This was largely due to offerings of bundled services with attractive pricing plans and improved network coverage. Meanwhile, as at end-June 2013, the rollout of hotspot services has expanded to 34,372 locations nationwide (end-June 2012: 26,698) with Peninsular Malaysia accounting for 92% of total hotspot locations. Growth in the segment is anticipated to remain buoyant supported by the Government's various measures to intensify broadband penetration across the country. These include the 1Malaysia Affordable Broadband Package initiative focusing on rural communities with low-broadband penetration rates. In addition, as at end-August 2013, the high-speed broadband (HSBB) project has linked 2.5 million premises with Unifi service, recording a total of 595,543 subscriptions covering 500,101 homes and 95,442 businesses (end-August 2012: 423,124; 357,451; 65,673). The HSBB project has also connected 640 government offices, 81 public and private universities, and 27 Internet centres in urban and suburban areas.

Leveraging the Internet to Grow Entrepreneurs

Introduction

The Internet has impacted our lives significantly. It has transformed the way people work, conduct business, shop, search for information and communicate. In the Internet era, people, markets and economies have become more rapidly interconnected; the exchange of goods, services and knowledge is increasingly borderless; and the dissemination of news instantaneous. The Internet has led to the proliferation of social media connecting millions of people through Facebook, Twitter, Instagram, YouTube and blogs. More importantly, the Internet has facilitated the development of online businesses and created entrepreneurs, singers, film makers, inventors and innovators. Approximately USD8 trillion¹ is transacted each year through e-commerce. In some developed markets, about two-thirds of all businesses have a web presence, while one-third of small and medium enterprises (SMEs) use web technologies extensively.

Leveraging the Internet

The Internet can be leveraged as a platform to grow new ideas, set up businesses and advance existing businesses. It enables innovators and home-based industries to start online businesses without incurring high costs. Doing an online business is not as costly as setting up a physical shop which involves overhead costs such as rents, salaries and office supplies. It takes less than 30 minutes to set up a domain and website, if the basic ideas, pictures and texts are ready. The Internet enables entrepreneurs to reach wider global markets to promote and sell their products and services online. Moreover, individuals can work from home while online businesses can operate 24 hours a day all year long.

The increased use of information and communication technology (ICT) in businesses, including the Internet can lead to higher productivity and efficiency in all aspects of the value chain. A recent study² indicated a productivity gain of 11% among SMEs that use the web. In addition, web-based entrepreneurship fosters creativity and innovation as well as competition. Furthermore, the response to new ideas or applications can be very fast and widespread. Some global companies such as Google, Facebook and Twitter have leveraged on the Internet to grow their business.

Malaysia too has witnessed the growing importance of online business, particularly in budget airline travel, job recruitment, property selling, book publishing, fast food, retail apparel and deal-of-the-day business. Some small local entrepreneurs in rural areas have also found success when they transformed their conventional business to online business. These include a seaweed entrepreneur from Sabah whose income rose from RM450 to RM20,000 a month, and a cotton pillow entrepreneur from Kedah with a monthly turnover of RM40,000.

A study by McKinsey, "The Internet's Impact on Aspiring Countries" indicated that the Internet contributed 4.1% or USD9.75 billion to Malaysia's GDP of USD238 billion in 2010. This places Malaysia among the highest of the 30 fast-growing countries where the Internet has great potential to transform the economy. The number of Internet users in Malaysia has grown rapidly to 18 million as of end-2012. The number is expected to reach 25 million by 2015. In addition, the household broadband penetration rate has risen to 66.8% as at end-June 2013. Meanwhile, with a penetration rate of more than 100%, there are currently 42.6 million mobile subscribers.

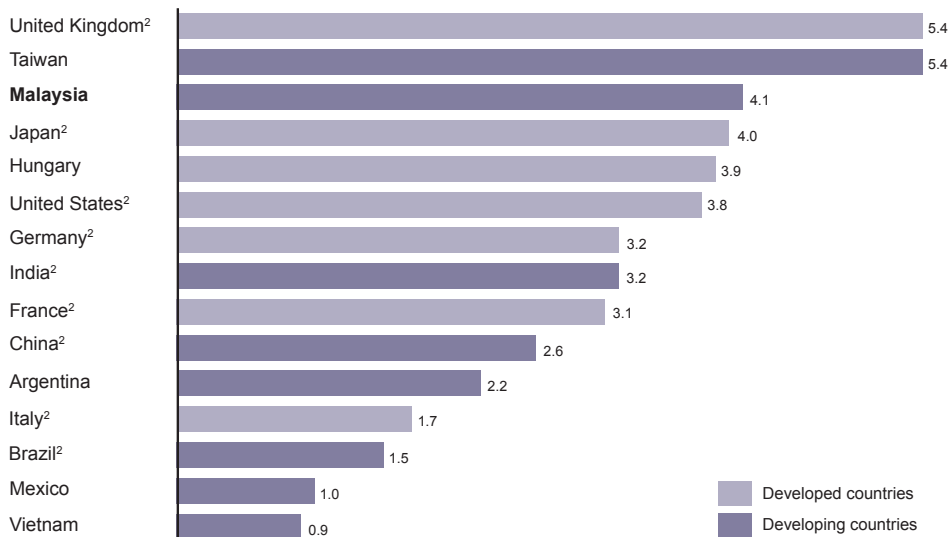
¹ Source: McKinsey Global Institute, "The Internet Matters: The Net's sweeping impact on growth, jobs and prosperity", May 2011.

² 2011 McKinsey survey of SMEs across selected economies.

CHART 1

iGDP¹ Index Rank

% Contribution to GDP

¹ Exports and consumption of ICT-related products and services.² 2009.

Source: McKinsey & Company, "Online and upcoming: The Internet's impact on aspiring countries", January 2012.

Statistics indicate that Malaysian Internet users remain largely consumers rather than sellers. In 2010, Malaysia's online shopping market size was RM1.8 billion³ and is estimated to reach RM5 billion by 2014. Travel services, especially airline tickets and hotel bookings lead in terms of products and services purchased online, pushing Malaysia to be among the top three in Asia in the average amount spent online in the past 12 months⁴. Furthermore, purchases over the Internet have been made easier with electronic payments via online banking or credit cards.

The increasing number of Internet users and consumers who buy online thus suggest huge market potential for online businesses. In order not to lose out on this growing number of online consumers, firms that do not have websites or offer online buying, will have to transform their traditional business to online business. In addition, it is important that businesses reach out to mobile phone subscribers as their numbers far exceed that of Internet users.

Some Concerns Regarding the Internet

Malaysians are increasingly spending more time surfing the Internet than using other media, such as watching television, listening to the radio and reading newspapers. Also, the more prevalent use of the Internet is for social networking. Some key statistics indicate the pervasiveness of social media in Malaysia: the penetration rate of social networks is 91%; one out of every three minutes spent online is on social networking; an estimated 11.8 million Malaysians have Facebook accounts; and more than 80% of Malaysians on the Internet access Facebook.

³ Nielson 2011.⁴ Visa e-commerce Consumer Monitor 2010.

Although the Internet and social media have positive aspects, such as facilitating communication, ability to reach a wider population and enabling saving in costs for businesses, there are also other concerns. These concerns include addiction and loss in productivity; posting of sensitive, offensive, negative or inaccurate comments; security concerns from sharing of too much personal information; and unintended comments or mistakes that can go viral. Thus, there is a need to use the Internet and social media wisely. Productive use of the Internet and social media can be made to innovate and create or to set up an online business.

ICT Issues of SMEs

Although there are many benefits of ICT, most businesses in Malaysia, particularly SMEs are still slow to adopt ICT due to limited financial resources, lack of technological knowledge, and high cost of technical team and software applications. Internet accessibility is low for Malaysian SMEs and entrepreneurs due to the high costs of bandwidth and domain registration. For example, in 2010, it cost USD143 to register a domain in Malaysia compared to USD64 in Taiwan and USD24 in the US.

While SMEs make up 97.3% or 645,136⁵ of all business establishments in Malaysia, only about 100,000 businesses have websites. Only 20% of SMEs use ICT extensively in their daily operations. In addition, broadband penetration among Malaysian businesses was only 33% in 2010. Spending on online advertising was also low, at only 1%⁶ of the budget of Malaysian businesses. Furthermore, there are issues such as data and network security. According to PayPal, more people would be willing to increase their online purchases if the security aspect was improved.

Given the low adoption of ICT among SMEs and entrepreneurs as well as their lack of leveraging the Internet to grow their business, it is imperative for them to transform their traditional way of doing business. The use of ICT will help SMEs and entrepreneurs improve productivity while online selling is cost-saving and is able to reach a wider market domestically and globally.

Government Initiatives

Government investment in network infrastructure and sound regulations has enabled businesses to grow and expand. Realising the potential and benefits of empowering SMEs and entrepreneurs through the Internet so that they can innovate and grow, the Government has stepped up efforts in several initiatives as follows:

- The Digital Malaysia Programme under the National Transformation Policy aims to create an ecosystem that promotes the pervasive use of digital technology in all aspects of the economy; and to provide platforms and programmes to nurture and grow users to generate revenue through digital business models;
- Provision of RM24.5 million in grants to help fund content projects in mobile Internet device and web platform. The Integrated Content Development (ICON) by Multimedia Development Corporation (MDeC) is a programme to engage, train and provide funding to the rakyat to produce high-quality local online content for global consumption;
- Provision of tax incentive on capital expenditure incurred for broadband by the last-mile network facility providers; import duty and sales tax exemptions on broadband equipment and consumer access devices; and tax relief on broadband subscription;
- Rollout of broadband infrastructure and network through the public-private partnership project of high-speed broadband with Telekom Malaysia Bhd;
- Provision of free WiFi in urban areas such as Kuala Lumpur, Penang and Miri;

⁵ SME Annual Report 2011/2012.

⁶ Source: McKinsey & Company, "Online and upcoming: the Internet's impact on aspiring countries", January 2012.

- Establishment of community broadband centres and promotion of personal computer ownership for the underserved areas through the Universal Services Provision Fund. This is to enhance ICT adoption in rural areas. As of end-August 2013, there were 359 1Malaysia Internet Centres and 99 1Malaysia Library Broadband Centres located nationwide; and
- The Get Malaysian Businesses Online (GMBO) is a Communications Content and Infrastructure project under the Economic Transformation Programme (ETP), which aims to get 50,000 Malaysian SMEs to go online. The initiative is a collaboration between Google Inc. and Malaysian Communications and Multimedia Commission, .myDomain Registry, iTrain, SME Corp. and Ministry of Communications and Multimedia. The getmybusinessonline.com.my website provides a comprehensive guide on how to create an online business as well as how to promote or market products and services. As of September 2013, a total of 4,350 entrepreneurs have been approved grants to start their online business.

Conclusion

Even though the number of Internet users and online businesses in Malaysia is growing, however, e-commerce remains relatively low compared to Europe and the US. Individuals thus need to take full advantage of the economic and social benefits of the Internet. SMEs and entrepreneurs must also leverage the opportunities provided by the Internet to set up or grow their businesses. As envisaged under the Digital Malaysia initiative, it is important that Malaysian businesses, particularly SMEs and entrepreneurs as well as consumers, capitalise on ICT and wholly embrace digital technology, in line with the transformation towards a high-income nation.

The rapid growth of information and communication technology (ICT) and e-commerce has raised concerns on the issue of data protection. In this regard, the Personal Data Protection Act 2010 was introduced to ensure individuals' personal data is handled properly and protected. Meanwhile, in efforts to bridge the digital gap between rural and urban areas, the Universal Service Provision (USP) projects are carried out through the implementation of *Kampung Tanpa Wayar 1Malaysia* (KTW1M) and 1Malaysia Internet Centres (PI1M). These initiatives have enabled communities with limited communication facilities to enjoy the benefits of ICT. As at end-August 2013, a total of 4,374 KTW1M and 359 PI1M (end-August 2012: 3,287; 251) have been developed in rural and underserved areas throughout the country. In addition, free WiFi is provided at public premises such as libraries, information centres, R&R areas, public transport terminals, hospitals and other locations. The subsector is expected to grow 9.4% in 2013 (2012: 9.2%) supported by higher use of cellular and broadband services.

The *transport and storage subsector* grew 4% in the first six months of 2013 (January – June 2012: 5.9%) attributed to higher land transport activity to support production for the domestic market. Growth was also supported by rising passenger demand for air transport. In 2013, the subsector is expected to increase 5.2% (2012: 4.9%) on the back of resilient domestic economic activity as well as an improving external sector during the second half.

The land transport segment grew 3.7% (January – June 2012: 6.5%) on account of increased rail ridership amid continuous efforts to improve public transport facilities. In the first seven months of 2013, Keretapi Tanah Melayu Berhad (KTMB) intercity passenger traffic rebounded 3.9% to 2.5 million (January – July 2012: -10.3%; 2.4 million). Similarly, KTMB revenue rose 5.8% to RM64.7 million (January – July 2012: -4.4%; RM61.2 million) mainly from increased Electric Train Service (ETS) ridership on the Kuala Lumpur – Ipoh route. Furthermore, freight volume of KTMB increased 10.7% to 3.9 million tonnes (January – July 2012: 5.3%; 3.6 million tonnes) with revenue

Personal Data Protection Act 2010

Introduction

The Personal Data Protection Act 2010 (PDPA) regulates the collection, storage, processing and use of any personal data in commercial transactions and related matters. The Act aims to protect personal data belonging to the public from being misused through commercial transactions. The PDPA was passed by Parliament in April 2010 and gazetted in June 2010.

Under the PDPA, it is an offence for the data users to reveal personal data to third parties without the consent of the data owner. This would thus require the data users to re-evaluate their current data privacy policies, processes and personal data management. The Act accords certain rights to the data owner, among others, the requirement for consent before the data is processed or updated.

The PDPA does not apply to the Federal and State Governments in order to provide flexibility and the right to use basic personal data for legal administrative purposes. In addition, the Act does not apply to any personal data processed outside Malaysia unless it is intended to be further processed in Malaysia.

Key Principles of the PDPA

No.	Principle	Details
1.	General	Data users are not allowed to process personal data of individuals without permission.
2.	Notice and Choice	Data owners should be informed by written notice if their personal data is being processed, whether it is obligatory or voluntarily for them to supply the personal data.
3.	Disclosure	No personal data shall be disclosed without the consent of the data owners.
4.	Security	When processing personal data, precautionary measures must be taken to protect the data from any loss, misuse, modification or destruction.
5.	Retention	Personal data shall not be kept in a processing system longer than needed.
6.	Data Integrity	All personal data must be accurate, complete, non-confusing and up-to-date in line with the purpose of storing and processing.
7.	Access	Data owners must be given access to their personal data and be allowed to update the data.

Advantages of the PDPA

- Place greater emphasis on the protection of sensitive personal data that is used in commercial transactions;
- Recognition of information privacy as one of the fundamental human rights;

- Protection of invaluable data that has potential of being commoditised;
- Increase customers' and employees' trust in the organisations that use personal data; and
- Facilitate trade activities regionally and globally.

Challenges of the PDPA

- Lack of awareness and misconception on personal data protection rights of the public;
- Greater demand for transparency and controls from the public on how their personal data is being managed;
- Ensuring an up-to-date and relevant legislative framework that is in line with international best practices;
- Optimising public resources in terms of human capacity and demand to meet public expectations; and
- Need to limit the use of personal data to protect the data owner and minimise possible risk of abuse.

Economies With PDPA

Zone	Economy
European Union	All members.
Asia Pacific	Japan, Republic of Korea, New Zealand, Hong Kong, Macau, Australia, Malaysia, Taiwan, Thailand, Philippines and Singapore (Indonesia and China are in the midst of finalisation).
North America	United States of America and Canada.
South America	Chile, Argentina, Brazil and Mexico.

Penalty

The penalty for breaching the PDPA is a maximum fine of RM500,000, or imprisonment of three years, or both.

Conclusion

With the PDPA soon to be enforced, people will be more confident that their personal information is well protected. In addition, an effective personal data protection and compliance framework by businesses will strengthen corporate reputation and governance. Similarly, PDPA policies will enhance regional cooperation as well as build trust and secure communication with other countries.

rising 11.3% to RM81.3 million (January – July 2012: 2.6%; RM73.1 million) on higher cargo of construction-related materials. Total rail¹ ridership in the Klang Valley increased sharply by 12.9% to 124.1 million passengers (January – July 2012: 1.7%; 109.9 million). Similarly, bus² ridership grew 3.9% to 83.1 million passengers (January – July 2012: 4.6%; 80 million) mainly due to the introduction of RapidKuantan service with a fleet of 44 buses. The number of vehicles plying tolled highways rose 3.6% to 946.9 million (January – July 2012: 5.3%; 914.3 million) attributed to higher use during festivities and school holidays.

The air transport segment registered a growth of 3.8% (January – June 2012: 1.2%) driven by higher passenger traffic amid increased competition, particularly among the budget airlines. During the first seven months of 2013, total passenger traffic in airports nationwide surged 14.2% to 44.1 million (January – July 2012: 3.2%; 38.6 million) on account of higher domestic passengers and tourist arrivals. Likewise, the total number of passengers on the domestic carriers³ increased 13.5% to 25.1 million (January – July 2012: 18.6%; 22.1 million). In addition, total air cargo handled at airports nationwide rose 1.6% to 518,210 tonnes (January – July 2012: -1%; 510,179 tonnes) in line with the improved performance of semiconductor exports. Total air cargo handled by MASKargo and AirAsia rebounded 6.8% to 180,792 tonnes during the first five months of 2013 (January – May 2012: -9.9%; 169,327 tonnes).

The water transport segment grew 1.4% (January – June 2012: 4.8%) with cargo services posting a positive growth despite moderate external trade. During the first seven months of 2013, the total number of ship calls at major ports⁴ increased 9.1% to 24,588 ships (January – July 2012: -4.3%; 22,530). Meanwhile, total container throughput in major ports increased slightly by 0.5% to 11.9 million twenty-foot equivalent units (TEUs) (January – July 2012: 4.5%; 11.9 million TEUs). The top

two ports in the country, Port Klang and Port of Tanjung Pelepas (PTP), handled 6 million TEUs and 4.5 million TEUs, accounting for 49.8% and 37.6% of total container throughput (January – July 2012: 5.9 million TEUs; 4.5 million TEUs; 49.6%; 37.9%), respectively.

The *utilities subsector* increased 4% during the first six months of 2013 (January – June 2012: 4.6%) supported by higher electricity consumption. In the first seven months of 2013, electricity consumption rose 7.2% to 69,112 million kilowatt hours (January – July 2012: 6.6%; 64,469 million kilowatt hours), with the industrial, commercial and mining segments contributing 77.5% to total electricity consumption, and domestic and public lighting 22.5%. Electricity generation grew 5.6% (January – July 2012: 5.3%) with the maximum distribution at 11,399 million kilowatt hours in May 2013 (January – July 2012: 10,861 million kilowatt hours; May 2012). Meanwhile, gas sales increased 8% to RM1,299.9 million (January – July 2012: 8.4%; RM1,203.2 million). In addition, water supply production to consumers rose 4.5% to 13,226 million litres per day during the first six months of 2013 (January – June 2012: 2.6%; 12,660 million litres per day). As at end-June 2013, water supply coverage for the urban and rural population stood at 96.9% and 90.8% (end-2012: 96.9%; 90.7%), respectively. The subsector is estimated to grow 5.1% in 2013 (2012: 4.3%) mainly due to rising demand for electricity consumption in the industrial, commercial and mining segments.

The *other services subsector* grew 5.2% during the first six months of 2013 (January – June 2012: 4.1%), with the value-added of private education and health activities increasing 6.1% and 5.4% (January – June 2012: 8.2%; 6.2%), respectively. In 2013, the two segments are expected to contribute further to the growth of the subsector, supported by aggressive promotions to attract more foreigners to study or seek treatment in Malaysia. Meanwhile, the number of foreign

¹ Ampang Line, Kelana Jaya Line, KL Monorail, Express Rail Link and KTM Komuter.

² RapidKL, RapidPenang and RapidKuantan.

³ Malaysia Airlines, AirAsia, Firefly, MASwings and AirAsia X.

⁴ Port Klang, Tanjung Pelepas, Penang, Kuantan, Johor, Bintulu and Kuching.

patients is targeted to reach 700,000 with revenue of RM630 million (2012: 671,727; RM584 million). Boosted by higher private education and health activities, the subsector is anticipated to grow 6.3% in 2013 (2012: 3.9%). The *government services subsector* is expected to increase 5% in 2013 (2012: 9.5%) in line with productivity improvement in the civil service.

Manufacturing Sector

Slower pace of expansion

Value-added of the *manufacturing sector* expanded at a slower pace of 1.9% during the first six months of 2013 (January – June 2012:

5.1%). Output of the sector increased 2.7% during the first eight months of 2013 (January – August 2012: 4.6%) underpinned by resilient domestic-oriented industries amid moderate growth in the export-oriented industries.

Output from **domestic-oriented industries** continued to be the mainstay of growth, expanding 5.5% (January – August 2012: 7.9%) driven by construction-related and higher transport equipment production while **export-oriented industries** registered a slower growth of 1.7% (January – August 2012: 3.5%). However, in line with strong private investment, the sector continued to attract domestic and foreign investments, with approved investments valued at RM28.3 billion during the first seven months of 2013. Average

TABLE 3.3

Manufacturing Production Index January – August (2005 = 100)

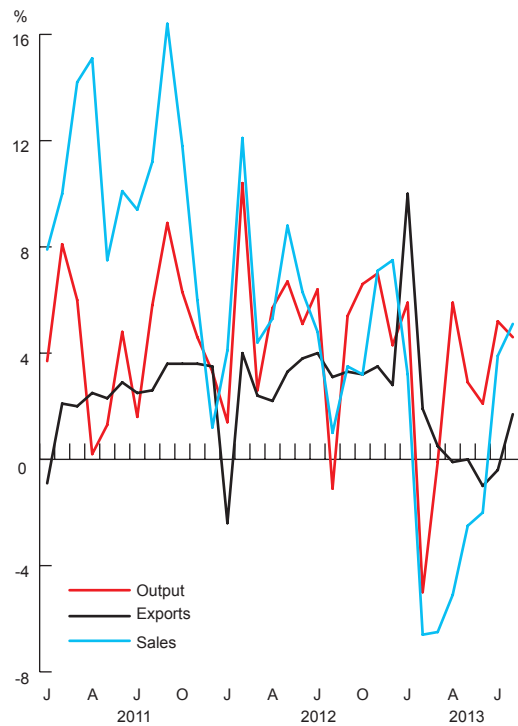
	Index		Change (%)		Share (%)	
	2012	2013	2012	2013	2012	2013
Export-oriented industries	113.6	115.6	3.5	1.7	75.1	74.5
Electrical and electronic products	95.5	97.3	1.0	1.9	25.4	25.2
Chemicals and chemical products	138.2	145.6	8.8	5.4	19.8	20.3
Petroleum products	124.1	119.8	5.6	-3.5	16.1	15.2
Wood and wood products	83.6	83.7	4.5	0.1	3.1	3.0
Off-estate processing	107.9	112.6	-5.8	4.3	3.3	3.3
Rubber products	174.4	192.8	2.8	10.6	3.6	3.9
Paper products	135.4	123.9	-4.7	-8.5	2.4	2.2
Textiles, apparel and footwear	86.6	86.9	-6.6	0.4	1.4	1.3
Domestic-oriented industries	152.3	160.7	7.9	5.5	24.9	25.5
Non-metallic mineral and other related products	157.1	140.0	6.6	-10.9	3.9	3.4
Fabricated metal products	232.3	266.8	13.5	14.8	5.4	6.1
Basic metals	106.7	111.3	-7.2	4.3	2.2	2.2
Transport equipment	139.0	159.0	12.3	14.4	5.0	5.5
Food products	150.4	156.0	10.6	3.7	5.2	5.3
Beverages	152.2	146.8	-1.9	-3.6	1.6	1.5
Tobacco products	111.8	98.1	21.0	-12.3	0.3	0.3
Others	114.3	122.7	3.3	7.4	1.2	1.3
Total	121.3	124.5	4.6	2.7	100.0	100.0

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

CHART 3.2

Performance of Manufacturing Sector

(% annual change)



Source: Department of Statistics, Malaysia.

wage per employee continued to increase 7.2% to RM2,625 while the number of employees increased 1% (January – August 2012: 6.5%; RM2,448; 0.6%), largely in the domestic-oriented industries. Likewise, the capacity utilisation rate remained high at 80.7% during the second quarter of 2013 (Q1 2013: 77.8%). Latest manufacturing indicators such as the PMI and global chip sales point to a continuing recovery in global manufacturing activity which augurs well for Malaysia's manufacturing output.

In the *E&E* subsector, output was sustained at 1.9% during the first eight months of 2013 (January – August 2012: 1%). The global semiconductor industry is showing signs of recovery as reflected in higher global chip sales and the book-to-bill ratio which continued to rise above 1 during the first half of 2013. In tandem with these developments, the output of Malaysian electronic products, in particular

TABLE 3.4

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

	Change (%)		Share (%)	
	2012	2013	2012	2013
Total E&E	1.0	1.9	25.4	25.2
Semiconductors and other electronic components	3.2	11.9	10.9	11.8
Audio visual and communication apparatus	3.1	-12.0	5.5	4.7
Office and accounting machinery as well as computers and computer peripherals	-8.0	-1.4	3.2	3.1
Electrical machinery and apparatus	6.3	-1.2	3.1	3.0
Domestic appliances	-15.1	-10.1	0.2	0.2
Machinery and equipment	-4.2	-1.4	2.5	2.4

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

semiconductor devices as well as electronic valves, tubes and printed circuit boards grew favourably by 9.6% and 25.7%, respectively. In comparison, the slowdown of office and accounting machinery as well as computers and computer peripherals persisted, albeit decreasing moderately by 1.4%. The slowdown was partly due to higher output of ultrabooks and tablets, which cushioned the slower growth of personal computers (PCs).

Output of *chemicals and chemical products* grew at a slower pace of 5.4% (January – August 2012: 8.8%) partly due to the decline in production of basic chemicals (-1.6%). The subsector was mainly supported by increasing demand for plastic products (16%), in particular plastic bags and films which grew favourably by 26.1% following stronger shipments to Singapore, Thailand and Australia. Meanwhile, *petroleum* output decreased 3.5% (January – August 2012: 5.6%) following lower mining

Enhancing the Contribution of Microenterprises to the Economy

Introduction

Small and medium enterprises (SMEs) comprise 97.3%¹ of total registered business establishments in Malaysia, contribute 32.7% to the GDP and about 60% to employment. SMEs have been identified as one of the key engines of growth to transform Malaysia into a fully developed high-income nation by 2020.

There are three different categories of SMEs, namely micro, small and medium enterprises. The various SME categories are defined based on two criteria: annual sales turnover or number of full-time employees. The current definition covers the manufacturing, primary agriculture and services sectors, with minimum annual sales threshold of RM250,000 or less than 5 full-time employees. Effective from 1 January 2014, the new definition of SMEs will have its qualifying threshold increased.

TABLE 1

Detailed definition of SMEs by the three categories: Micro, Small and Medium (Current)

CATEGORY	MICRO	SMALL	MEDIUM
Manufacturing (including agro-based & manufacturing-related services)	Sales turnover of less than RM250,000 OR less than 5 employees	Sales turnover from RM250,000 to less than RM10 mil OR 5 to less than 50 employees	Sales turnover from RM10 mil to RM25 mil OR 50 to 150 employees
Primary Agriculture	Sales turnover of less than RM200,000 OR less than 5 employees	Sales turnover from RM200,000 to less than RM1 mil OR 5 to less than 20 employees	Sales turnover from RM1 mil to RM5 mil OR 20 to 50 employees
Services Sector (including information and communications technology)	Sales turnover of less than RM200,000 OR less than 5 employees	Sales turnover from RM200,000 to less than RM1 mil OR 5 to less than 20 employees	Sales turnover from RM1 mil to RM5 mil OR 20 to 50 employees

Source: SME Corp.

TABLE 2

Detailed definition of SMEs by the three categories: Micro, Small and Medium (effective from 1 January 2014)

CATEGORY	MICRO	SMALL	MEDIUM
Manufacturing	Sales turnover of less than RM300,000 OR less than 5 employees	Sales turnover from RM300,000 to less than RM15 mil OR 5 to less than 75 employees	Sales turnover from RM15 mil to RM50 mil OR 75 to 200 employees
Services and other sectors	Sales turnover of less than RM300,000 OR less than 5 employees	Sales turnover from RM300,000 to less than RM3 mil OR 5 to less than 30 employees	Sales turnover from RM3 mil to RM20 mil OR 30 to 75 employees

Source: SME Corp.

¹ As a result of the change in definition, the share of SMEs to total business establishments is expected to increase from 97.3% currently, to 98.5%.

Based on the current SME definition, the majority of SMEs are in the services sector (90%), followed by manufacturing (5.9%), construction (3%), agriculture (1%) and mining and quarrying (0.1%).

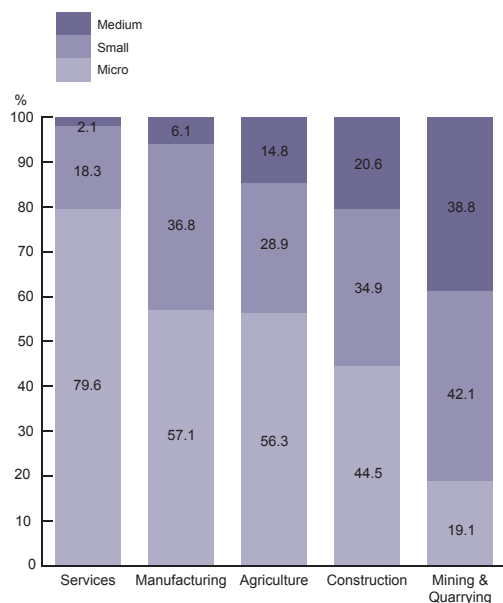
TABLE 3

Breakdown of SMEs Across Sectors

Sector	SMEs	Total Business Establishments	Share of SMEs over Total Business Establishments (%)	Share of SMEs over Total SMEs (%)
Services	580,985	591,883	98.2	90.0
Manufacturing	37,861	39,669	95.4	5.9
Agriculture	6,708	8,829	76.0	1.0
Construction	19,283	22,140	87.1	3.0
Mining & Quarrying	299	418	71.5	0.1
Total Establishments	645,136	662,939	97.3	100.0

Source: Department of Statistics, Malaysia.

CHART 1

Percentage Share of SMEs by Sector and Size

Source: Department of Statistics, Malaysia.

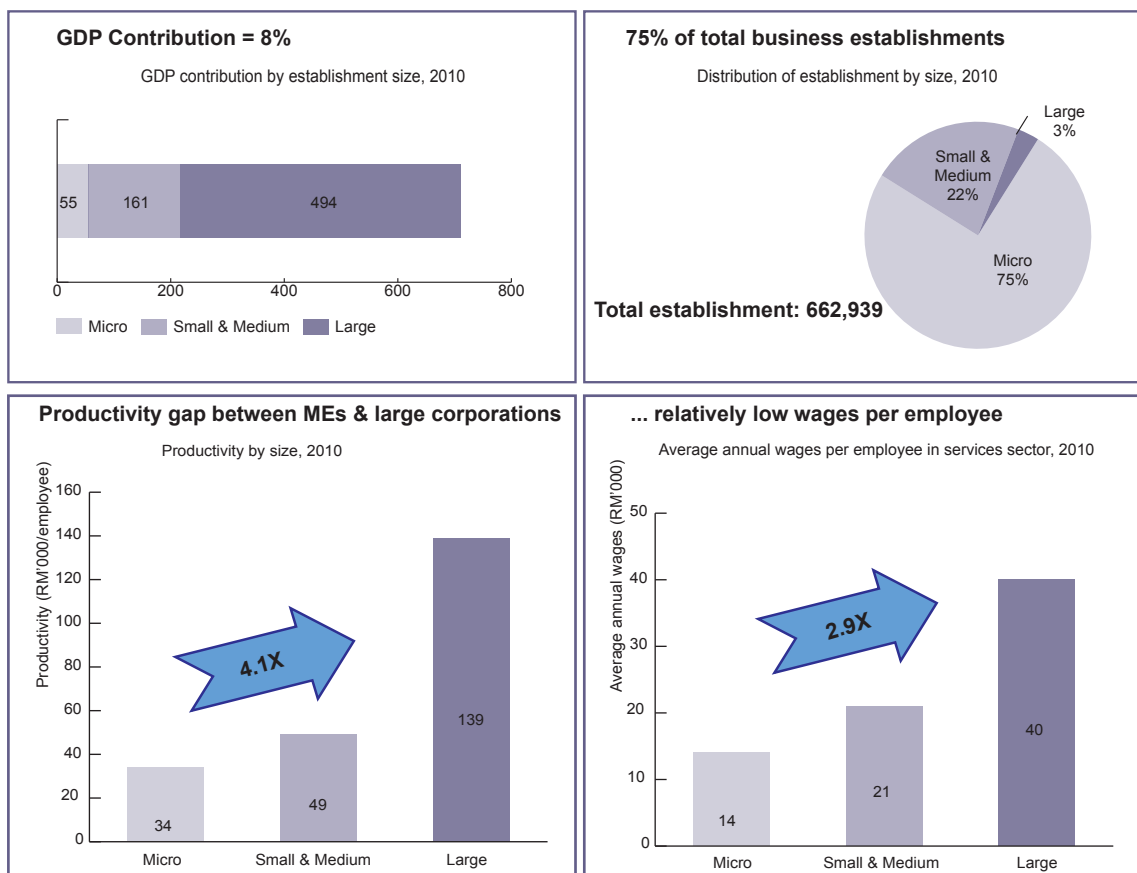
Microenterprises

Microenterprises (MEs) are defined as establishments having annual sales of less than RM250,000 or employing less than 5 workers. According to the 2011 Economic Census by the Department of Statistics Malaysia, MEs represent 75% of total business establishments in the country. The majority of MEs are in the services sector with 462,420 establishments (93.1%), followed by the manufacturing sector with 21,619 establishments (4.4%), construction with 8,587 establishments (1.7%), agriculture sector with 3,775 establishments (0.8%) and the mining and quarrying sector with 57 establishments (0.01%).

Despite their substantial numbers at 496,458 business establishments, MEs are unable to progress up the value chain due to low productivity and lack of growth. Their contribution to the GDP is only 8% and productivity gap is 4.1 times lower compared to the large companies. Meanwhile, their wages per employee is 2.9 times lower compared to large companies.

CHART 2

Microenterprises: Contribution to GDP and Total Business Establishments; Productivity and Average Wages



Source: SME Corp. and Department of Statistics, Malaysia.

The development of the Breakout Strategy for Microenterprises is being formulated in line with the SME Masterplan as a holistic package to enhance and accelerate the growth of MEs and its contribution to the economy. Under the SME Masterplan, a differentiated strategy will be adopted to suit the needs of all SMEs ranging from simple operations to the more sophisticated firms. One of the programmes under the SME Masterplan targeted for the MEs is the High-Impact Programme 6, known as Inclusive Innovation to empower the bottom 40% of the income pyramid. The Programme will promote transformation of MEs through hand-holding as well as provision of technical, financial and management support programmes, which in turn will increase the productivity of MEs. In addition, the Government has formed Tabung Kumpulan Ekonomi Usaha Niaga (TEKUN Nasional) in 1998 to enhance ME entrepreneurs' access to financing and develop their businesses further. In Budget 2013, RM180 million was allocated to TEKUN Nasional for microfinancing activities, while RM2.86 billion has been channelled to 272,104 ME entrepreneurs throughout the country since its formation.

Issues and Challenges

There are four key issues and challenges faced by MEs:

i. Inefficient infrastructure and policy execution:

- MEs lack the information on relevant agencies to go to for assistance, while some agencies have overlapping roles and responsibilities, thus increasing the challenges of effective execution and monitoring;
- MEs also perceive that there is too much emphasis on procedural checks and controls, which causes inefficiency in processing applications. Although there are many microfinance products in the market, the ME beneficiaries of these funds represented only 17% of total MEs; and
- MEs find it difficult to obtain funding due to the lack of credit history and inability to provide all the information required for funding applications.

ii. Lack of capacity and capability to compete effectively:

Most MEs in Malaysia have limited access to resources to grow their businesses. Many are not aware of ways to improve business operations due to the lack of exposure to successful business practices; while those who are aware, have limitations in accessing these resources.

iii. Lack of an entrepreneurial mindset:

The Government has undertaken various efforts to improve the business environment. However, there is need for more efforts to shift from a general employment-driven and self-employed mindset to a true entrepreneurial mindset. The general population is looking more for job security and making enough to earn a livelihood as opposed to a true entrepreneur who has passion to produce his or her products and services.

iv. Lack of long term coordinated support:

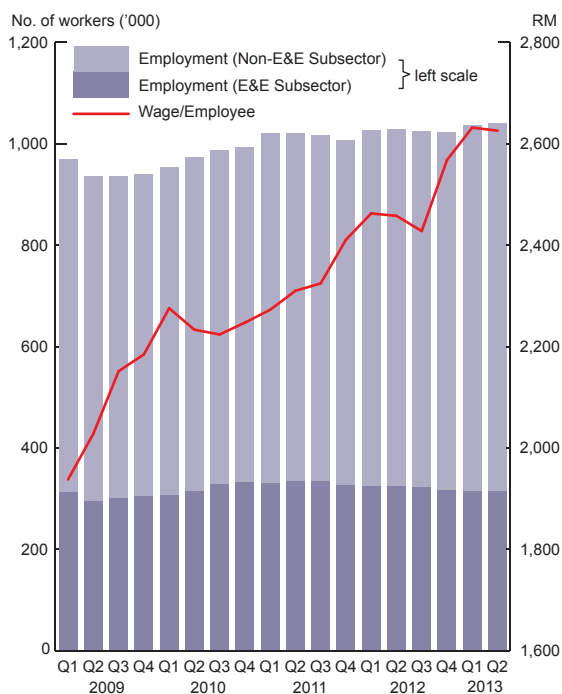
An analysis of current ongoing initiatives shows that much focus in the past has been placed on creating a supply of MEs rather than demand for ME products and services, resulting in market distortions and oversupply of products and services. The Government recognised the importance of creating demand to match supply. However, much more efforts need to be undertaken to create demand effectively.

Conclusion

Given these issues and challenges, the Government will continue to engage with relevant stakeholders to work out a detailed implementation plan to further develop MEs. In this regard, the National SME Development Council is currently studying the Breakout Strategy for Microenterprises which is expected to be finalised in the near term. The proposed strategies are expected to enable MEs to tap into the entire supply value chain of the economy, thereby enhancing MEs' contribution to the GDP. The development of MEs is expected to contribute towards increasing the overall SMEs' contribution to the economy to 41%, employment to 62% and exports to 25% by 2020, as targeted in the SME Masterplan.

CHART 3.3

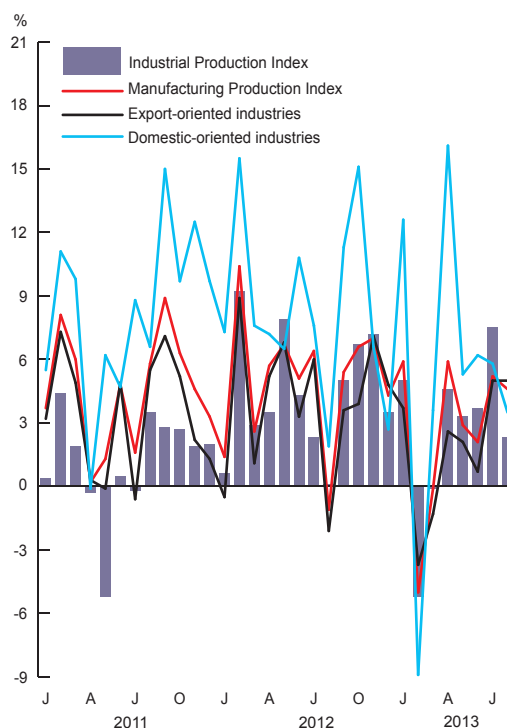
Employment and Wages in the Manufacturing Sector (% annual change)



Source: Department of Statistics, Malaysia.

CHART 3.4

Output of Manufacturing Sector (% annual change)



Source: Department of Statistics, Malaysia.

output during the early part of the year. The spillover effects were also felt on other related manufacturing activities, in particular industrial gases which fell 8.3%. However, paints, varnishes and similar coatings and mastics surged 35.6% following strong construction activities in the country.

Off-estate processing output rebounded 4.3% from the low-base effect last year (January – August 2012: -5.8%), despite slower commodity prices. The boost came from manufacture of CPO and palm kernel oil which increased 5.7% and 7.3%, respectively. Meanwhile, production of *wood and wood products* grew marginally by 0.1% (January – August 2012: 4.5%) as a result of lower output of wooden and cane furniture (-12.4%). Growth was largely supported by a rebound in veneer sheets and plywood (0.8%) as well as sawmilling and planing of wood (17.3%).

Output of *rubber products* continued to expand 10.6% (January – August 2012: 2.8%), mainly supported by continuous demand for rubber gloves. Output of rubber gloves grew 7.9%, benefiting from lower average selling prices as raw material prices declined. In addition, the outbreak of infectious diseases such as H7N9 and Middle East Respiratory Syndrome (MERS) stimulated demand for rubber gloves. However, production of rubber tyres and tubes contracted at a more moderate pace of 2.9% in tandem with some improvement in orders from the automotive industry amid lower external demand, particularly from China.

Despite lower external sales, resilient domestic demand has supported the domestic-oriented manufacturing activity. *Construction-related materials* expanded 4.1% (January – August 2012: 6.7%) supported by stronger construction activity with *fabricated metal products* registering an impressive 14.8% growth and *basic metal*

TABLE 3.5

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

	Change (%)		Share (%)	
	2012	2013	2012	2013
Construction-related materials	6.7	4.1	11.5	11.7
of which:				
Structural metal products, tanks, reservoirs and steam generators	25.2	27.5	2.4	2.9
Hydraulic cement	5.1	-0.6	1.0	1.0
Refractory ceramic products	23.6	-38.4	1.2	0.7
Ready-mix concrete	19.8	18.8	0.3	0.3

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

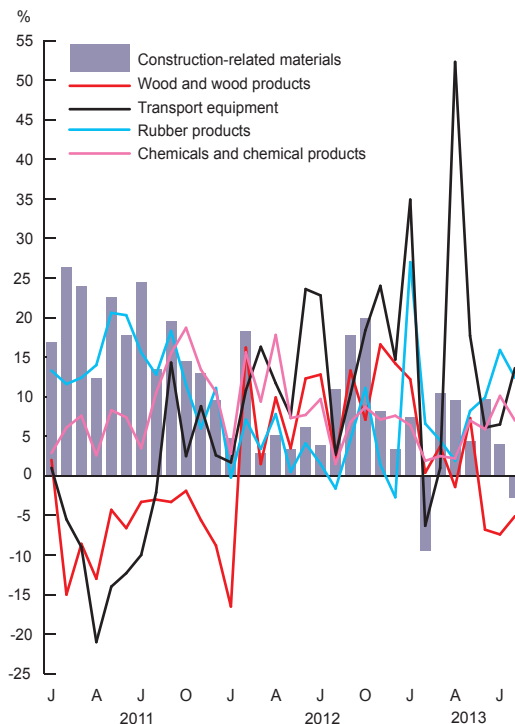
products rebounding 4.3%. Buoyed by the continued rollout of major ETP projects, including the development of Sabah Oil and Gas Terminal (SOGT) and Tanjung Bin coal-power plant, ready-mix concrete expanded 18.8%.

Output of *transport equipment* accelerated 14.4% (January – August 2012: 12.3%), with production of motor vehicles (7.7%), bodies for motor vehicles (10.8%) and parts and accessories (36%) continuing to record rapid growth. Total sales of vehicles during the first eight months of 2013 were higher at 433,023 units, an increase of 5%. This was on account of the introduction of new models at very competitive prices and aggressive sale campaigns which generated greater buying interest. For 2013, sales is expected to continue to expand, with the total industry volume (TIV) estimated to reach 640,000 units supported by high household income and stable employment prospects.

The manufacture of *food products* grew 3.7% (January – August 2012: 10.6%) due to a slower pace of growth in dairy products (14.3%) and lower output of grain mill products (-8%). The subsector is primarily supported by manufacture of

CHART 3.5

**Performance of Selected Industries
(% annual change)**



Source: Department of Statistics, Malaysia.

refined palm oil products which rose 15.1%. Production of dairy products grew, albeit at a moderate pace, due to the high-base effect from last year.

Agriculture Sector

Supported by key food commodities

Value-added of the **agriculture sector** recorded a stronger growth of 3.1% during the first half of 2013 (January – June 2012: -1.3%) driven by the significant increase in output of CPO. Growth was also supported by higher output of food commodities such as vegetables, paddy and fruits, reflecting the positive impact of measures taken by the Government to increase food production. The sector is expected to grow further supported by increasing yields following the adoption of good agricultural practices, promotion of self-sufficiency

TABLE 3.6

**Value-added in the Agriculture Sector
2012 – 2013**

(at constant 2005 prices)

	Growth (%)		Share of Agriculture (%)	
	2012	2013 ¹	2012	2013 ¹
Agriculture	1.0	2.7	100.0	100.0
Oil palm	-0.3	3.3	36.5	36.7
Rubber	-6.3	-8.2	8.2	7.3
Livestock	9.0	8.1	11.7	12.3
Other agriculture ²	6.9	8.1	18.2	19.1
Forestry and logging	-6.5	-8.4	11.0	9.8
Fishing	1.8	4.9	14.4	14.8

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.

in food production, favourable weather conditions and strong domestic demand. The sector is expected to expand 2.7% in 2013 (2012: 1%).

Value added of the **oil palm subsector** rebounded 7.7% during the first six months of 2013 (January – June 2012: -8.6%). Output of CPO continued to expand 4.1% to 13.7 million tonnes during the first nine months of 2013 (January – September 2012: -5.1%; 13.2 million tonnes). This was attributed to higher yield of fresh fruit bunches (FFB) to 13.6 tonnes per hectare (January – September 2012: 13.1 tonnes per hectare); the expansion in total mature areas (2.6%), mainly in Sabah (2.4%) and Sarawak (7.3%); and good agricultural practices resulting in a higher oil extraction rate of 20.2%. For 2013, output of CPO is expected to expand 3.3% to 19.4 million tonnes (2012: -0.7%; 18.8 million tonnes).

The Malaysian palm oil industry continues to make significant progress in moving up the value chain with focus on downstream activities,

creating new sources of export earnings and promoting the growth and use of sustainable oil palm products through the development of the Palm Oil Industrial Clusters (POICs). The main objective of POIC is to encourage downstream activities such as biofuels, oleochemicals, biofertilisers, specialty food products, biomass products, nutraceuticals and pharmaceuticals. As of end-June 2013, six locations are being developed under the POIC programme with the cost of infrastructure development borne by the Government.

TABLE 3.7

Development of Palm Oil Industrial Clusters

POIC	Development Year	Total Area (Acres)	% Work Done (as at June 2013)
POIC Lahad Datu, Sabah	2005	5,000	95
POIC Sandakan, Sabah	2006	2,810	98
POIC Tanjung Langsat, Johor	2007	178	82
POIC Tanjung Manis, Sarawak	2008	227	82
POIC Bintulu, Sarawak	2008	126	87
POIC Kuantan, Pahang	2010	610	98

Source: Malaysian Palm Oil Board.

The average CPO prices declined to RM2,332 per tonne during the first nine months of 2013 (January – September 2012: RM3,095 per tonne). This was due to rising inventories during the early part of 2013 following sluggish external demand and increasing world supply of major oil seeds such as soybean, rapeseed and sunflower seed. CPO prices are expected to trade at an average of RM2,300 per tonne in 2013 barring supply shocks due to unfavourable weather conditions. Nevertheless, there is an upside potential from the anticipated increase in imports of CPO by China, the US and the European Union (EU) as their economic activity continues to improve during the second half of 2013.

TABLE 3.8

**Palm Oil Areas, Yield and Production
2012 – 2013**

			Change (%)	
	2012	2013 ¹	2012	2013 ¹
Planted areas (‘000 hectares)	5,077	5,177	1.5	1.9
Matured areas (‘000 hectares)	4,353	4,442	1.5	2.0
Production (‘000 tonnes)				
Crude palm oil	18,785	19,414	-0.7	3.3
Crude Palm kernel oil	2,164	2,200	0.9	1.7
Yield (tonnes/ hectare) ²	18.9	19.9	-5.0	5.3

¹ Estimate.² Fresh fruit bunches yield.

Note: Total may not add up due to rounding.

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

TABLE 3.9

**Rubber Areas, Yield and Production
2012 – 2013**

			Change (%)	
	2012	2013 ¹	2012	2013 ¹
Total areas (‘000 hectares)	1,042	1,050	0.2	0.8
Smallholdings	977	986	2.3	0.9
Estates	64	64	0.0	0.0
Yield (kg per hectare)				
Smallholdings	1,457	1,510	-1.3	3.6
Estates	1,550	1,570	-0.6	1.3
Total production (‘000 tonnes)	923	848	-7.4	-8.1
Smallholdings	864	794	-8.4	-8.1
Estates	59	54	10.9	-8.5
% of world production	8.1	7.1		

¹ Estimate.

Note: Total may not add up due to rounding.

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

Value-added of the **rubber subsector** declined 13.7% (January – June 2012: -5%). Natural rubber production contracted 12.1% to 0.48 million tonnes during the first seven months of 2013 (January – July 2012: -7.9%; 0.54 million tonnes) as smallholders reduced tapping activity following a prolonged fall in prices since second half of 2012. The average SMR20 rubber price declined to RM7.93 per kilogramme (kg) during the first nine months of 2013 (January – September 2012: RM9.83 per kg). With prices remaining weak and taking into account the higher stock growth, total natural rubber production is expected to contract 8.1% to 0.84 million tonnes (2012: -7.4%; 0.92 million tonnes).

Production of food commodities comprising livestock, other agriculture and fishing remain as the main driver of the agriculture sector. Value-

TABLE 3.10

**Production of Other Agriculture
2012 – 2013**
(‘000 tonnes)

			Change (%)	
	2012	2013 ¹	2012	2013 ¹
Cocoa	3.6	3.0	-20.8	-16.7
Paddy	2,600	2,652	0.8	2.0
Livestock				
Meat ²	287.6	288.5	1.8	0.3
Poultry	1,373	1,483	2.6	8.0
Eggs (million)	10,710	11,074	3.4	3.4
Milk (million litre)	75	79	5.8	5.8
Miscellaneous agriculture				
Fruits ³	1,175	1,257	1.0	7.0
Pepper	26	27	1.6	1.9
Vegetables	879	958	-6.3	9.0
Coconut (million unit)	607	637	7.8	4.9
Flowers (million cutting)	419	421	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.

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.

added of the **livestock subsector** increased 7.4% (January – June 2012: 8.9%), mainly on account of higher poultry output (9.2%), goats (45.7%) and eggs (4.6%), as demand by domestic food processing industries and the external market increased. Meanwhile, the **fishing subsector** rebounded 4% (January – June 2012: -2.1%) on account of higher growth of aquaculture produce at 3.7% and marine fish landings, 4.2%. Similarly, the **other agriculture subsector** expanded strongly by 8.9% (January – June 2012: 7.7%) attributed to higher output of paddy (3.2%), fruits (9.4%) and vegetables (13.4%) amid expansion in cultivated areas.

Mining Sector

Higher natural gas production

The **mining sector** registered a marginal growth of 1% during the first half of 2013 (January – June 2012: 1.2%) due to lower crude oil production. **Crude oil (including condensates)** registered a marginal decline of 0.03% to 576,744 barrels per day (bpd) during the first eight months of 2013 (January – August 2012: 2.1%; 576,944 bpd) due to lower production from maturing oil fields. Given the declining production trend, efforts have been made to optimise existing oil fields and accelerate new development projects. These efforts have begun to yield results. For 2013, production is projected to increase 2.5% to 600,000 bpd (2012: 3.1%; 585,182 bpd) due to output from new fields, notably Gumusut-Kakap which is expected to come on stream during the fourth quarter of 2013.

Meanwhile, production of **natural gas** which grew 6.1% to 6,258 million standard cubic feet per day (mmscfd) (January – August 2012: -0.2%; 5,896 mmscfd) cushioned the decline in crude oil output. Growth was contributed by higher volume from PETRONAS Liquefied Natural Gas (LNG) Complex, Sarawak and additional output from the Telok gas field in Peninsular Malaysia. Thus, for 2013, natural

TABLE 3.11

Production and Reserves of Crude Oil and Natural Gas 2012 – 2013

	2012	2013 ¹	Change (%)	
			2012	2013 ¹
Crude oil				
Production ² (‘000 barrels per day)	585	600	3.1	2.5
Reserves (billion barrels)	5.95	5.85	1.5	-1.6
Reserves/production (years)	29	27		
Natural gas				
Production ³ mmscfd	6,023	6,250	1.5	3.8
Reserves (trillion cubic feet)	92.1	98.3	3.6	6.7
Reserves/production (years)	37	43		

¹ Estimate.

² Including condensates.

³ Excluding flaring and reinjection.

Note: Total may not add up due to rounding.

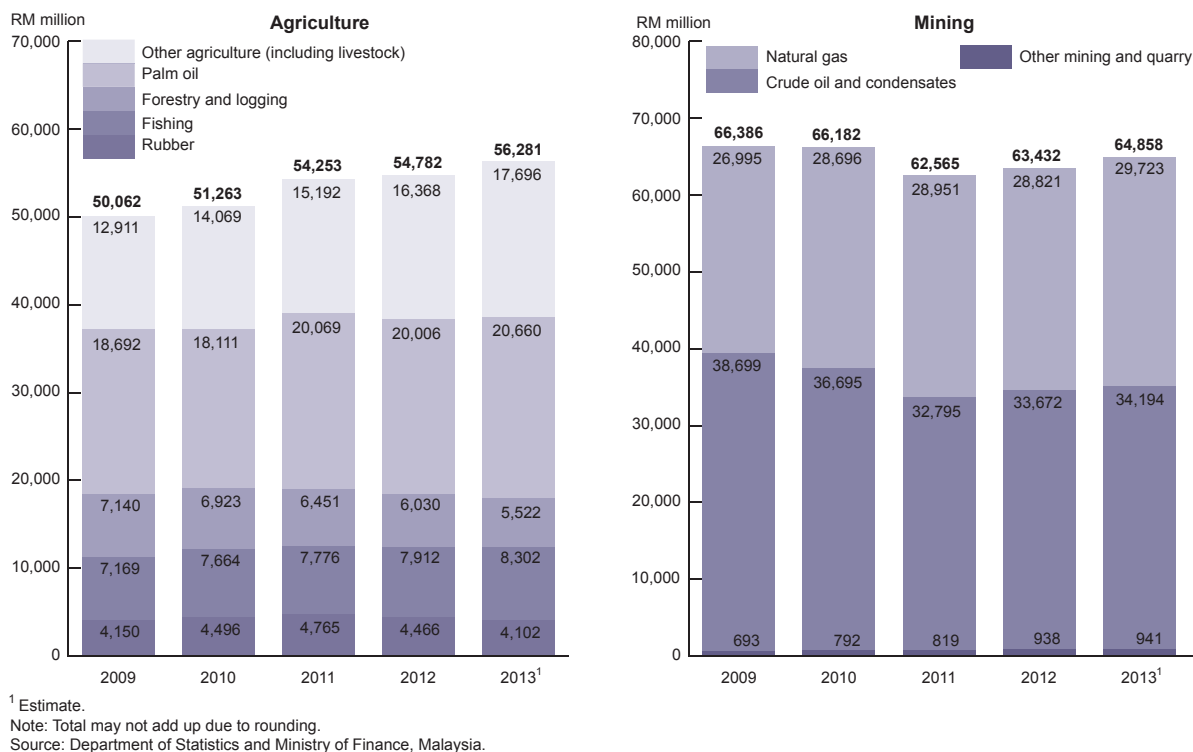
Source: Petroliaam Nasional Berhad.

gas production is expected to increase 3.8% to 6,250 mmscfd (2012: 1.5%; 6,023 mmscfd) on the back of stronger demand from the power, industrial, petrochemical industries and external market. For 2013, value-added of the mining sector is projected to increase 2.2% (2012: 1.4%) on higher output of crude oil and natural gas during the second half of 2013.

Petroliaam Nasional Berhad (PETRONAS) continues to pursue exploration activity to sustain production levels. As of end-June 2013, four new oil wells have been discovered which include Adong Kecil West in offshore Sarawak and Ara fields in offshore Peninsular Malaysia. In addition, six new fields are expected to be brought on stream, increasing the total number of Malaysia’s producing fields to 143, comprising 82 oil and 61 gas fields (2012: 77 oil fields; 55 gas fields). As a result, crude oil reserves stood at 5.85 billion barrels as at

CHART 3.6

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



1 January 2013 and are estimated to last 27 years, while gas reserves stood at 98.3 trillion cubic feet, sufficient to last 43 years.

Dated Brent traded at an average of USD108 per barrel (pb) during the first six months (January – June 2012: USD114 pb) due to the increasingly uncertain global economic outlook. However, since July 2013 to September 2013, Dated Brent has averaged above USD110 pb on improving growth prospects in key advanced economies, reflected by the better-than-expected manufacturing data from China, which signalled firmer demand for energy. Riding on this trend, Tapis price also increased to USD113 pb in July 2013 compared with USD108 pb in April 2013. For 2013, the International Energy Agency reported that global oil demand is expected to increase to 90.8 million bpd. On the supply side, while there will be an increase in production notably from the US due to rising shale oil

output, global oil supply is estimated to remain tight at 91.3 million bpd. Hence, Dated Brent and Tapis prices are expected to remain stable at USD105 pb and USD115 pb, respectively in 2013 (2012: USD112 pb; USD119 pb) supported by the improving economic outlook in emerging markets during the second half of 2013.

Construction Sector

Growth remains robust

Value-added of the **construction sector** grew 12% (January – June 2012: 18.5%) attributed to ongoing civil engineering and residential activities. The total value of construction work during the first half of 2013 rose 13.8% to RM43.3 billion (January – June 2012: 24.6%; RM38.1 billion) with the highest share contributed by civil engineering at 36.1%, followed by the

non-residential (31.9%) and residential (27.5%) subsectors. The overall performance of the sector is expected to moderate to 10.6% in 2013 (2012: 18.1%) following the completion of some of the high-impact public infrastructure projects.

The **civil engineering subsector** expanded 21.5% (January – June 2012: 27.5%) bolstered by the ongoing implementation of infrastructure projects and corridor development. These include Besraya Eastern Extension, Seremban – Gemas – Johor electrified double-tracking project and extension of Kelana Jaya and Ampang light rail transit (LRT) lines as well as Express Rail Link (ERL) from KLIA to KLIA2. The subsector was also driven by the Economic Transformation Programme (ETP) projects, namely Tanjung Bin and Manjung coal-power plants, as well as Kimanis and Lahad Datu power plants. However, for 2013, the subsector is expected to moderate due to the near completion of some major infrastructure projects, namely the Second Penang Bridge, Manjung coal-power plant and Ipoh – Padang Besar electrified double-tracking project. However, key projects including SOGT and Sabah – Sarawak Gas Pipeline (SSGP) projects, the first phase of Sungai Buloh – Kajang MRT line works, extension of the LRT lines and Keretapi Tanah Melayu Berhad (KTMB) Komuter line Subang Jaya – Sungai Buloh (Phase 1) are expected to support growth of the subsector in 2013.

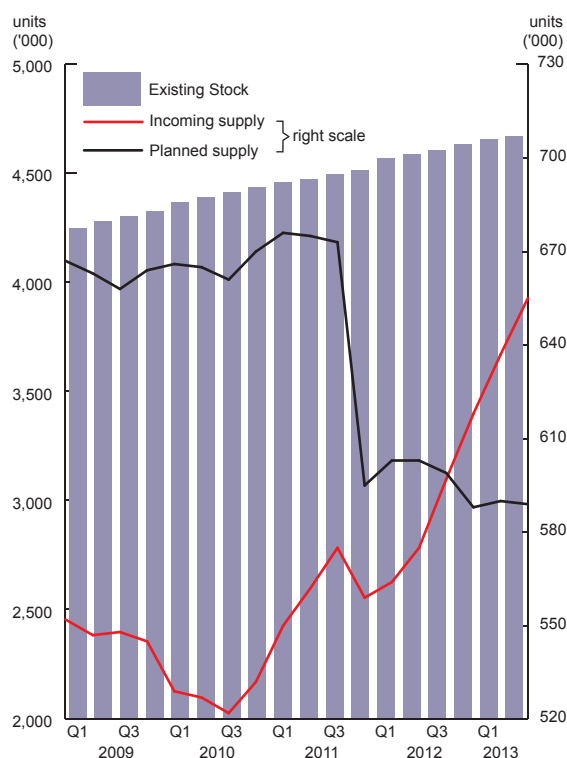
The **residential subsector** expanded 15.7% (January – June 2012: 22%) supported by strong demand and reflected in higher construction activities with housing starts rising 20.3% to 73,804 units (January – June 2012: 13.8%; 61,351 units). In the residential segment, two and three-storey terraced houses as well as condominiums/apartments accounted for 24.9% (18,401 units) and 22.3% (16,422 units) of the total starts, respectively. During the first six months of the year, the Klang Valley continued to dominate the supply, accounting for 31% of housing starts followed by Johor (23.1%), spurred by ongoing infrastructure development (January – June 2012: 39.1%; 15.3%). To expand the supply of affordable houses, the Government has introduced the 1Malaysia Housing Programme

(PR1MA), which is expected to provide 80,000 houses as announced in the 2013 Budget. As at end-June 2013, a total of 20,000 houses under 15 affordable housing projects are being constructed in the Klang Valley, Johor, Pulau Pinang, Sabah and Sarawak. In line with the Government's objective to provide affordable houses to the low-income group, Syarikat Perumahan Negara Berhad (SPNB) has constructed 5,063 units of *Rumah Mesra Rakyat 1Malaysia* as at end-June 2013. In addition, SPNB has targeted to build 7,092 units of low and medium-cost apartments and terraced houses within the next three years. Meanwhile, a total of 45 projects involving 20,454 units of houses under the *Program Perumahan Rakyat* (PPR) will be implemented by Jabatan Perumahan Negara.

Meanwhile, units from new launches dropped 45.4% to 17,105 units (January – June 2012: -6.9%; 31,305 units). Sales of new launches

CHART 3.7

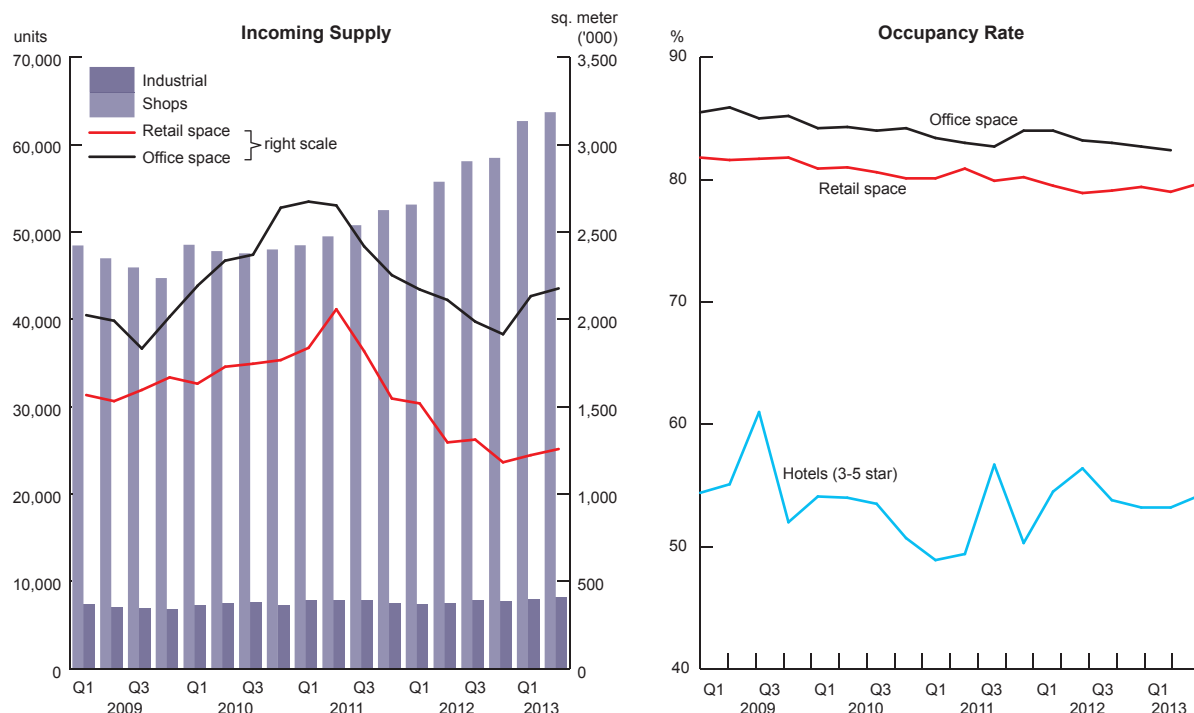
Supply Indicators of Residential Property



Source: National Property Information Centre.

CHART 3.8

Supply Indicators of Non-Residential Property



Source: National Property Information Centre.

remained favourable with a take-up rate of 21.8% (January – June 2012: 15.6%). In line with the increasing demand, the property overhang declined 9.5% to 14,576 units (end-June 2012: -27.7%; 16,098 units) amid the better sales performance of the residential segment.

Following Government initiatives to curb speculative activity, the volume of residential property transactions contracted 12.6% (January – June 2012: 1.5%), while the value increased marginally by 1% to RM32.9 billion (January – June 2012: 8%; RM32.6 billion). In addition, the Malaysia My Second Home (MM2H) programme attracted 1,200 foreign buyers, mostly from Japan, China, the UK, and Iran. Properties worth RM147 million or 0.5% of total property transactions were made under the programme during the first half of 2013. According to Malaysian Property Incorporated, only 3% of property investors in Malaysia are foreigners and concentrated in the high-end property market. However, recent property purchase by foreigners in prime areas, such as Johor and

Pulau Pinang have increased significantly and raised concerns of excessive speculation activity and rising property prices. To address these issues, the Government has responded with measures such as increasing the Real Property Gains Tax (RPGT) rates, lowering the loan-to-value ratio, increasing the supply of affordable homes and tightening bank lending regulations.

House prices continue to rise, albeit at a slower pace in 2013. During the second quarter of 2013, the National House Price Index moderated to 7.8% (Q2 2012: 11.2%) with eight states showing increases, including Johor (20%), Kelantan (17.7%), Sarawak (15.6%), Melaka (15.1%), Kuala Lumpur (13.6%), Pulau Pinang (12.6%), Sabah (10.7%) and Kedah (10.6%). Average all-house prices in Malaysia were at RM257,605 (Q2 2012: RM238,810), with Kuala Lumpur continuing to record the highest prices at RM605,711 followed by Sabah (RM389,203), Selangor (RM387,412), Sarawak (RM330,388) and Pulau Pinang (RM298,697).

In the **non-residential subsector**, construction activity was subdued and declined 1% (January – June 2012: 12.8%) as reflected in the lower incoming supply, particularly in the purpose-built office (PBO) and shopping complex segments. The completion of PBO space slowed down during the last six months, with a decline to 16,198 square metres (sm) (January – June 2012: 120,234 sm). The moderating construction activity in the non-residential subsector was also due to the near completion of large industrial development projects such as the Samalaju Industrial Park in Sarawak. However, demand for commercial buildings remained stable with the average occupancy rate of office and retail space at 84.2% and 79.7%, respectively, reflecting sustained demand, particularly for commercial space located in prime areas.

The average rentals of office space in Kuala Lumpur City Centre/Golden Triangle areas increased to RM5.42 per square feet (psf) during the second quarter of 2013, surpassing the average office rentals in Wilayah Persekutuan Kuala Lumpur at RM4.54 psf. Meanwhile, the average rental of investment-grade buildings in Kuala Lumpur saw a significant increase of 14.4% to RM6.36 psf (Q2 2012: RM5.56 psf).

Domestic Demand Performance

Robust domestic economic activities

Domestic demand is expected to remain as the key driver of growth in 2013 led by private sector consumption and investment. **Private sector expenditure** is expected to expand 9.5%

TABLE 3.12

Gross Domestic Product (GDP) by Aggregate Demand 2012 – 2014

(at constant 2005 prices)

	Change			Share of GDP			Contribution to GDP growth		
	(%)			(%)			(percentage point)		
	2012	2013 ¹	2014 ²	2012	2013 ¹	2014 ²	2012	2013 ¹	2014 ²
GDP	5.6	4.5 – 5.0	5.0 – 5.5	100.0	100.0	100.0	5.6	4.5 – 5.0	5.0 – 5.5
Domestic Demand³	10.6	8.7	5.9	90.6	94.0	94.9	9.2	7.8	5.6
Private Expenditure	10.7	9.5	7.8	66.1	69.1	71.0	6.8	6.3	5.4
Consumption	7.7	7.4	6.2	50.6	51.9	52.5	3.8	3.7	3.2
Investment	21.9	16.2	12.7	15.5	17.3	18.5	3.0	2.5	2.2
Public Expenditure	10.3	6.5	0.6	24.5	24.9	23.9	2.4	1.6	0.1
Consumption	5.1	7.3	3.3	13.2	13.5	13.3	0.7	1.0	0.5
Investment	17.1	5.5	-2.7	11.3	11.4	10.5	1.7	0.6	-0.3
External Sector	-31.7	-30.9	-6.5	8.5	5.6	5.0	-4.2	-2.6	-0.4
Exports ⁴	-0.1	1.2	1.6	95.0	91.9	89.0	-0.1	1.2	1.5
Imports ⁴	4.7	4.4	2.2	86.5	86.3	84.0	4.1	3.8	1.9
GDP (RM billion, current value)	941.2	987.7	1,056.7						
Change (%)	6.4	4.9	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.

(2012: 10.7%) in line with the positive consumer sentiment and improved business prospects. Likewise, **public sector expenditure** is also expected to record a strong growth with sustained development expenditure and higher capital spending by the NFPEs.

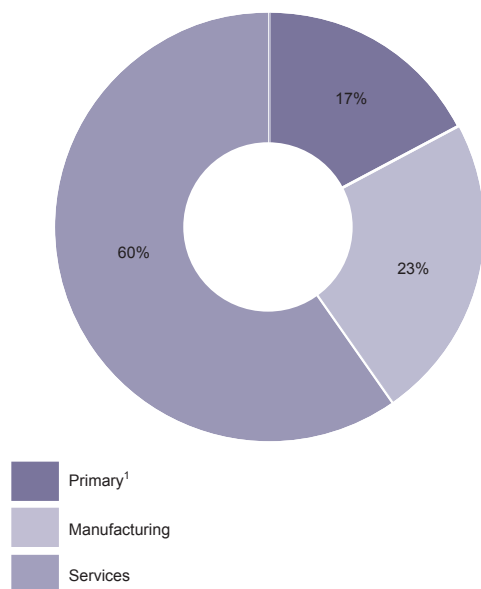
Private investment is expected to continue to register a double-digit growth of 16.2% (2012: 21.9%) driven by capital spending in domestic-oriented industries and expectation of higher investment in export-oriented industries in line with the improvement in global demand during the second half of 2013. The ongoing implementation of ETP projects will also contribute to higher investment activity. The higher capital outlays corresponded with the strong performance of major investment indicators such as loans disbursed to the construction sector, production of iron and steel, and sales of commercial vehicles.

Furthermore, Malaysia continues to attract sizeable amount of FDI inflows despite competition from other emerging economies. During the first half of 2013, net inflow of FDI expanded further to RM18.2 billion (January – June 2012: RM15.9 billion) on account of higher retained earnings by MNCs, sustained inflows of foreign equity capital and intercompany loans. The inflows were mainly channelled into the manufacturing (43.8%), followed by mining and quarrying (30.4%) as well as services (19.9%) sectors. The major contributors of net FDI inflow were Japan, Singapore, the Netherlands and Hong Kong.

In line with improved investor confidence in the Government's initiatives under the ETP, total investments⁵ approved by the Malaysian Investment Development Authority (MIDA) during the first six months of 2013 increased to RM97.4 billion (January – June 2012: RM75 billion).

CHART 3.9

Composition of Approved Investments by Sector
January – June 2013
(% share)

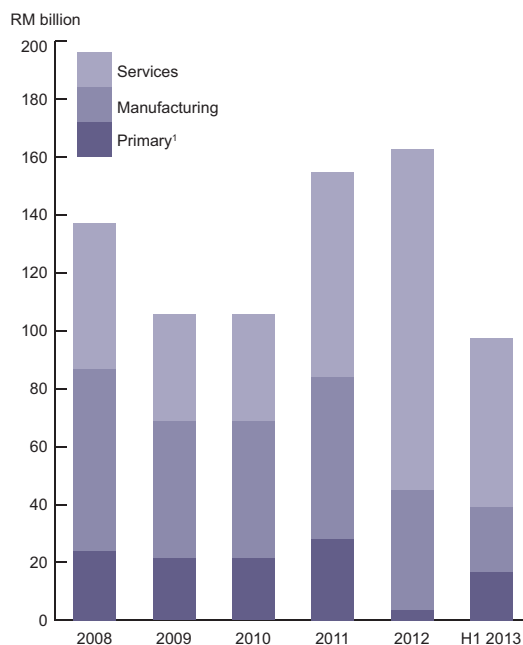


¹ Primary sector include agriculture, mining as well as plantation and commodities.

Source: Malaysian Investment Development Authority.

CHART 3.10

Approved Investments in Selected Sector



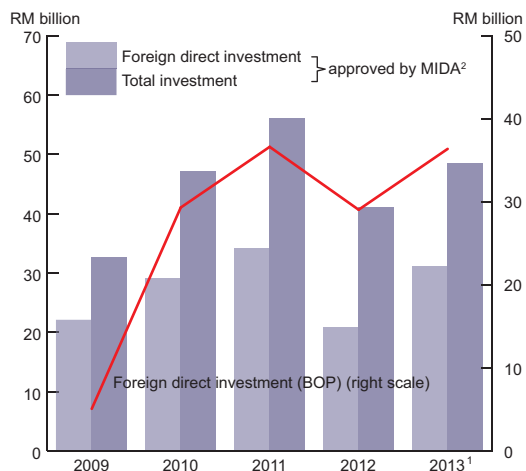
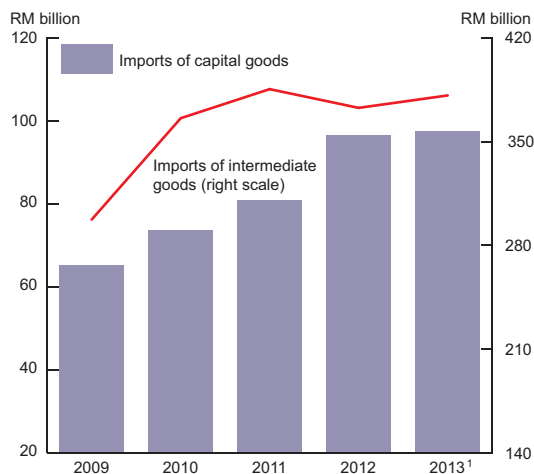
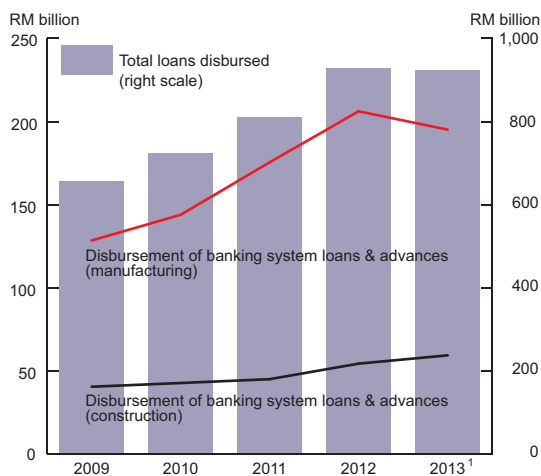
¹ Primary sector include agriculture, mining as well as plantation and commodities.

Source: Malaysian Investment Development Authority.

⁵ Primary, manufacturing and services sectors.

CHART 3.11

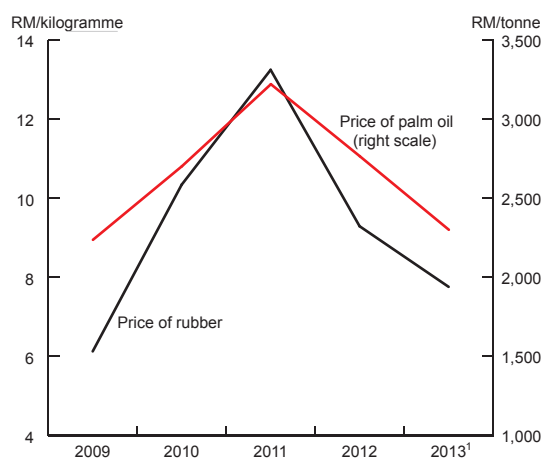
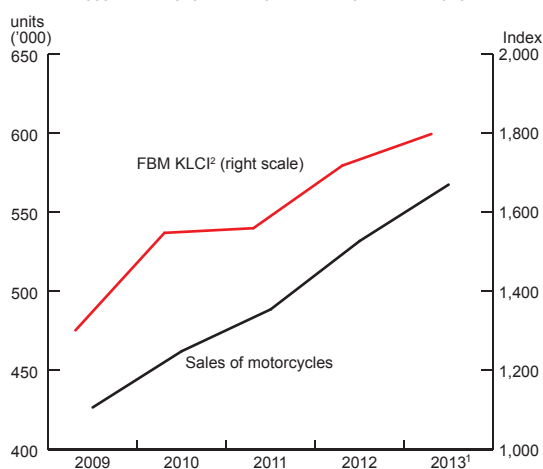
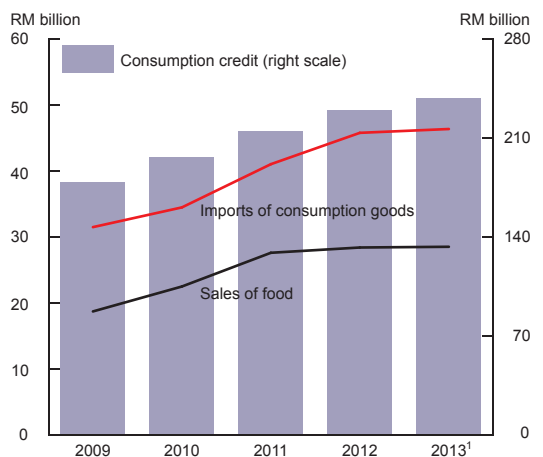
Private Investment Indicators

¹ Estimate.² In manufacturing sector.

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

CHART 3.12

Private Consumption Indicators

¹ Estimate.² As at 30 September 2013.

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.

The services sector was the largest contributor with investments channelled mostly into real estate, hotel and tourism, transport, global operation hubs and utility industries. Of the total approved investments, 68.4% were from domestic investment, with the remaining from foreign investment.

The five economic growth corridors, which were launched during the Ninth Malaysia Plan (9MP), have attracted investments worth billions of ringgit. During the first nine months of 2013, the corridors attracted RM53.4 billion of committed investments. About 50% of the committed investments have

been realised during the period. The committed investments are broad-based across all economic sectors.

The Government's initiatives to enhance the business environment have been globally recognised, as reflected by Malaysia's ranking which improved six notches in 2013 from 18th to 12th position in the World Bank's Doing Business Report. Furthermore, Malaysia gained one spot to 24th position in the Global Competitiveness Report 2013-2014 by the World Economic Forum (WEF). Malaysia also remains the second most competitive nation among the Association of

TABLE 3.13

Cumulative Investments in Five Economic Growth Corridors January – September 2013

Corridor	Committed	Realised	Major Projects in Progress
	RM billion		
East Coast Economic Region (ECER) Corridor	22.8	3.7	• Kuantan Port Expansion • Kuantan Port City Development • Malaysia-China Kuantan Industrial Park (MCKIP) • Kuala Terengganu City Centre (KTCC) • Kertih BioPolymer Park • Automotive Industrial Hub, Pekan
Iskandar Malaysia ¹	12.6	10.0	• Pinewood Iskandar Malaysia Studios • Gleaneagles Medini Hospital • Double Tree Hilton • Pegasus International School
Northern Corridor Economic Region (NCER)	7.2	7.2	• Biotechnology Incubation Centre • Aquaculture Development Complex, Selinsing • Expansion Programme Edu Citi Tel
Sabah Development Corridor (SDC)	8.6	3.0	• Sabah Oil and Gas Terminal (SOGT) & Sabah Sarawak Gas Pipeline (SSGP) • Sipitang Oil and Gas Industrial Park (SOGIP–Phase 1 SAMUR) • Kimanis Power Plant • International Technology and Commercial Centre (ITCC) • Aeropod • Sabah International Convention Centre (SICC) • Sabah Agro Industrial Precinct (SAIP) • Palm Oil Industrial Clusters (POIC) at Lahad Datu and Sandakan
Sarawak Corridor of Renewable Energy (SCORE)	2.2	1.7	• Ferro alloy manufacturing plant • Polycrystalline silicon manufacturing plant
TOTAL	53.4	25.6	

¹ January – June 2013.

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

Domestic Investment Strategic Fund

The Domestic Investment Strategic Fund (DISF) of RM1 billion was launched on 3 July 2012 to accelerate the shift of Malaysian-owned companies in targeted industries to high value-added, high-technology, knowledge-intensive and innovation-based industries. The Fund aims to harness and leverage outsourcing opportunities created by MNCs operating in Malaysia; intensify technology acquisition by Malaysian-owned companies; and enable Malaysian-owned companies to obtain international standards/certifications in strategic industries.

The promoted sectors under the DISF are aerospace; medical devices; pharmaceutical; advanced electronics; machinery and equipment; renewable energy; and services, including research and development, testing, quality and standards certification, engineering services, technical and skills training, and logistics services.

As of 19 July 2013, the Malaysian Investment Development Authority (MIDA) has approved a total of RM220.5 million for 36 projects with investments worth RM2.1 billion. In terms of industry, the breakdown is as follows:

- Electrical and electronics (10)
- Services (8)
- Transport (5)
- Life sciences (4)
- Machinery and advanced engineering (3)
- Research and development (3)
- Information and Communications Technology (2)
- Wood-based (1)

Note: Figures in parentheses refer to the number of projects.
Source: Malaysian Investment Development Authority (MIDA).

Southeast Asian Nations (ASEAN) countries and has improved to 7th position among 25 Asia-Pacific countries. These developments will further promote Malaysia as a preferred investment destination.

Public investment is expected to expand 5.5% (2012: 17.1%) supported by higher capital spending by the NFPEs and sustained development expenditure. The bulk of the Federal Government expenditure is channelled towards the economic and social sectors, particularly to improve urban public transport and to provide public amenities.

PETRONAS continues to invest in O&G exploration activities. Among the major projects are Refinery and Petrochemical Integrated Development (RAPID) in Pengerang and Sabah Ammonia Urea

(SAMUR) in Sipitang. Tenaga Nasional Berhad's (TNB) capital spending is largely for capacity expansion in power generation and transmission system, while Syarikat Prasarana Negara Berhad's (Prasarana) investment is mainly on improving urban public transport such as the extension of Kelana Jaya and Ampang LRT lines.

Private consumption is expected to remain strong at 7.4% (2012: 7.7%), albeit at a slower pace, on account of expectations of stronger inflationary pressures in the months ahead following the petrol and diesel price adjustments. However, the impact of higher pump prices will be cushioned by the Government's cash rebate for targeted groups. Growth in private consumption is supported by the strong stock market performance and stable labour market conditions, particularly

PETRONAS Major Oil and Gas Projects in Malaysia in 2013

Domestic investments are expected to accelerate further in 2013 and 2014. Major domestic investments will be in the oil and gas sector, including exploration and development of oil and gas fields as well as petrochemical projects. In 2013, PETRONAS has allocated RM50 billion for capital expenditure. Major PETRONAS oil and gas investments are as follows:

1. Floating Liquefied Natural Gas 1 and 2 Projects (FLNG1 & 2)

The projects involve developing a floating liquefaction facility as a solution to monetise small, marginal and maturing gas fields in Malaysia. PETRONAS FLNG1 & 2 are expected to be completed by the end of 2015 and 2016, respectively.

2. Gas Processing Plant Rejuvenation and Revamp (PRR)

The Plant Rejuvenation and Revamp (PRR) involve facilities in Gas Processing Plant 2 (GPP2), GPP3 and the Kertih Compressor Station located in the GPP Complex, Kertih as well as the Export Terminal units in Kemaman, Terengganu. The completion of the PRR by 2015 is expected to sustain plant reliability and integrity of PETRONAS for an additional 20 years while generating major savings in its capital investment.

3. Pengerang LNG Regasification Terminal

The facility will consist of a new land-based LNG Regasification Terminal with Receiving Facilities for LNG carriers to bring in imported LNG. The land acquisition is almost completed and detailed engineering design is still ongoing. The project is expected to be completed by mid-2016.

4. Lahad Datu LNG Regasification Terminal

The project involves developing a land-based LNG Regasification Terminal, to produce gas for power plants. The project is expected to be completed by mid-2016.

5. Kimanis Power Plant

The project involves a development of a 300-megawatt (MW) gas-fired power plant in Kimanis to meet the growing demand for electricity in Sabah. The project is expected to benefit the rakyat in Sabah by supplying a clean source of energy and providing development opportunities. The full operation date is scheduled by mid-2014.

6. Lahad Datu Power Plant

The Lahad Datu Power Plant is a Combined Cycle Gas Turbine (CCGT) located at the Palm Oil Industrial Cluster (POIC) project in Lahad Datu, Sabah with a capacity of a 300MW gas-fired power plant. The plant is expected to provide adequate electricity supply to eastern Sabah while ensuring a clean environment.

7. Refinery and Petrochemical Integrated Development (RAPID) Project

The RAPID project comprises a crude oil refinery as well as naphtha cracker petrochemical and polymer complex to be constructed in Pengerang, Johor. It is targeted to be completed by the end of 2016 and is aimed at expanding PETRONAS petrochemical business as well as to spur the growth of the domestic oil and gas downstream industry. The crude oil refinery has a capacity of 300,000 barrels per day. The entire facility is expected to produce nine million tonnes of petroleum products and 4.5 million tonnes of petrochemical products per year. The petrochemical and polymer complex will produce highly-specialised chemicals to meet growing demand in Asia.

8. Pengerang Power Plant

The project involves the development of a power plant with a capacity of 1,270MW to supply to the RAPID project as well as for exports. The plant is expected to be completed by 2017.

9. Sabah Ammonia-Urea (SAMUR) Plant Project

The SAMUR plant will be located in Sipitang, Sabah, which will monetise gas from offshore Sabah to produce ammonia and granulated urea fertilisers. The construction of the project has already started in May 2012 with the commissioning of the plant targeted in August 2015.

in the domestic-oriented sectors. These positive trends are expected to continue during the second half of 2013, thus supporting household spending. Furthermore, the implementation of minimum wage, additional annual increment received by public servants, and continuation of cash transfers will enhance private consumption.

The favourable trend was reflected by the better performance in major consumption indicators, such as loans disbursed for consumption (11.4%), service tax collection (5.8%) and sales of passenger cars (5%) during the first eight months of 2013 (January – August 2012: -1.7%; 19.4%; 0.2%). The Malaysian Institute of Economic Research (MIER) Consumer Sentiments Index (CSI) remained firm at 109.7 points above the 100-point threshold during the second quarter of 2013 (Q1 2013: 122.9 points), indicating positive household sentiment.

Public consumption is expected to expand 7.3% (2012: 5.1%) following higher spending on emoluments as well as supplies and services. Expenditure on emoluments is expected to increase, attributed to an additional annual increment for public servants in July 2013 amounting to RM1.5 billion. In addition, supplies and services are also expected to increase, reflecting the Government's continuous effort to improve the public service delivery.

National Resource Position

Lower savings-investment surplus

In line with continued strong domestic economic activities and an improving external sector, national income in current prices is expected to post a higher growth of 5.5% in 2013 (2012:

TABLE 3.14

Savings-Investment Gap 2010 – 2014 (in current prices)

	RM million				
	2010	2011	2012	2013 ¹	2014 ²
Public sector					
Savings	85,898	87,998	95,710	48,081	66,136
Gross capital formation	81,238	84,395	101,553	108,198	106,730
Surplus/Deficit	4,660	3,603	-5,843	-60,117	-40,594
Private sector					
Savings	187,032	220,265	204,199	252,404	254,710
Gross capital formation ³	104,510	121,443	141,008	165,710	190,234
Surplus/Deficit	82,522	98,822	63,191	86,694	64,475
Overall					
Gross national savings	272,930	308,263	299,909	300,485	320,846
(as % of GNI)	35.4	35.7	33.1	31.5	31.2
Gross capital formation ³	185,748	205,838	242,561	273,908	296,964
(as % of GNI)	24.1	23.9	26.8	28.7	28.9
Surplus/Deficit	87,182	102,425	57,348	26,577	23,882
(as % of GNI)	11.3	11.9	6.3	2.8	2.3

¹ Estimate.

² Forecast.

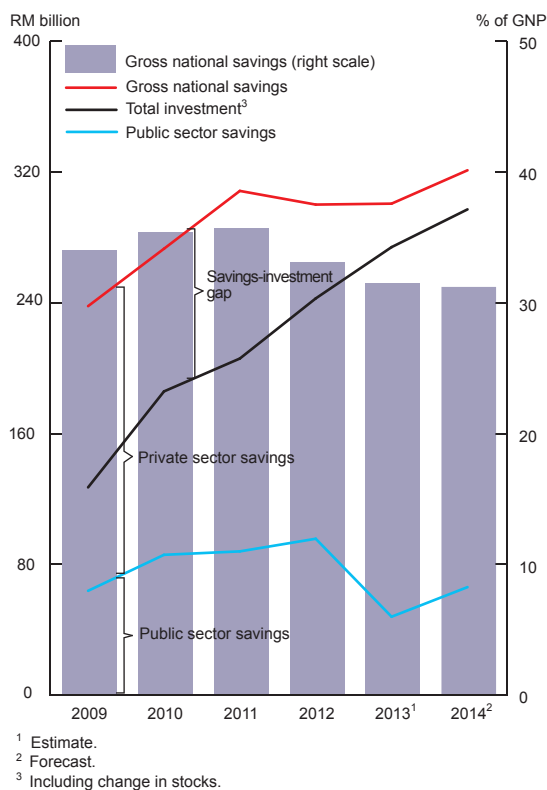
³ Including change in stocks.

Note: Total may not add up due to rounding.

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

CHART 3.13

Savings-Investment Gap



4.9%). Public sector savings are expected to decrease to RM48.1 billion or 5% of GNI. Meanwhile, private sector savings are anticipated to increase to RM252.4 billion or 26.4% of GNI, reflecting the sound financial position of the corporate sector and households. Overall, Gross National Savings (GNS) are anticipated to increase marginally by 0.2% (2012: -2.7%), with private sector accounting for 84% of total savings (2012: 68.1%). After taking into account the higher investment spending (including change in stocks) at RM273.9 billion or 28.7% of GNI, the savings-investment gap in 2013 is forecast to record a lower surplus of RM26.6 billion or 2.8% of GNI (2012: RM57.3 billion; 6.3%).

External Sector

Malaysia's external sector is expected to moderate due to lower exports and weak commodity prices,

particularly during the first half of 2013, while imports remain resilient on account of strong domestic activity. Hence, total trade is expected to sustain above the RM1 trillion mark. In addition, the overall balance of payments (BOP) is projected to moderate in tandem with the lower current account surplus. However, international reserves will remain at comfortable levels and are more than sufficient to meet short-term external debt obligations as well as provide buffer against volatile short-term capital flows.

Trade Performance

Total trade remains large

Malaysia's total trade increased 2.2% to RM888.3 billion during the first eight months of 2013, with imports expanding at a faster rate while exports declined moderately. Given the challenging external environment, Malaysia's total trade is expected to moderate, but remains substantial with a growth of 1.9% to RM1.33 trillion in 2013 (2012: 3%; RM1.31 trillion). Gross exports are estimated to contract 0.4% to RM699.3 billion (2012: 0.6%; RM702.2 billion) due to lower global demand for manufactured goods and softening commodity prices. However, imports are projected to expand at a faster pace of 4.6% to RM635 billion (2012: 5.9%; RM607.4 billion). With growth of imports outpacing exports, the trade surplus is expected to narrow to RM64.3 billion or 6.5% of GDP (2012: RM94.8 billion; 10.1%).

Export Performance

Exports decline marginally

In line with weaker external demand and lower commodity prices, **gross exports** declined 0.8% to RM461.4 billion during the first eight months of 2013 (January – August 2012: 1.5%; RM465.3 billion). The lower exports were due to the decline in exports of E&E products and lower prices of major commodities. In 2013, gross exports are expected to decline marginally by 0.4%

Table 3.15

External Trade
2012 – 2014

	RM million			Change (%)		
	2012	2013 ¹	2014 ²	2012	2013 ¹	2014 ²
Total trade	1,309,552	1,334,374	1,375,822	3.0	1.9	3.1
Gross exports	702,188	699,340	716,574	0.6	-0.4	2.5
of which:						
Manufactured	519,067	518,211	533,131	2.8	-0.2	2.9
Agriculture	77,421	66,754	70,019	-15.3	-13.8	4.9
Mining	92,366	94,768	93,625	1.9	2.6	-1.2
Gross imports	607,364	635,034	659,248	5.9	4.6	3.8
of which:						
Capital goods	96,613	98,113	99,942	20.5	1.6	1.9
Intermediate goods	372,654	381,020	397,527	-3.4	2.2	4.3
Consumption goods	45,776	46,357	47,730	11.6	1.3	3.0
Trade balance	94,824	64,306	57,326	-23.7	-32.2	-10.9

¹ Estimate.² Forecast.

Note: Total may not add up due to rounding.

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

(2012: 0.6%). Exports of manufactured goods, which accounted for 74.1% of total exports, are expected to decrease 0.2% to RM518.2 billion (2012: 73.9%; 2.8%; RM519.1 billion) affected by lower shipments of E&E products. Exports of agriculture products are expected to fall 13.8% to RM66.8 billion (2012: -15.3%; RM77.4 billion) affected by lower prices of palm oil and rubber. Meanwhile, mining exports are expected to increase 2.6% to RM94.8 billion (2012: 1.9%; RM92.4 billion) on account of higher demand despite softening prices.

Exports of Manufactured Goods

Non-E&E products continue to support growth

Manufactured export receipts increased 1.7% to RM349.2 billion during the first eight months of 2013 (January – August 2012: 3.1%; RM343.2 billion). Export performance was affected by slower demand from key advanced economies, particularly **E&E** products which contracted 1.5% (January –

August 2012: -2.8%). Export receipts of major electronics such as automatic data processing machines as well as electrical apparatus, resistors and switchboard and control panels declined 5.8% and 1.3%, respectively. The lower export receipts were due to slower external demand from the US, China and Singapore. In addition, the lacklustre performance was compounded by a slowdown in China which affected intra-regional trade. As a result, exports of electrical products registered declining receipts, particularly household electrical appliances (-10.1%), telecommunication equipment (-7.4%) and home entertainment products (-1.1%). However, amid a modest upturn in the global electronics cycle since the end of 2012, exports of semiconductors turned around by 2.5% during the first eight months of 2013 (January – August 2012: -6.8%) following stronger demand from China, Singapore, the US and Germany.

Meanwhile, **non-E&E** exports increased at a slower pace of 4.3% to RM198.3 billion (January – August 2012: 8.5%; RM190.1 billion) due to more moderate exports across all subsectors.

TABLE 3.16

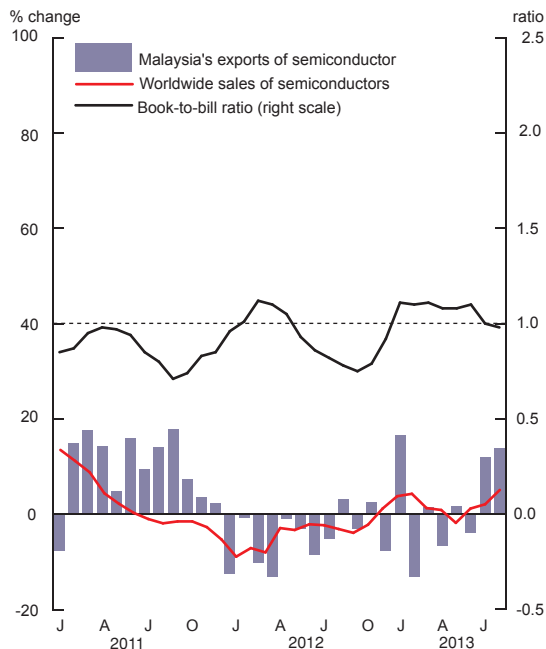
**Gross Exports
January – August**

	RM million		Change (%)		Share (%)	
	2012	2013	2012	2013	2012	2013
Manufactured	343,229	349,162	3.1	1.7	73.8	75.7
Primary agriculture	46,678	38,235	-17.4	-18.1	10.0	8.3
Mining	60,284	59,489	12.9	-1.3	13.0	12.9
Others	15,103	14,557	-2.9	-3.6	3.2	3.2
Gross exports	465,294	461,443	1.5	-0.8	100.0	100.0

Note: Total may not add up due to rounding.

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

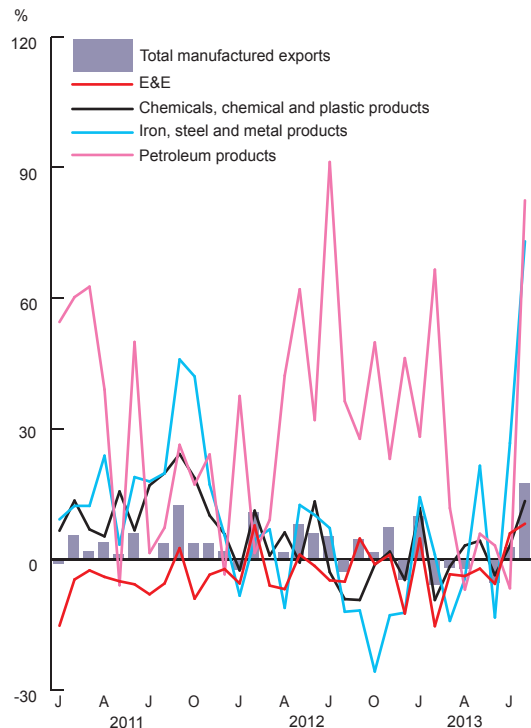
CHART 3.14

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

Source: Department of Statistics, Malaysia, Semiconductor Industry Association, and Semiconductor Equipment and Materials International.

Exports of *chemicals, chemical and plastic products* grew 2.3% (January – August 2012: 1.8%) largely due to higher receipts from China, Indonesia and Thailand for major products such as chemical materials (25.7%) and articles of plastics (2.6%).

CHART 3.15

**Performance of Selected Manufactured Exports
(% annual change)**

Source: Department of Statistics, Malaysia.

Meanwhile, shipments of *petroleum products* continued to strengthen 20% (January – August 2012: 36.3%) underpinned by higher exports of refined petroleum products (22.8%), mainly to Singapore, Indonesia and China.

TABLE 3.17

Exports of Manufactured Goods January – August

	RM million		Change (%)		Share (%)	
	2012	2013	2012	2013	2012	2013
E&E	153,175	150,883	-2.8	-1.5	44.6	43.3
Semiconductors	67,373	69,081	-6.8	2.5	19.6	19.7
Electronic equipment and parts	50,979	50,179	2.9	-1.6	14.9	14.6
Machinery and electrical products	34,824	31,623	-2.6	-9.2	10.1	9.0
Non-E&E	190,053	198,279	8.5	4.3	55.4	56.7
Chemicals, chemical and plastic products	35,028	35,843	1.8	2.3	10.2	10.4
Petroleum products	34,820	41,775	36.3	20.0	10.1	11.6
Iron, steel and metal products	20,286	22,605	1.1	11.4	5.9	6.3
Machinery and equipment	17,205	17,612	9.9	2.4	5.0	5.2
Wood products	9,056	8,646	0.0	-4.5	2.6	2.5
Textiles, apparel and footwear	6,331	6,672	-14.1	5.4	1.8	1.9
Food, beverages and tobacco	14,074	14,623	1.0	3.9	4.1	4.3
Rubber products	13,412	12,608	14.8	-6.0	3.9	3.7
Transport equipment	6,035	6,409	6.6	6.2	1.8	1.9
Non-metallic mineral products	3,886	3,520	3.1	-9.4	1.1	1.0
Other manufactured goods	29,921	27,966	6.9	-6.5	8.7	8.1
Total	343,229	349,162	3.1	1.7	100.0	100.0

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

In addition, petroleum gases and other gaseous hydrocarbons increased 12.8% partly contributed by higher shipments to Singapore, Taiwan and Bangladesh.

Exports of *iron, steel and metal products* continued to grow 11.4% (January – August 2012: 1.1%) primarily supported by stronger export demand of non-ferrous metal (52.9%) and manufactures of metal (6.5%) from China and Singapore. In contrast, iron and steel as well as *non-metallic mineral products* declined sharply by 24.6% and 9.4%, respectively due to lower shipments to Singapore, Indonesia and the Republic of Korea (ROK).

Meanwhile, shipments of *machinery and equipment* grew at a moderate pace of 2.4% (January – August 2012: 9.9%), mainly due to a smaller increase in exports of general

industrial machinery and equipment (3.5%) as well as specialised machinery for specific industries (5.1%). In contrast, exports of power-generating machinery and equipment as well as metal-working equipment recorded a negative growth due to lower receipts from Thailand, the US and China.

Exports of *food, beverages and tobacco products* grew 3.9% (January – August 2012: 1%) supported by stronger receipts of food products (3.5%) and beverages (20.2%). In particular, exports of edible products and preparations grew 11.1% following significant shipments to major trading partners, such as Indonesia, China and Australia. Meanwhile, beverage exports rose 20.2%, partly attributed to higher receipts from Singapore and Thailand. However, tobacco products contracted 15.2% mainly due to weak exports to Singapore, Hong Kong and Viet Nam.

Exports of *rubber products* contracted 6% (January – August 2012: 14.8%), primarily dragged down by exports of rubber materials to major markets such as China, the US, Australia and Indonesia. Despite uncertainties in the global economy during the first half of the year, the demand for rubber gloves remained intact. Exports of rubber gloves increased marginally by 0.9%, attributed to an improvement in sales volume on the back of higher demand for rubber gloves from emerging and developed markets.

Shipments of *wood products* contracted 4.5% (January – August 2012: 0%) due to lower exports to major importing countries such as the US, the UK and United Arab Emirates (UAE). In particular, exports of wooden furniture declined 13.6% with a significant drop in bedroom furniture to the US, Australia and the UK. However, veneer and plywood which accounted for more than half of total wood product exports, grew by a modest 2% on higher exports to Japan and Taiwan.

Exports of Primary Commodities

Lower prices and demand

During the first eight months of 2013, export earnings from **primary commodities** contracted 8.6% to RM97.7 billion (January – August 2012: -2.7%; RM107 billion), largely due to moderating prices. Export earnings from primary agriculture contracted 18.1% to RM38.2 billion (January – August 2012: -17.4%; RM46.7 billion) following lower exports of palm oil and rubber. Meanwhile, export earnings from mining decreased 1.3% to RM59.5 billion (January – August 2012: 12.9%; RM60.3 billion), partly attributed to lower prices of crude oil. Consequently, export earnings of primary commodities are estimated to decline 4.7% to RM152.5 billion in 2013 (2012: -6.2%; RM160.1 billion).

During the first eight months of 2013, export receipts of **palm oil** contracted 20.2% to RM28.4 billion (January – August 2012: -11%; RM35.6 billion). However, shipments of palm oil increased 5.1% to 11.6 million tonnes (January – August

2012: -5.1%; 11.1 million tonnes) attributed to higher demand, mainly from China, Pakistan and the Netherlands. China remained the largest importer of palm oil with a 19.6% share of total palm oil exports. The higher export volume was, however, unable to offset the impact of the sharp fall in CPO prices of 24% to RM2,439 per tonne (January – August 2012: -6.1%; RM3,209 per tonne). For the year, export receipts of palm oil are projected to contract 15.9% to RM45.2 billion (2012: -11.9%; RM53.7 billion) amid lower export price of RM2,450 per tonne (2012: RM3,002 per tonne).

Despite higher export volume growth of 5.2%, export receipts of **rubber** contracted 16.8% to RM4.6 billion during the first eight months of 2013 (January – August 2012: -42.4%; RM5.5 billion) due to lower export prices averaging RM8.61 per kg (January – August 2012: RM10.88 per kg). For 2013, shipments of rubber are expected to increase 5.6% to 0.8 million tonnes following better demand from emerging countries, especially China. With lower average prices of rubber at RM9.50 per kg (2012: RM10.19 per kg), export earnings of rubber are anticipated to contract 1.7% to RM7.7 billion (2012: -41.7%; RM7.9 billion).

Export earnings of **LNG** rose 3% to RM38.4 billion (January – August 2012: 24.7%; RM37.3 billion) on account of higher prices and volume at RM2,315 per tonne and 16.6 million tonnes, respectively (January – August 2012: RM2,465 per tonne; 15.1 million tonnes). LNG, which accounted for 8.3% of total exports, was mainly exported to Japan, ROK, Taiwan and China. For 2013, exports of LNG are projected to expand 2.7% to RM57 billion (2012: 11.1% RM55.5 billion) driven by improving external demand.

Export receipts of **crude petroleum**, which contributed 4.2% of total exports, decreased 7.6% to RM19.6 billion (January – August 2012: -2.2%; RM21.2 billion) due to lower prices despite strong volume of exports. Demand for crude oil is expected to be higher from emerging economies, especially China on improving economic outlook during the second half of

TABLE 3.18

Primary Commodity Exports January – August

	2012	2013	Change (%)	
			2012	2013
Commodity exports (RM million)	106,962	97,724	-2.7	-8.6
Agriculture exports (RM million)	46,678	38,235	-17.4	-18.1
Palm oil¹				
Volume ('000 tonnes)	11,084	11,645	-5.1	5.1
Unit value (RM/tonne)	3,209	2,439	-6.1	-24.0
Value (RM million)	35,568	28,396	-11.0	-20.2
Palm kernel oil				
Volume ('000 tonnes)	604	756	-7.3	25.2
Unit value (RM/tonne)	4,220	2,774	-26.7	-34.3
Value (RM million)	2,549	2,098	-32.0	-17.7
Sawn timber				
Volume ('000 cubic metres)	1,356	1,306	-3.0	-3.7
Unit value (RM/cubic metres)	1,179	1,254	0.0	6.4
Value (RM million)	1,599	1,638	-3.0	2.4
Sawn logs				
Volume ('000 cubic metres)	1,883	2,011	-14.7	6.8
Unit value (RM/cubic metres)	558	585	-7.4	4.8
Value (RM million)	1,051	1,177	-21.0	12.0
Rubber				
Volume ('000 tonnes)	504	531	-21.9	5.2
Unit value (RM/kilogramme)	10.88	8.61	-26.2	-20.9
Value (RM million)	5,489	4,569	-42.4	-16.8
Pepper				
Volume ('000 tonnes)	6.5	7.1	-24.1	8.8
Unit value (RM/tonne)	23,605	22,123	30.4	-6.3
Value (RM million)	153	156	-1.0	2.0
Cocoa				
Volume ('000 tonnes)	33	25	93.1	-23.2
Unit value (RM/tonne)	8,160	7,951	-23.2	-2.6
Value (RM million)	268	201	48.3	-25.1
Mining exports (RM million)	60,284	59,489	12.9	-1.3
Crude petroleum				
Volume ('000 tonnes)	7,744	7,495	-10.6	-3.2
Unit value (RM/tonne)	2,736	2,613	9.4	-4.5
Value (RM million)	21,191	19,581	-2.2	-7.6
Liquefied natural gas				
Volume ('000 tonnes)	15,120	16,577	-7.2	9.6
Unit value (RM/tonne)	2,465	2,315	34.4	-6.1
Value (RM million)	37,263	38,381	24.7	3.0
Tin				
Volume ('000 tonnes)	28.1	22.4	26.3	-20.4
Unit value (RM/tonne)	65,064	68,182	-21.2	4.8
Value (RM million)	1,830	1,527	-0.5	-16.6

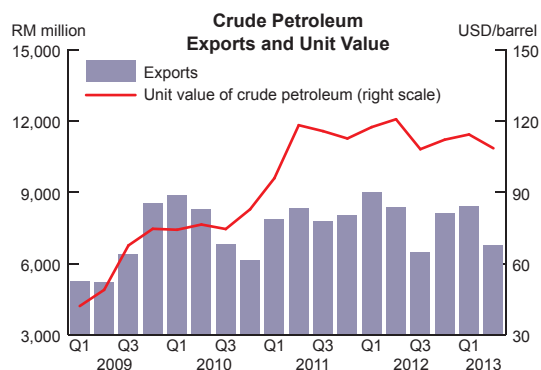
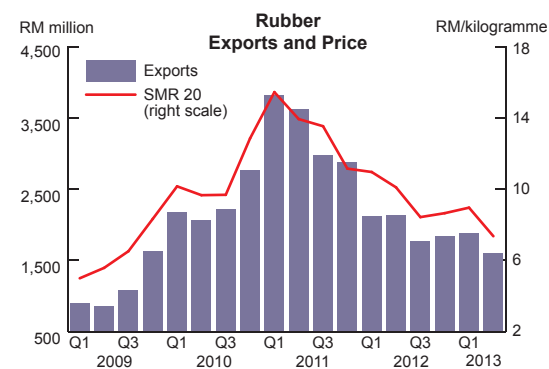
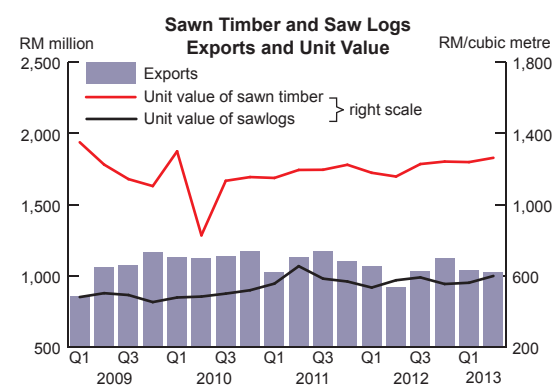
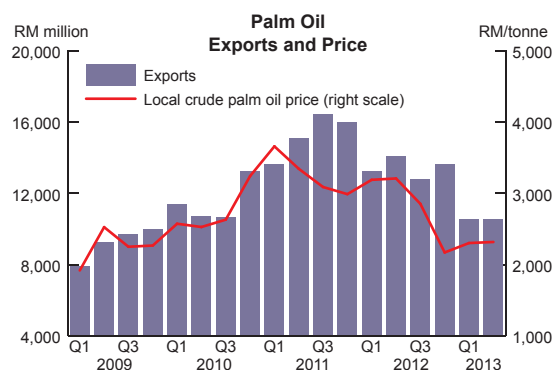
¹ Includes crude palm oil, processed palm oil and stearin.

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

CHART 3.16

Primary Commodity Exports



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

2013. Thus, export earnings are expected to increase 3.5% to RM33.1 billion in 2013 (2012: -1.5%; RM32 billion).

Import Performance

Investment-driven imports

During the first eight months of 2013, **gross imports** increased 5.8% to RM426.9 billion (January – August 2012: 7.4%; RM403.5 billion)

underpinned by the strong growth of capital and consumption goods. Meanwhile, imports of **intermediate goods** grew marginally by 0.4% to RM253.5 billion (January – August 2012: -1.5%; RM252.6 billion) due to slower domestic manufacturing activities. The weak external demand for E&E exports led to lower imports of parts and accessories (0.1%), particularly electronic integrated circuits. Similarly, imports of food and beverages contracted 20%, following lower global food prices. Lower import prices also affected imports of fuel and lubricants

TABLE 3.19

Gross Imports by End Use January – August

	RM million		Change (%)		Share (%)	
	2012	2013	2012	2013	2012	2013
Capital goods	62,396	64,513	22.8	3.4	15.5	15.1
Capital goods (except transport equipment)	51,548	52,213	17.5	1.3	12.8	12.2
Transport equipment (industrial)	10,848	12,300	56.7	13.4	2.7	2.9
Intermediate goods	252,564	253,463	-1.5	0.4	62.6	59.4
Food and beverages, primary and processed, mainly for industry	14,172	11,341	-1.9	-20.0	3.5	2.7
Fuel and lubricants, primary processed and others	36,359	32,745	6.7	-9.9	9.0	7.7
Industrial supplies, n.e.s. ¹ primary and processed	105,475	112,898	1.6	7.0	26.1	26.4
Parts and accessories of transport equipment	10,773	11,468	25.1	6.5	2.7	2.7
Parts and accessories of capital goods (except thermionic valves and tubes)	24,656	23,786	-26.7	-3.5	6.1	5.6
Thermionic valves and tubes	61,129	61,225	-1.0	0.2	15.1	14.3
Consumption goods	29,793	30,943	13.9	3.9	7.4	7.2
Food and beverages, primary and processed, mainly for household consumption	12,538	13,205	10.6	5.3	3.1	3.1
Transport equipment (non-industrial)	637	852	27.2	33.7	0.2	0.2
Other consumer goods	16,618	16,886	16.1	1.6	4.1	4.0
Durables	3,810	4,167	17.3	9.4	0.9	1.0
Semi-durables	5,174	5,182	19.7	0.2	1.3	1.2
Non-durables	7,634	7,536	13.2	-1.3	1.9	1.8
Others (including dual-use goods)	16,965	21,515	15.2	26.8	4.2	5.0
Imports for re-exports	41,785	56,457	49.9	35.1	10.4	13.2
Gross Imports	403,503	426,891	7.4	5.8	100.0	100.0

¹ Not elsewhere stated.

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

which contracted 9.9%. However, imports of industrial supplies surged 7% driven by higher demand in domestic-oriented industries, such as chemical, iron, steel and other metals as well as construction-related industries.

Imports of **capital goods**, which comprised 15.1% of total imports, expanded 3.4% to RM64.5 billion during the first eight months of 2013 (January – August 2012: 15.5%; 22.8%; RM62.4 billion). Imports of transport equipment increased 13.4% on account of higher imports of aircrafts, motor vehicles for transport of goods as well as cruise ships. In tandem with rising consumer confidence, imports of **consumption goods** expanded 3.9% to RM30.9 billion (January – August 2012: 13.9%; RM29.8 billion) supported by strong growth in imports of food and beverages (5.3%) and other consumer goods (1.6%), which include medicaments, jewellery, cosmetics and healthcare products.

In 2013, gross imports are expected to expand 4.6% to RM635 billion (2012: 5.9%; RM607.4 billion) on account of strong expansion in domestic activities. Imports of intermediate goods are projected to turn around by 2.2% to RM381 billion (2012: -3.4%; RM372.7 billion) underpinned by stronger manufacturing activity during the second half of the year. In line with strong investment activity, particularly in the services, manufacturing and O&G sectors, imports of capital goods are estimated to increase 1.6% to RM98.1 billion (2012: 20.5%; RM96.6 billion). Imports of consumption goods are projected to increase 1.3% to RM46.4 billion (2012: 11.6%; RM45.8 billion) spurred by rising disposable income as well as higher tourist spending.

Direction of Trade

Trade balance remains in surplus

Despite the challenging external environment, slower growth of regional trading partners and moderating commodity prices, Malaysia's total

trade continued to expand 2.2% to RM888.3 billion during the first eight months of 2013 (January – August 2012: 4.2%; RM868.8 billion). In addition, strong domestic activity continued to drive higher imports. With growth of imports outpacing exports, Malaysia's trade surplus narrowed to RM34.6 billion (January – August 2012: RM61.8 billion). Meanwhile, trade with top trading partners continued to expand, with China accounting for 14.5% of Malaysia's total trade, followed by Singapore (13.5%) and Thailand (5.7%) (January – August 2012: 13.7%; 13.4%; 5.6%).

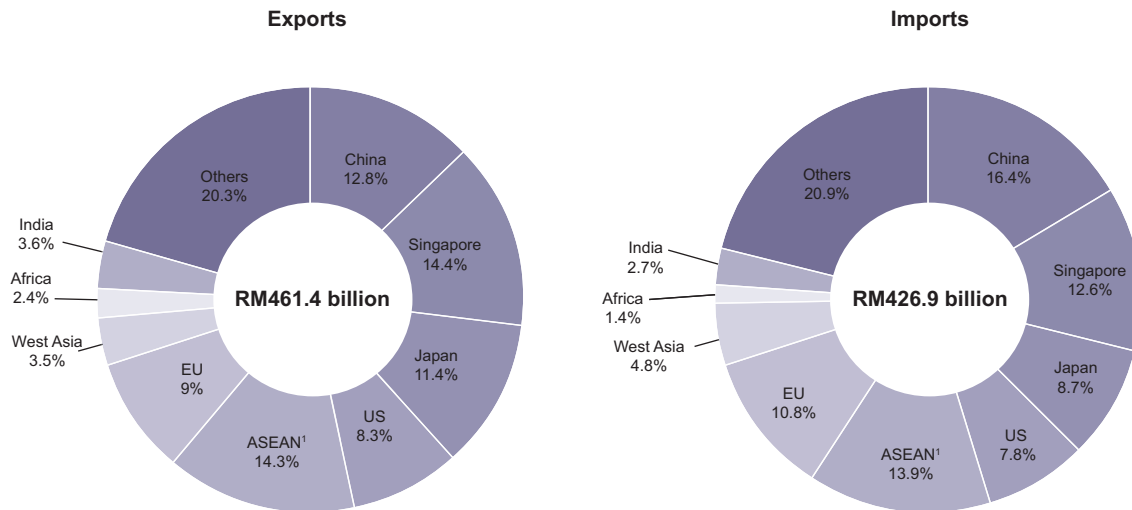
Trade with **China**, Malaysia's largest trading partner since 2009, expanded 8.6% to RM128.9 billion (January – August 2012: 10.5%; RM118.7 billion) supported by strong import growth. Imports from China expanded 16.6% (January – August 2012: 25%) mainly contributed by higher demand for manufactures of metal, electronic integrated circuits as well as machinery, appliances and parts. Following the slower growth in China, exports to the country grew marginally by 0.4% (January – August 2012: -1.2%) on account of higher receipts of manufactures of metal, which cushioned the lower shipments of storage units for automatic data processing machines. Given the relatively higher imports, the trade deficit with China expanded to RM10.8 billion (January – August 2012: -RM1.1 billion).

During the first eight months of 2013, Malaysia's trade with **Singapore** increased 3.4% to RM120.4 billion to record a higher trade surplus of RM12.5 billion (January – August 2012: 9.1%; RM116.4 billion; RM9.2 billion). Exports to Singapore expanded 5.8%, supported by higher shipments of electronic integrated circuits and refined petroleum products, while imports grew marginally by 0.6% (January – August 2012: 9.1%; 9.1%).

Trade with **Japan** declined 9.3% to RM89.6 billion (January – August 2012: 4.5%; RM98.7 billion) with exports and imports contracting 6.9% and 12.4%, respectively (January – August 2012: 9.5%; -1.6%). Lower exports to Japan were due

CHART 3.17

Direction of External Trade
January – August 2013
 (% share)



¹ Not including Singapore.

Source: Department of Statistics, Malaysia.

to reduced shipments of manufactured products, particularly telecommunication equipment, refined petroleum products and palm oil. Major imports from Japan were E&E, machinery, appliances and parts as well as transport equipment. Following the sharper decline in imports, Malaysia's trade surplus with Japan increased to RM15.6 billion during the first eight months of 2013 (January – August 2012: RM14.2 billion).

Trade with **the US**, Malaysia's fourth largest trading partner, contracted 2.7% to RM71.7 billion and accounted for 8.1% of total trade (January – August 2012: -2.6%; RM73.7 billion; 8.5%). Exports decreased 4.9% (January – August 2012: 5.8%) due to lower receipts of optic and scientific equipment as well as palm oil. Meanwhile, E&E products, comprising 56.7% of total exports to the US, increased 1% mainly contributed by sound and image recorders and automobile radios with recorders. The main imports from the US were

E&E products, particularly parts for electronic integrated circuits, transport equipment as well as machinery, appliances and parts. Overall, Malaysia recorded a lower trade surplus of RM5.1 billion with the US (January – August 2012: RM7.1 billion).

ASEAN (excluding Singapore) remains Malaysia's important regional trading partner. Malaysia's trade with ASEAN expanded 4.1% to RM125.2 billion, accounting for 14.1% of total trade and registering a higher trade surplus of RM6.7 billion (January – August 2012: 6.4%; RM120.2 billion; 13.8%; RM1.6 billion). Exports grew 8.2%, backed by higher shipments of refined petroleum products, while imports declined marginally by 0.1% due to lower demand for palm oil, particularly from Indonesia. Within ASEAN, Thailand was the leading trading partner, accounting for 40.7%, followed by Indonesia (32%) and Viet Nam (16.3%).

Trade with the **EU** increased 3.9% to RM87.4 billion (January – August 2012: -1.7%; RM84.1 billion) underpinned by higher imports. Imports from the EU grew 7.6% (January – August 2012: 12.5%) supported by higher demand for manufacturers of metal and refined petroleum products. The slow recovery in the EU resulted in exports to the region remaining flat at RM41.5 billion (January – August 2012: RM41.5 billion), mainly due to lower receipts of palm oil (-30.4%), while exports of semiconductor devices increased 11.9%. Consequently, trade with the EU registered a higher deficit of RM4.4 billion (January – August 2012: -RM1.2 billion).

Balance of Payments

Lower current account surplus

The **overall BOP** continued to register a surplus of RM5.6 billion during the first half of 2013 (January – June 2012: RM5.5 billion). The current account surplus, however, shrank to RM11.2 billion or 2.5% of GNI (January – June 2012: RM24.8 billion; 5.7%) due to a lower surplus in the goods account and continued deficit in the service and income accounts. In 2013, the **current account** surplus is expected to narrow to RM26.6 billion or 2.8% of GNI (2012: RM57.3 billion; 6.3%) as external demand is expected to improve during the second half of 2013. In the financial account, despite registering a significant net inflow of RM6.2 billion during the first six months of 2013, total net inflow for the year is likely to be smaller, reflecting the reversal of portfolio capital flows due to uncertainty surrounding the tapering of QE3.

The surplus in the **goods and services account** narrowed to RM36.3 billion during the first half of 2013 in line with a lower goods surplus at RM43.3 billion, while net payment in the services account improved to RM7.1 billion (January – June 2012: RM56.3 billion; RM65.7 billion; -RM9.5 billion). For the year, the goods and services account is projected to register a

lower surplus of RM76.7 billion (2012: RM111.6 billion) on account of lower exports of goods and higher net payment in the transport account. Despite the weaker global economy, the strong surplus in the travel account and lower deficit in the other services account are expected to partly offset the deficit in the services account.

During the first half of 2013, net *travel account* inflow recorded a higher surplus of RM14.2 billion (January – June 2012: RM11.8 billion), supported by higher tourist arrivals. In 2013, net inflow in the travel account is projected to increase to RM30.1 billion (2012: +RM26.9 billion) spurred by higher tourist arrivals in response to the campaigns for VMY 2014 amid increased flight frequencies and connectivity by low-cost carriers. In 2013, travel receipts are expected to increase to RM67.5 billion (2012: RM62.5 billion) and remain the major earner at 54.3% of the services account. Gross outflows are expected to accelerate to RM37.5 billion (2012: RM35.7 billion), largely due to higher expenditure by Malaysians travelling abroad, particularly for business, leisure, education, medical treatment as well as religious pilgrimage.

The deficit in the *transport account* registered RM14.4 billion during the first half of 2013 (January – June 2012: -RM14.1 billion) following higher payments for shipments of imports, particularly industrial supplies, parts and accessories. In 2013, the transport account deficit is estimated at RM30.4 billion (2012: -RM28 billion) due to higher payments for shipments at RM45.1 billion (2012: RM41.7 billion) amid the continued reliance on foreign shippers. However, transport receipts are expected to increase to RM14.7 billion (2012: RM13.7 billion) contributed by higher earnings from aircraft parking and landing fees as well as related port dues from increased container handling. The deficit in the *other services* account is expected to be lower at RM12.4 billion in 2013 (2012: -RM12.9 billion) on account of lower net payment for construction services following the completion of some large infrastructure projects.

TABLE 3.20

Current Account of the Balance of Payments (BOP)¹
2013 – 2014
(RM million)

	2013 ²			2014 ³		
	Receipts	Payments	Net	Receipts	Payments	Net
Balance on goods and Services	824,599	747,943	76,656	848,334	775,995	72,339
Goods	700,320	610,903	89,417	717,506	633,538	83,968
Services	124,279	137,040	-12,761	130,828	142,457	-11,629
Transport	14,686	45,087	-30,401	15,765	47,110	-31,345
Travel	67,528	37,467	30,061	71,352	38,896	32,457
Other services	42,065	54,486	-12,421	43,711	56,451	-12,740
Primary income	43,359	75,887	-32,527	46,219	75,814	-29,595
Compensation of employees	4,196	7,303	-3,107	4,299	6,592	-2,293
Investment income	39,163	68,584	-29,421	41,920	69,221	-27,301
Secondary income	5,944	23,496	-17,552	6,091	24,954	-18,863
Balance on current account	873,902	847,326	26,577	900,644	876,762	23,882
<i>% of GNI</i>			2.8			2.3

¹ In accordance with the Sixth Edition of the BOP (BPM6) by the International Monetary Fund (IMF).

² Estimate.

³ Forecast.

Note: Total may not add up due to rounding.

Source: Ministry of Finance, Malaysia.

During the first half of 2013, the **primary income account** deficit improved to RM17.2 billion (January – June 2012: -RM21.5 billion) on account of lower net payment of *investment income* to RM15.3 billion (January – June 2012: -RM20 billion), particularly payments to foreign investors. However, the deficit in *compensation of employees* increased to RM1.9 billion (January – June 2012: -RM1.4 billion). The primary income account deficit is expected to narrow to RM32.5 billion in 2013 (2012: -RM36 billion) as Malaysian companies investing abroad are likely to repatriate higher income in tandem with the improving business outlook in the second half of 2013. Receipts from Malaysian companies investing abroad are estimated to expand to RM39.2 billion (2012: RM38.2 billion) on account of the rising number of domestic companies investing overseas and an improved global business environment during the second half of 2013. Gross payments to foreign investors are expected to be sustained

at RM68.6 billion (2012: RM71.2 billion) with the bulk of the earnings derived from dividend payments. Hence, the deficit in the investment income is expected to improve to RM29.4 billion, while the deficit for compensation of employees is projected to increase to RM3.1 billion (2012: -RM33 billion; -RM3 billion) due to higher payments to non-residents working in Malaysia, while receipts earned by residents working abroad remain stable.

Net outflow in the **secondary income account** is expected to improve to RM17.6 billion in 2013 (2012: -RM18.2 billion) on account of lower remittances by foreign workers in Malaysia following slower domestic economic activities during the first half of 2013. Remittances by foreign workers and repatriation by Malaysians working abroad are expected to be lower at RM23.5 billion and RM5.9 billion, respectively (2012: RM25.1 billion; RM6.8 billion).

The **financial account** registered a higher net inflow of RM6.2 billion during the first half of the year (January – June 2012: -RM3.7 billion) largely reflecting banking inflows and higher direct investment by foreign companies. *Inward direct investment* (or change in direct investment liabilities) was lower at RM16.8 billion (January – June 2012: RM23.4 billion) due to lower intercompany loans, amid higher inflows of foreign equity capital and retained earnings by MNCs operating in Malaysia for reinvestment. In 2013, inward direct investment are expected to increase, supported by renewed investors' confidence in the Malaysian economy and an improved global economic outlook during the second half of 2013. Inflows of FDI are projected to be sizeable, largely in the form of equity investment and retained earnings.

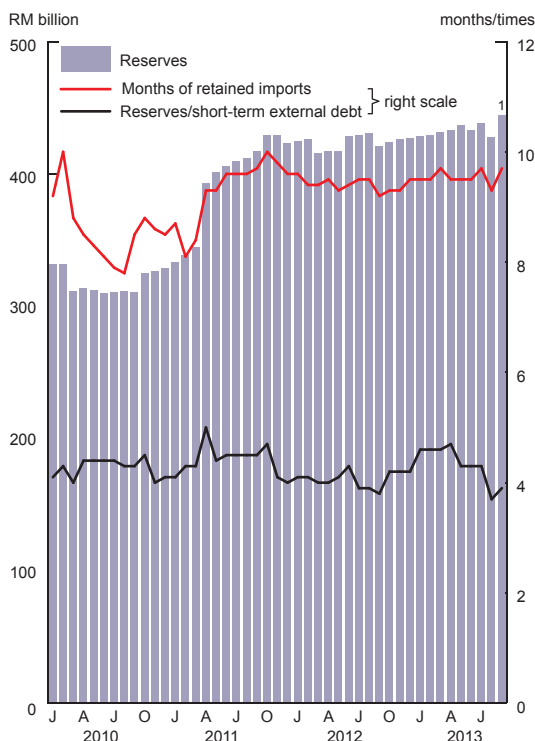
During the first half of 2013, *outward direct investment* (or change in direct investment assets) registered a lower net outflow of RM26.9 billion (January – June 2012: -RM28.2 billion) on account of lower extensions of loans by Malaysian companies to their subsidiaries abroad, although extensions of equity capital remained sizeable. However, outward direct investment by Malaysian companies are expected to increase in 2013 mainly for expansion and diversification of activities. The investment will continue to benefit Malaysian companies through improved competitiveness as well as higher repatriation of profits and dividends from investments abroad. The majority of Malaysian companies investing abroad are focused on regional and developed markets, particularly in the services, O&G and manufacturing sectors.

In line with the increasing volatile global financial markets during the first half of 2013, *portfolio investment* registered a lower net inflow of RM7.6 billion (January – June 2012: +RM20.2 billion) on higher portfolio investment abroad by residents. However, portfolio inflows

are expected to expand moderately in 2013, but will likely experience strong volatility due to the uncertainties in the financial markets. *Other investment* turned around to record a net inflow of RM9.9 billion (January – June 2012: -RM20 billion) supported by larger placements of deposits by foreign financial institutions in the domestic banking system. For 2013, the financial account is expected to register a lower net inflow.

Malaysia's **international reserves** amounted to RM444.6 billion or USD136.5 billion as at 30 September 2013. The increase in reserves was supported by the continued surplus in the current account as well as steady inflows of FDI and portfolio funds. The reserves level is adequate to finance 9.7 months of retained imports and is 3.9 times the short-term external debt.

CHART 3.18

International Reserves

¹ As at 30 September 2013.

Source: Bank Negara Malaysia.

Prices

Inflation remains manageable

Headline inflation, as measured by the change in the **Consumer Price Index (CPI)**, rose moderately by 1.7% in the first eight months of 2013 (January – August 2012: 1.8%). The two major contributors to the overall increase in the CPI were the food and non-alcoholic beverages; as well as housing, water, electricity, gas and other fuels groups, which together accounted for 1.3 percentage points of the index.

Inflation in the food and non-alcoholic beverages group rose 3.4% and contributed a 1 percentage point increase (January – August 2012: 3%; 0.9 percentage point) mainly due to prices in the food at home category, which were higher by 3.6%. Food prices, which registered the most

increase, were meat (5.9%) as well as fish and seafood (4.3%). The higher prices were partly caused by disruption in supply of some food items as well as stronger demand during festive seasons and school holidays.

Meanwhile, prices in the housing, water, electricity, gas and other fuels group continued to register a steady growth of 1.6% and contributed 0.3 percentage point increase to the index (January – August 2012: 1.6%; 0.4 percentage point). This was on account of higher other service charges for dwelling (3.3%), service charges for maintenance and repair of dwelling (2.2%) and actual rental paid by tenants (2%). In addition, prices in the alcoholic beverages and tobacco group also rose 2.8% (January – August 2012: 0.1%) and contributed 0.1 percentage point increase to the CPI, reflecting higher cigarette prices, which increased 3% on 3 June 2013.

TABLE 3.21

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

	Weights	Change (%)		Contribution to CPI growth (%)	
		2012	2013	2012	2013
Food and non-alcoholic beverages	30.3	3.0	3.4	51.4	56.7
Alcoholic beverages and tobacco	2.2	0.1	2.8	0.1	3.3
Clothing and footwear	3.4	-0.5	-0.6	-0.9	4.5
Housing, water, electricity, gas and other fuels	22.6	1.6	1.6	19.8	19.5
Furnishings, household equipment and routine household maintenance	4.1	2.1	1.6	4.5	5.1
Health	1.3	2.1	2.0	1.4	1.4
Transport	14.9	0.7	0.6	5.8	4.1
Communication	5.7	-0.6	-0.7	-2.0	-2.2
Recreation services and culture	4.6	1.8	-0.1	4.2	-0.4
Education	1.4	2.5	2.3	2.0	1.7
Restaurants and hotels	3.2	3.2	2.3	5.9	3.9
Miscellaneous goods and services	6.3	2.4	0.7	7.8	2.4
Total	100.0	1.8	1.7	100.0	100.0

Source: Department of Statistics, Malaysia.

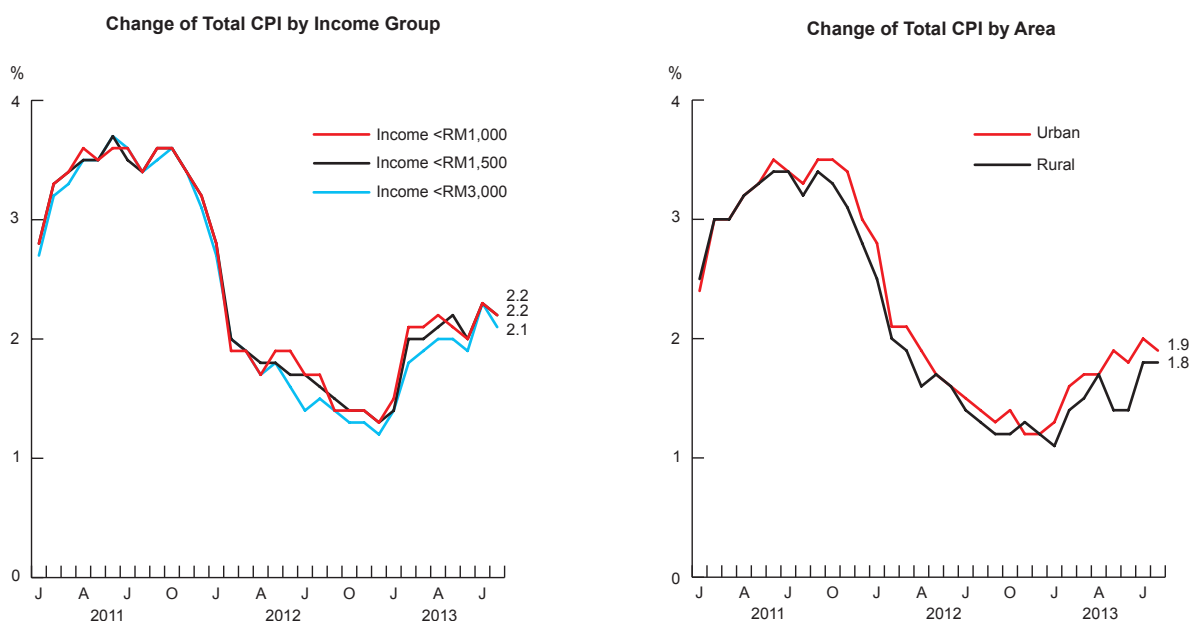
The modest growth in the CPI was also partly due to the lower price increase registered in other groups, namely transport as well as miscellaneous goods and services. The transport group registered a marginal increase of 0.6%. During the period, the price adjustments for RON97 petrol had negligible impact on prices in the transport group. On 10 January 2013, the price of RON97 petrol was reduced by 5 sen a litre, followed by an increase of 20 sen on 7 March 2013 and then a 20 sen reduction on 22 May 2013. Meanwhile, prices in the miscellaneous goods and services group also increased at a slower pace of 0.7% as a result of falling gold prices in the market. Furthermore, the rate of inflation was partly mitigated by the price declines in the communication; clothing and footwear; as well as recreation services and culture groups by 0.7%; 0.6% and 0.1%, respectively. The decline in these three groups was due to strong competition in the market.

For the first eight months of 2013, the CPI for those with earnings less than RM3,000 increased modestly by 1.9% (January – August 2012: 1.8%). Correspondingly, the CPI for those earning less than RM1,500 and less than RM1,000 also recorded a bigger increase of 2% and 2.1% (January – August 2012: 1.9%; 1.9%), respectively. Meanwhile, the CPI for rural areas posted a lower increase of 1.5% (January – August 2012: 1.7%), while the CPI for urban areas was higher at 1.8% (January – August 2012: 1.9%).

The **Producer Price Index (PPI)**, a measure of change in the prices of commodities charged by domestic producers and those paid by importers, has been on a declining trend since the second half of 2012. The PPI for domestic economy decreased sharply by 3.6% in the first eight months of 2013 (January – August 2012: 1.6%) in line with continued falling prices in local

CHART 3.19

CPI in Malaysia (% annual change)

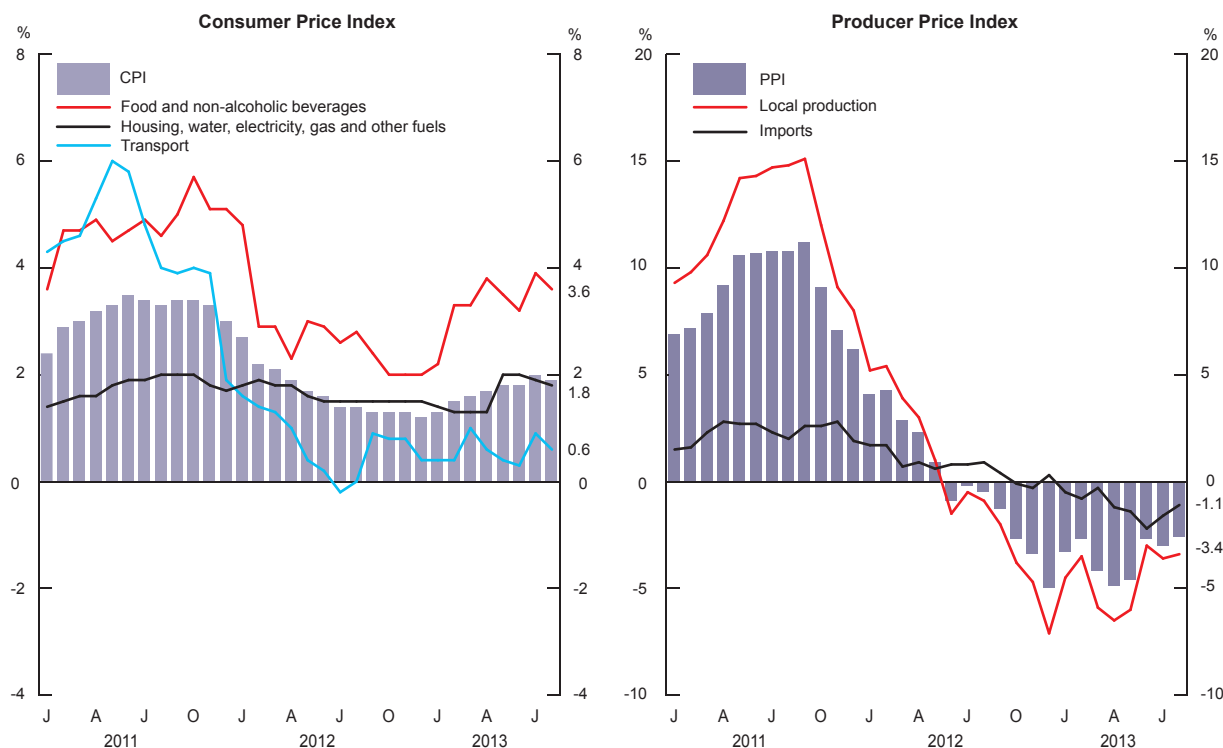


Source: Department of Statistics, Malaysia.

CHART 3.20

CPI and PPI Trends

(% annual change)



Source: Department of Statistics, Malaysia.

production and import components. The negative PPI was mainly attributed to the significant price decline of 21.9% and 17.3% in the animal and vegetable oils and fats; as well as the crude materials, inedible groups, respectively.

The PPI for local production, which comprised 66.4% of the index weightage, dropped significantly by 4.5% (January – August 2012: 1.9%), contributing 3.2 percentage points to the PPI decrease. The overall decline in this component was largely due to the double-digit price decrease in two groups, namely animal and vegetable oils and fats by 22.2% and crude materials, inedible by 18.9%. In terms of PPI by stage of processing, prices of crude materials for further processing; as well as intermediate materials, supplies and components fell 9.6% and 4.9%, respectively

to account for 4.7 percentage points to the PPI decline. However, this was partly offset by the increase of 0.5% in the finished goods stage.

Meanwhile, the PPI for imports recorded a slight decline of prices in six out of ten groups. Overall, the import components fell 1.1% (January – August 2012: 1%), mainly contributed by the decrease in prices of the mineral fuels, lubricants and others group by 5% as well as the machinery and transport equipment group by 0.8%, which together accounted for 1 percentage point of the PPI decline. The PPI for imports also registered a decline in all stages of processing, with the largest contributor being the intermediate materials, supplies and components stage, which accounted for 0.7 percentage point of the total decrease.

TABLE 3.22

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

	Weights	Change (%)		Contribution to PPI growth (%)	
		2012	2013	2012	2013
Domestic economy	100.0	1.6	-3.6	100.0	100.0
Food	5.4	1.4	2.5	5.1	-4.1
Beverages and tobacco	0.9	0.9	1.2	0.4	-0.3
Crude materials, inedible	5.4	-6.7	-17.3	-35.6	37.5
Mineral fuels, lubricants, etc.	17.4	11.6	-3.6	156.4	23.8
Animal and vegetable oils and fats	4.2	-9.8	-21.9	-41.8	36.6
Chemicals	7.0	0.0	-0.3	0.0	0.6
Manufactured goods	10.9	-0.6	-0.3	-3.8	0.7
Machinery and transport equipment	42.9	0.9	-0.5	19.3	4.7
Miscellaneous manufactured articles	5.4	0.9	0.0	2.7	0.0
Miscellaneous transactions and commodities	0.5	3.1	-1.6	0.9	0.2
Local production	66.4	1.9	-4.5	81.8	90.4
Imports	33.6	1.0	-1.1	18.2	9.6

Note: Total may not add up due to rounding.

Source: Department of Statistics, Malaysia.

Labour Market

Favourable labour market conditions

Employment creation strengthened during the first half of 2013 while the unemployment rate remained stable. Total **employment** grew 2.5% to 13 million people during the first six months of 2013 (January – June 2012: 3.6%; 12.7 million). The services sector was the highest contributor to total employment with the wholesale and retail trade, repair of motor vehicles and motorcycles subsector registering the highest share of 16.80%. This was followed by the manufacturing (16.78%) and agriculture (13%) sectors. At the same time, the **labour force** increased 2.6% to 13.4 million people during the same period (January – June 2012: 3.6%; 13.1 million). Despite strong employment creation, the **unemployment rate** edged up to 3.1% during the first half of 2013

(January – June 2012: 3.0%), mainly due to an increase in the number of people entering the labour market. However, the unemployment rate is expected to be contained at 3.1% of the total labour force in 2013. Thus, the economy is expected to continue to operate under the conditions of full employment.

TABLE 3.23

Labour Market Indicators
January – June

	('000)		Change (%)	
	2012	2013	2012	2013
Labour force	13,090.0	13,430.2	3.6	2.6
Employment	12,695.3	13,016.7	3.6	2.5
Unemployment	394.7	413.5	3.0	3.1

Source: Department of Statistics, Malaysia.

The **working-age population** is expected to expand 1.6% to 20.4 million people in 2013 (2012: 1.7%; 20 million), accounting for 68.5% of total population. The **dependency ratio**⁶ is thus projected to decline to 46 in 2013 (2012: 46.4) indicating a lesser burden on the working-age population in supporting the young and aged population. The labour market also continued to improve, reflected by an increase in the **labour force participation rate** to 66.2% (January – June 2012: 65.5%). The male participation rate remained strong at 80.6% while the female participation rate increased further to 50.7% (January – June 2012: 80.6%; 49.3%). Despite the improved female participation rate, it remained as one of the lowest in the region lagging behind Thailand, Singapore and Indonesia. Realising the importance of women in the nation's economic development, the Government has implemented various policies and programmes to further empower them and to improve their participation rate.

Vacancies still outnumbered jobseekers, although the ratio has declined. This indicates that the labour market is tightening. The number of **active jobseekers** increased 20.3% to 407,626 people during the first eight months of 2013, (January – August 2012: -1%; 338,675). From the total jobseekers, 62.3% were in the 20 – 24 age group, while 17% were in the 25 – 29 age group. Meanwhile, the majority of registered jobseekers were degree holders (32%), followed by SPM school leavers (29%) and diploma holders (23.1%).

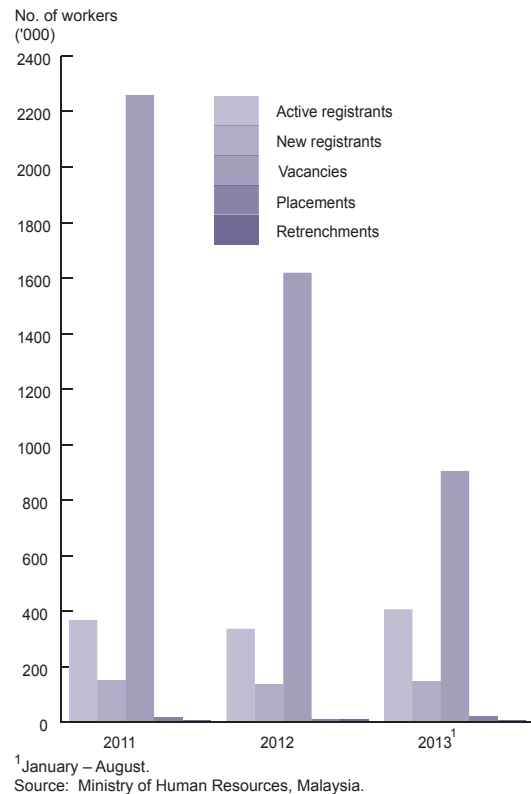
In addition, total **vacancies** reported by JobsMalaysia stood at 905,882 during the first eight months of 2013 (January – August 2012: 1,032,071) on the back of vibrant domestic economic activity. The manufacturing sector reported the highest number of job openings (32.9%), followed by agriculture (22.7%) and construction (21.2%) sectors. For occupational groups, a total of 47,461 vacancies were recorded for high-skilled labour (January – August 2012: 82,161).

⁶ The dependency ratio is the ratio of the non-working age population to the working-age population.

⁷ Elementary occupations perform single and routine tasks which mainly require the use of handheld tools and in some cases considerable physical effort. Most occupations in this major group require skills at the first level such as cleaners, helpers and labourers.

CHART 3.21

Job Market Indicators



Likewise, vacancies for elementary occupations⁷ increased to 656,676 (January – August 2012: 648,406). Meanwhile, the number of **retrenched workers** increased 29.6% to 8,261 (January – August 2012: -5.6%; 6,374), mainly from elementary occupations; technicians and associate professionals; and plant and machine-operators and assemblers. The manufacturing sector registered the largest number of retrenchments, accounting for 73% of total retrenchments, followed by the public administration and defence (5.6%) and construction (3.1%) sectors. Overall, the retrenchments were partly due to firms rationalising their operations to improve productivity and profitability.

The **productivity growth** is forecast to increase to 3.5% in 2013 (2012: 2%). The construction sector is expected to post the highest productivity

TABLE 3.24

Employment by Industry January – June

	('000)		Share (%)	
	2012	2013	2012	2013
Agriculture, forestry and fishing	1,597.9	1,694.0	12.6	13.0
Mining and quarrying	83.2	81.6	0.7	0.6
Manufacturing	2,212.1	2,183.6	17.4	16.8
Electricity, gas, steam and air conditioning supply	61.5	51.4	0.5	0.4
Water supply; sewerage, waste management and remediation activities	75.7	82.6	0.6	0.6
Construction	1,159.8	1,227.2	9.1	9.4
Wholesale and retail trade; repair of motor vehicles and motorcycles	2,115.3	2,187.2	16.7	16.8
Transportation and storage	612.7	595.4	4.8	4.6
Accommodation and food beverage service activities	949.7	1,012.3	7.5	7.8
Information and communication	204.6	176.4	1.6	1.4
Financial and insurance/takaful activities	326.0	311.0	2.6	2.4
Real estate activities	65.2	67.3	0.5	0.5
Professional, scientific and technical activities	319.7	311.6	2.5	2.4
Administrative and support service activities	525.9	531.1	4.1	4.1
Public administration and defence; compulsory social security	682.7	778.9	5.4	6.0
Education	784.5	810.4	6.2	6.2
Human health and social work activities	422.5	463.3	3.3	3.6
Arts, entertainment and recreation	94.3	84.9	0.7	0.7
Others service activities	197.0	187.9	1.6	1.4
Activities of households as employers	202.2	175.4	1.6	1.3
Activities of extraterritorial organizations and bodies	2.9	3.1	0.0	0.0
Total	12,695.3	13,016.7	100.0	100.0

Note: Industry is classified according to the 'Malaysia Standard Industrial Classification (MSIC) 2008'.

Source: Department of Statistics, Malaysia.

growth at 13.6%, supported by the implementation of infrastructure projects and various initiatives under the GTP and the ETP. Boosted by public projects, employment in the construction sector increased 5.8% to 1.23 million people during the first half of 2013 (January – June 2012: 0.2%; 1.16 million). The manufacturing and services sectors are projected to achieve a productivity growth of 3% and 2.9%, respectively. A shift towards capital intensive and advanced technology operations is expected to be the main driver of

productivity growth for the manufacturing sector in 2013. Productivity growth in the services sector is projected to be mainly supported by the financial and insurance, real estate as well as information and communication subsectors.

A key enabler towards higher productivity growth is the productivity value of labour. Pay and productivity have a positive correlation which varies across sectors, and gender as well as different types of occupations. According to the

2012 Salaries and Wages Survey Report which was published by the Department of Statistics, the average monthly **wages** increased 6% to RM1,881 in 2012 (2011: 0.2%; RM1,775). Salaries and wages in the mining and quarrying sector gained the most with a monthly average of RM3,358, reflecting the overall positive performance of the industry. This was followed by the information and communication (RM3,246) and education (RM3,135) sectors. In contrast, the agriculture sector recorded the lowest average monthly wage which was below RM1,000.

After peaking at nearly 2.1 million in 2008, the number of registered **foreign workers**⁸ declined to about 1.6 million by end-2012. However, the number of foreign workers edged up to 2.1 million during the first six months of 2013 (January – June 2012: 1.6 million). The employment of foreign workers was concentrated within the manufacturing (733,200), construction (425,532), and plantation (347,149) sectors, accounting for 71% of total foreign workers in Malaysia. Two-thirds of foreign workers in Malaysia are low skilled. At the same time, the education levels of Malaysian workers have risen rapidly along with economic development, and are significantly higher than those of migrant workers. This is evident from the number of graduates employed which remained high at 1.26 million during the first half of 2013 (January – June 2012: 1.28 million). The widening gap between the education level of migrants and Malaysian employees underscores the fact that foreign workers are filling the demand for low-skilled workers. It is observed that foreign workers complement high-skilled locals in labour-intensive sectors or manufacturing-related activities that require machine operators. Although Malaysia has been dependent on foreign workers to sustain its economic growth, the Government is mindful that over-reliance on foreign workers can have detrimental consequences as continuous dependence

on foreign labour will not encourage local companies to automate which is necessary to drive the economy to higher productivity levels. To address this issue, the Government has introduced several initiatives by providing fiscal and financial incentives to encourage integrated farming and farm mechanisation, better utilisation of ICT for business transactions as well as adoption of Industrialised Building System and Green Building Technology to promote a greater use of machinery and equipment. Meanwhile, foreign workers will receive a specific identification card in an effort to curb illegal immigrants in the country. The first batch of the cards will be issued to registered foreign workers by early November 2013.

As Malaysia progresses from a resource-based towards a service-based economy, its key industries will require a workforce with a different profile. The shift towards higher value-added activities calls for a larger pool of top talent and highly skilled expatriates. Highly skilled **expatriates** in Malaysia have fallen 25% since 2004 to 2010. The declining number of expatriates working in the country is a cause for concern since expatriates are vital in spurring competitiveness and innovative capabilities of the local workforce. Therefore, the Government has initiated several structural reforms to address this issue. Among others are the Residence Pass-Talent which was introduced on 1 April 2011 and the establishment of a one-stop centre for expatriate services in the Immigration Department. The Expatriate Service Division was launched on 3 December 2012 and is expected to be fully operational in the first quarter of 2014. As at end-August 2013, the number of expatriates stood at 44,938. The expatriates were mainly employed in the services sector (15,746; 35%) as well as petroleum (8,654; 19.3%) and information technology (8,410; 18.7%) industries. India registered the largest number of expatriates at 8,462, accounting for 18.8% of total expatriates in Malaysia.

⁸ The foreign workers were registered under the active Visit Pass Temporary Employment issued by the Immigration Department, Malaysia.

Prospects for 2014

Malaysian Economy

Growth expected to be stronger

The Malaysian economy is expected to expand further by 5% – 5.5% in 2014 (2013: 4.5% – 5%), supported by favourable domestic demand and an improving external environment. Growth will be private-led, supported by strong private capital spending while private consumption continues to remain resilient. Although some degree of uncertainty exists in the global environment due to the volatility of capital flows associated with the possibility of reduced global liquidity, Malaysia's external sector is expected to improve. This is in tandem with the continued recovery of growth across advanced economies as well as stronger regional trade activities which is evident in the second half of 2013. The better outlook of Malaysia's external sector is premised upon China's real GDP growth, which is expected to be sustained at around 7.5%, while global trade will continue to grow at a steady pace of 5% in 2014.

Domestic demand is expected to continue its strong growth momentum, driven mainly by the private sector. Strong domestic fundamentals, including low unemployment, rising household income and sustained consumer confidence, will support the continued expansion of private consumption. Growth in private investment is expected to remain strong in line with improving external demand and increasing domestic activity. Public expenditure will be largely underpinned by increased spending on supplies and services.

Malaysia's macroeconomic fundamentals are expected to remain strong. Of significance, labour market conditions are expected to be favourable with the unemployment rate at 3.1%. The labour market is expected to be supported by increased employment, particularly in the services-related industries and export-oriented

manufacturing industries in tandem with strong domestic consumption and improving external demand. Headline inflation is expected to remain manageable at 2% – 3% in 2014. The increase in the CPI largely reflects fuel price adjustment in September 2013. Global food prices, as reported by the FAO, are expected to remain stable as food commodity markets are projected to be more balanced in 2013 and 2014. Domestic demand-driven inflation is expected to remain modest, amid increased capacity expansion and improved productivity. Producer cost pressure is expected to remain muted given the stable energy and commodity prices. Hence, the nominal GNI per capita is expected to increase 6.2% to RM34,126 (2013: 4.2%; RM32,144). In terms of Purchasing Power Parity (PPP), per capita income is expected to increase 2.6% to reach USD17,173 (2013: 1.3%; USD16,743).

Sectoral Prospects

Broad-based growth

On the supply side, major economic sectors are expected to record better performance in 2014 supported by strong domestic fundamentals and improving external demand. The services sector will remain as the major contributor of growth with broad-based expansion across all subsectors. In particular, tourism-related services subsectors will be spurred by the upcoming VMY 2014 and the opening of the new KLIA2 in 2014. The export-oriented manufacturing sector is expected to benefit from improving external demand with higher manufacturing activity. Meanwhile, growth in the mining sector is projected to increase, supported by higher output of natural gas and crude oil. Increasing production of food commodities such as vegetables, fruits and livestock as well as the sustained production of CPO and rubber are expected to support growth of the agriculture sector. Growth in the construction sector will be driven by acceleration in the implementation of civil engineering projects in the transport, utility and O&G segments.

The **services sector** is expected to increase 5.7% in 2014 (2013: 5.5%) supported by expansion across all subsectors. The consumer-oriented subsectors such as wholesale and retail trade as well as accommodation and restaurant will continue to be boosted by strong private consumption. These subsectors will also benefit from higher tourist arrivals following special promotional campaigns and activities in conjunction with VMY 2014. The wholesale and retail trade as well as accommodation and restaurant subsectors are thus projected to increase 5.9% and 6.6% (2013: 5.7%; 5.7%), respectively in 2014. The transport and storage subsector is anticipated to grow 6.2% (2013: 5.2%) boosted by resilient domestic economic activity and increased passenger volume supported by the opening of KLIA2. The finance and insurance subsector is expected to grow 3.6% (2013: 2.8%) reflecting increasing demand for financing. Meanwhile, the communication subsector is projected to increase 9.6% (2013: 9.4%) driven by strong demand for cellular and broadband services, amid intense competition and continuous upgrading efforts by the telecommunication industry players.

The outlook for the **manufacturing sector** is expected to improve, given the continued recovery in manufacturing activity, particularly the E&E subsector. In line with the gradual pickup in the global economy and improving intra-regional trade, export-oriented industries such as E&E, chemicals and resource-based industries are likely to provide support to growth. Likewise, domestic-oriented industries such as construction-related materials, transport equipment and food subsectors are also expected to remain resilient. The manufacturing sector is projected to grow 3.8% in 2014 (2013: 3.2%).

The **agriculture sector** is expected to register a growth of 3% (2013: 2.7%) as demand for palm oil and rubber from major export markets improve in line with better prospects in 2014. Production of CPO is estimated to increase further following higher FFB yields due to

increased matured areas, particularly in Sabah and Sarawak. Similarly, rubber production is projected to increase steadily as stable rubber prices and firmer demand will encourage tapping among the smallholders. The food commodities, mainly livestock, fruits and vegetables as well as fishing will continue to record favourable growth, following various Government initiatives through the NKEA Entry Point Projects (EPPs) to ensure sufficient domestic food production. In addition, investment in oil palm and rubber downstream industries will steadily increase growth in the agriculture sector.

The **mining sector** is expected to grow 3.1% in 2014 (2013: 2.2%), reflecting higher production of crude oil and natural gas. Production of crude oil is anticipated to increase, spurred by recovery in production of matured oil fields and additional output from new oil fields. Meanwhile, natural gas output is projected to expand further on account of increased demand, particularly from petrochemical and utility industries. In addition, the expansion in O&G investments by PETRONAS will support production for 2014. Global oil prices, while subject to unpredictable supply shocks and political events, are expected to remain stable on account of steady demand and supply. Nevertheless, the possibility of reduced global financial liquidity could result in oil prices retreating. For 2014, Dated Brent and Tapis are expected to trade at an average of USD105 and USD110, respectively.

Growth in the **construction sector** is projected to increase at a moderate pace of 9.6% in 2014 (2013: 10.6%) due to slower construction activity in the civil engineering subsector following the completion of several major infrastructure projects. However, the acceleration in implementation of transport and O&G related civil engineering projects will continue to support growth. Meanwhile, the residential subsector is expected to remain strong in view of the increased demand for housing, particularly from the middle-income group. The implementation of PR1MA housing project, is expected to accelerate to meet the

target of providing 80,000 units of houses for the middle-income group by 2015. Activity in the non-residential subsector is expected to remain stable, albeit at a moderate pace, supported by buoyant business and industrial activities as well as improved consumer sentiment.

Domestic Demand

Growth led by the private sector

The Malaysian economy is expected to strengthen in tandem with better prospects of global growth and international trade in 2014 and strong domestic economic activities. The positive factors that supported domestic demand in 2013 are expected to continue in 2014. **Private sector expenditure** is anticipated to grow 7.8% (2013: 9.5%) supported by consumption and investment activities. **Public sector expenditure**, although gradually consolidating, will remain supportive of growth.

Private consumption will be more broad-based and is expected to expand 6.2% (2013: 7.4%). The expansion is anticipated to be supported by sustained growth in income, benefiting from continued expansion in domestic-oriented industries and the better performance of export-oriented industries. Furthermore, stable commodity prices and the positive wealth effect from a strong stock market performance would further increase household disposable income and support consumption spending. **Public consumption** is anticipated to expand 3.3% (2013: 7.3%) underpinned by higher spending on emoluments as well as supplies and services. The expansion in supplies and services reflects the continuous efforts by the Government to improve the public service delivery.

Private investment is projected to record a strong growth of 12.7% (2013: 16.2%) in line with the Government's initiatives to accelerate private sector participation in the economy. Investment in domestic-oriented industries will continue to

remain robust, especially in the consumer-related services and domestic-oriented manufacturing subsectors. Meanwhile, capital spending in the export oriented-industries is expected to improve amid better external demand. In addition, more buoyant investment activities are expected in new growth areas, high value-added, high-technology and knowledge-intensive industries such as biotechnology and pharmaceutical, telecommunications, green technology and automotive industries. The ongoing implementation of ETP projects as well as investments in the O&G and construction-related sectors are anticipated to boost private investment activity.

Public investment is expected to decrease 2.7% (2013: 5.5%) partly due to lower Federal Government development expenditure following the accelerated implementation of projects in the first three years of the Tenth Malaysia Plan (10MP). Development expenditure will focus on ensuring a more balanced growth and development within and across regions. Funds will be channelled mainly to the economic and social services sectors with special emphasis on infrastructure development, education and training, and healthcare programmes.

Capital spending by the NFPEs is expected to moderate given the high base in 2013 and will focus on upstream O&G activities, telecommunication, construction as well as transport and utility sectors. Meanwhile, work on the MRT has progressed, with the first phase due for completion by end-December 2016.

National Resource Position

Savings-investment remains in surplus

In line with the anticipated strong domestic economic activities and improved export earnings, the national income is projected to expand further by 7.5% in 2014 (2013: 5.5%). Public sector savings are anticipated to increase supported by higher operating surpluses of the NFPEs

projected for 2014. However, private sector savings are expected to increase marginally by 0.9% to RM254.7 billion or 24.8% of GNI, reflecting high household consumption. The GNS is anticipated to expand 6.8% to RM320.8 billion. Given the faster pace of gross domestic investment compared to GNS, the savings-investment surplus is expected to narrow to RM23.9 billion or 2.3% of GNI in 2014 (2013: RM26.6 billion; 2.8%).

External sector

Improvement in external demand

On the external front, the better global economic outlook in 2014 is expected to drive Malaysia's export growth. Stable commodity prices and resilient domestic demand will continue to support Malaysia's trade performance. The trade surplus is expected to be sustained in tandem with improving external demand. **Gross exports** are expected to rebound 2.5% in 2014 (2013: -0.4%) on stronger manufactured exports supported by stronger regional demand for resource-based products and consumer electronics. Commodity exports are projected to expand at a stronger pace from the low base in 2013 with commodity prices envisaged to remain stable. **Gross imports** are projected to expand 3.8% (2013: 4.6%), as imports of intermediate goods increase in tandem

with higher manufacturing activity. Meanwhile, imports of capital and consumption goods are likely to remain strong. The services account is estimated to record a lower deficit supported by higher net travel receipt in conjunction with VMY 2014, despite higher net payment in the transport account on increased shipments of goods by foreign shippers. Consequently, the surplus in the **goods and services account** is expected to narrow to RM72.3 billion (2013: RM76.7 billion) largely due to higher investment-driven imports.

In 2014, the **primary income account** is projected to register a lower net outflow of RM29.6 billion (2013: -RM32.5 billion) largely on account of lower net payments of investment income and compensation of employees. While the MNCs operating in Malaysia are expected to repatriate higher profit and dividend in 2014 due to better outlook for the export-oriented industries, it is estimated that about half of the income will be retained in Malaysia for reinvestment. Meanwhile, the deficit in the **secondary income account** is projected to increase to RM18.9 billion (2013: -RM17.6 billion) due to higher remittances by foreign workers following the full implementation of minimum wage. On balance, the **current account** is expected to register a surplus of RM23.9 billion or 2.3% of GNI in 2014 (2013: RM26.6 billion; 2.8%).

