CHAPTER 2 - MACROECONOMIC PERFORMANCE AND PROSPECTS

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Chapter 2

Macroeconomic Performance and Prospects

2 MACROECONOMIC PERFORMANCE AND PROSPECTS

I. INTRODUCTION

2.01 The Malaysian economy performed better than expected during the Seventh Malaysia Plan period despite the severe contraction in 1998 arising from the East Asian financial crisis. The strong growth performance before the crisis, improved external demand and the recovery measures undertaken by the Government contributed to the overall economic performance. Prior to the crisis, growth was propelled by domestic demand particularly private investment. With the onset of the crisis, the Government eased monetary policy and provided fiscal stimulus to reactivate domestic demand and strengthen the external sector. This resulted in the sharp economic recovery beginning 1999. At the end of the Plan period, Gross Domestic Product (GDP) rose above the pre-crisis level, while inflation and unemployment remained low.

2.02 During the Eighth Malaysia Plan period, macroeconomic management will focus on strengthening economic resilience and achieving sustainable growth in line with the National Vision Policy (NVP). In this regard, Malaysia's efforts to develop a knowledge-based economy will be crucial. The Government will continue to pursue sound macroeconomic management policies with low inflation and sustainable fiscal and external accounts. The economic fundamentals and the financial system will be strengthened to enable the economy to withstand shocks as well as to take advantage of the opportunities arising from a more liberalized global economy. Growth during the period will depend increasingly on raising total factor productivity (TFP)[1] and less on labour and capital inputs.

[1] TFP refers to the additional output generated as a result of the introduction of new technology or upgrading of technology, innovation, superior management techniques, gains from specialization, improvements in efficiency, know-how, workers' education, skills and experience, and advancement in information technology.

II. REVIEW OF MACROECONOMIC PERFORMANCE, 1996-2000

2.03 The economy recorded an average growth of 4.7 per cent per annum during the Seventh Plan period, surpassing the revised target of 3.0 per cent. The real GDP expanded at an average rate of 8.7 per cent per annum during the 1996-1997 period before registering a negative growth rate of 7.4 per cent in 1998. Efforts to resuscitate the economy starting from mid-1998, succeeded in generating an average growth rate of 7.2 per cent during the 1999-2000 period. Per capita income in current terms, which declined in 1998, rebounded to RM13,359 in 2000, surpassing the pre-crisis level. The fiscal and monetary policies introduced in 1998 helped to stimulate consumption, while containing inflationary pressures. The unemployment rate remained at 3.1 per cent. The financial position of the Government, however, recorded a deficit arising from the expansionary fiscal policy to stimulate the economy and counteract the contraction of private demand.

Macroeconomic Progress

2.04 During the first two years of the Plan period, growth was largely driven by domestic demand. Despite the growth in exports during the period, the external sector contributed negatively to growth due mainly to the relatively higher demand for imports from the manufacturing and services sectors. However, following the recession, the main impetus for growth came from external demand following the strong global demand for electronic products and the depreciation of the Ringgit. In addition, imports slackened towards the second quarter of 1998 following the collapse of domestic demand. This resulted in a substantial increase in the contribution from the external sector during the second half of the Plan period.

2.05 The policy to shift from an input-driven strategy to a productivity-driven strategy during the Plan period was affected by the economic crisis. The contribution of TFP during the Plan period was 24.8 per cent of GDP growth, while the contribution of labour was 25.0 per cent and that of capital was 50.2 per cent, as shown in *Table 2-1*. This indicated that growth continued to be input-driven, particularly from capital. During the 1998-2000 period, additional measures were adopted to increase productivity, which included the allocation of more resources for research and development (R&D), expansion of education and training, and technology improvements.

2.06 During the Seventh Plan period, the *incremental capital output ratio* (ICOR)[2] increased to an average of 8.8 compared with 4.2 during the Sixth Plan period. Substantial capital-intensive investments with long gestation period, especially in infrastructure and utilities projects, were made to upgrade the productive capacity of the economy. The capacity utilization, however, was negatively affected by the economic downturn, which was an important factor accounting for the increase in the ICOR.

TABLE 2-1

CONTRIBUTION OF FACTORS OF PRODUCTION, 1991-2005

	6MP		*7MP*		*8MP*	
	% of Contribution	*% of Total*	*% of Contribution*	*% of Total*	*% of Contribution*	*% of Total*
GDP	***9.5***	***100.0***	***4.7***	***100.0***	***7.5***	***100.0***
Labour	*2.3*	*23.9*	*1.2*	*25.0*	*1.6*	*21.5*
Capital	*4.7*	*50.2*	*2.3*	*50.2*	*3.1*	*41.3*
TFP[1]	*2.5*	*25.9*	*1.2*	*24.8*	*2.8*	*37.2*

Note: [1]Total factor productivity (TFP) is estimated using the Cobb-Douglas production function by subtracting from output growth, the portion of growth which is accounted for by increases in labour and capital.

Aggregate Demand

2.07 *Private investment* registered a negative growth rate of 11.6 per cent per annum during the Plan period, as shown in *Table 2-2*. This was attributed to the drastic contraction in 1998 and 1999, compared with an average growth rate of 10.4 per cent per annum in the 1996-1997 period. The share of real private investment to Gross National Product (GNP) declined sharply from 39.2 per cent in 1997 to 18.5 per cent in 1998, while the share of private investment to total investment also declined from 73.8 per cent to 57.9 per cent. This was due to the lack of investor confidence and increased excess capacity due to declining demand.

[2] ICOR is the ratio between the increment of capital stock to that of output. It measures the productivity of additional capital input.

TABLE 2-2

GROSS NATIONAL PRODUCT BY EXPENDITURE CATEGORY, 1995-2005

(in current prices with 1987 prices in italics)

Category	*RM million*			*Average Annual Growth Rate (%)*			*% of GNP*		
	1995	*2000*	*2005*	*Target 7MP*	*Achieved 7MP*	*Target 8MP*	*1995*	*2000*	*2005*
Consumption	134,140	180,389	291,602	4.8	6.1	10.1	63.3	58.0	63.0
	102,663	*118,780*	*170,455*	*1.5*	*3.0*	*7.5*	*66.1*	*62.4*	*61.1*
Private	106,613	144,212	236,216	4.6	6.2	10.4	50.3	46.4	51.0
	81,981	*94,459*	*135,249*	*0.8*	*2.9*	*7.4*	*52.8*	*49.6*	*48.5*
Public	27,527	36,177	55,386	5.4	5.6	8.9	13.0	11.6	12.0
	20,682	*24,321*	*35,206*	*3.4*	*3.3*	*7.7*	*13.3*	*12.8*	*12.6*
Investment	96,967	87,144	153,667	-0.5	-2.1	12.0	45.7	28.0	33.2
	81,895	*64,415*	*110,252*	*-4.5*	*-4.7*	*11.3*	*52.8*	*33.8*	*39.5*
Private	69,424	42,854	105,516	-6.0	-9.2	19.7	32.7	13.8	22.8
	58,633	*31,677*	*75,706*	*-9.8*	*-11.6*	*19.0*	*37.8*	*16.6*	*27.1*
Public	27,543	44,290	48,151	9.2	10.0	1.7	13.0	14.2	10.4
	23,262	*32,738*	*34,546*	*4.8*	*7.1*	*1.1*	*15.0*	*17.2*	*12.4*
Change in Stocks	120	4,379	-206	-	-	-	0.1	1.4	0.0
	90	*1,174*	*-57*	-	-	-	*0.1*	*0.6*	*0.0*
Exports of Goods & Non-factor Services	209,323	426,523	622,566	10.0	15.3	7.9	98.7	137.2	134.5
	161,856	*247,037*	*342,475*	*4.5*	*8.8*	*6.8*	*104.3*	*129.7*	*122.8*
Imports of Goods & Non-factor Services	218,077	359,015	572,347	5.9	10.5	9.8	102.9	115.4	123.7
	179,878	*222,137*	*323,340*	*0.9*	*4.3*	*7.8*	*115.9*	*116.6*	*115.9*
GDP at Purchasers' Value	**222,472**	**339,420**	**495,281**	**6.9**	**8.8**	**7.9**	**104.9**	**109.2**	**107.0**
	166,625	***209,269***	***299,785***	***3.0***	***4.7***	***7.5***	***107.4***	***109.9***	***107.5***
Net Factor Payments	-10,377	-28,606	-32,372	-	-	-	-4.9	-9.2	-7.0
	-11,422	*-18,777*	*-20,861*	-	-	-	*-7.4*	*-9.9*	*-7.5*
GNP at Purchasers' Value	**212,095**	**310,814**	**462,909**	**6.7**	**7.9**	**8.3**	**100.0**	**100.0**	**100.0**
	155,203	***190,492***	***278,924***	***3.0***	***4.2***	***7.9***	***100.0***	***100.0***	***100.0***
GNP Per Capita at Purchasers' Value (RM)	10,190	13,359	17,779	4.3	5.6	5.9	-	-	-

2.08 The capacity of the banks to provide credit was affected by the increasing non-performing loans (NPLs)[3] and the decline in liquidity. NPLs of the banking system, as a ratio of total loans on a net basis, increased from 4.1 per cent at the end of 1997 to a peak of 9.0 per cent at the end of November 1998. Measures to stimulate private investment and restore business confidence were undertaken from mid-1998. These measures included the lowering of interest rates, increasing liquidity and providing additional funds for investment, thereby contributing to the positive growth of private investment of 26.7 per cent in 2000. However, private investment in current terms was about 50 per cent below the pre-crisis level at RM42.9 billion in 2000 compared with RM89.7 billion in 1997.

2.09 To promote foreign direct investment (FDI), the equity policy for the manufacturing sector was liberalized, while the 30 per cent limit imposed on foreign ownership was relaxed for several sectors, such as telecommunications, shipping and forwarding as well as insurance. Liberal policies were also adopted for approved activities in the Multimedia Super Corridor (MSC).

2.10 *Public investment* grew at 7.1 per cent per annum during the Plan period. During the 1996-1997 period, public investment grew at an annual average rate of 4.4 per cent. In response to the regional financial crisis, the Government initially reduced public sector expenditure to complement the tight monetary policy as a means to reduce the current account deficit of the balance of payments and prevent further decline in the value of the Ringgit. As the crisis worsened, the Government reversed the initial expenditure cuts and injected an additional development expenditure of RM30.7 billion in the second half of the Plan period to stimulate economic activities and counter the sharp decline in private investment. Consequently, the share of public investment to total investment increased to 36.9 per cent during the Plan period compared with 33.1 per cent during the Sixth Plan.

2.11 The additional funds were directed towards programmes and projects with strong economic linkages and minimal leakages in terms of imports. These included the provision of infrastructure facilities, housing, education and public health development. Guidelines and measures were also introduced to ensure that these projects were implemented on schedule. Project monitoring was strengthened at various levels and regular reports were submitted to the National Economic Action Council (NEAC)[4].

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[3] NPLs refer to the outstanding amount of loans when principal or interest is in arrears for six months or more.

[4] NEAC was established on 7 January 1998 as a consultative body to the Cabinet to deal with the economic crisis.

2.12 Real *private consumption* which recorded moderate growth during 1996-1997, contracted sharply by 10.8 per cent in 1998 due to negative income and wealth effects, more cautious spending and erosion of purchasing power. Incomes declined as a result of lower wages and allowances as well as reduced overtime. In addition, the sharp fall in stock market capitalization and asset prices had a negative impact on wealth, which adversely affected spending on consumer durables, such as automobiles and home appliances. Imports of consumption goods also declined significantly by 9.5 per cent.

2.13 The adoption of an expansionary monetary policy and lower interest rates as well as the increase in income arising from the improved economic performance enhanced consumer confidence. This contributed to the increase in private consumption, which recorded a positive growth rate of 3.1 per cent in 1999, 12.4 per cent in 2000 and 2.9 per cent per annum during the Plan period. Sales of passenger cars rebounded by 80.3 per cent in 1999 compared with the negative growth of 61.3 per cent in 1998. The wholesale and retail trade sector also registered a positive growth of 4.3 per cent in the 1999-2000 period, while imports of consumption goods increased by 17.0 per cent during the same period.

2.14 During the Plan period, real *public consumption* increased at a rate of 3.3 per cent per annum. The increase was attributed to higher Government operating expenditure, which included the provision of a special RM600 allowance, bonuses and a 10 per cent salary increase to public sector employees. Recruitment of teachers and medical personnel was also undertaken as a move to provide better education and health services.

2.15 *Export of goods and non-factor services* grew at an average rate of 8.8 per cent per annum during the Plan period. During 1996-1997, exports grew by 7.3 per cent per annum but subsequently slowed down to 0.5 per cent in 1998 due to economic contraction experienced by the regional market and Japan. However, a higher export growth of 14.1 per cent per annum was achieved during the 1999-2000 period largely due to the growth in world demand for electronic products and the recovery of the regional economies.

2.16 Although *import of goods and non-factor services* grew by 5.4 per cent during the 1996-1997 period, it declined significantly by 18.8 per cent in 1998. Since about 60 per cent of Malaysia's exports were import-intensive, the depreciation of the Ringgit and lower demand for exports led to a decline in imports. During the 1999-2000 period, imports recovered and grew by 17.0 per cent arising from an increased demand for intermediate and capital goods. Import of goods and non-factor services thus recorded an overall growth rate of 4.3 per cent.

International Trade

2.17 Malaysia's total trade expanded by 12.6 per cent per annum during the Plan period, as shown in *Table 2-3*. Total trade almost doubled from RM379.3 billion in 1995 to RM685.7 billion in 2000. The Association of South-East Asian Nations (ASEAN) was Malaysia's largest trading partner constituting 25.4 per cent of total trade in 2000, followed by the United States of America (US), Japan and the European Union (EU). These countries accounted for 73.2 per cent of Malaysia's total exports in 2000 compared with 75.6 per cent in 1995. Trade with Australia, the Newly Industrialized Economies and South Asia also increased, reflecting efforts by the Government to diversify its markets. Malaysia's total trade with the South countries expanded by 18.7 per cent during the Plan period, with its share increasing from 13.9 per cent in 1995 to 18.1 per cent in 2000.

2.18 *Gross exports* grew at an average rate of 15.1 per cent per annum, as shown in *Table 2-4*. The strong performance of Malaysia's exports improved its ranking in world exports from 19th position in 1995 to 17th in 1999 and contributed to 1.5 per cent of world exports. Manufactured exports also rose strongly to grow at 15.7 per cent during the 1999-2000 period, resulting in an overall growth of 16.6 per cent per annum during the Plan period. Both electronics as well as electrical machinery and appliance and parts industries continued to be the major contributors to manufactured exports, with its share increasing from 65.7 per cent of total manufactured exports in 1995 to 72.5 per cent in 2000, as shown in *Chart 2-1*. Export growth was also contributed by higher export prices of palm oil and petroleum during the period 1997-1998, as a result of exchange rate valuation gains.

2.19 Exports from the mining sector grew at 20.1 per cent per annum during the Plan period, with its share to total exports increasing from 5.8 per cent in 1995 to 7.2 per cent in 2000. This strong performance was attributed to the increased demand for crude oil and natural gas as well as the escalation of world crude oil prices from about USD13.0 per barrel in early 1999 to about USD29.6 per barrel at the end of the Plan period.

TABLE 2-3

DIRECTION OF TRADE, 1995-2000

Direction	*RM million*						*% of Total*						*Average Annual Growth Rate (%) 1996-2000*		
	Exports		*Imports*		*Total Trade*		*Exports*		*Imports*		*Total Trade*				
	1995	*2000*	*1995*	*2000*	*1995*	*2000*	*1995*	*2000*	*1995*	*2000*	*1995*	*2000*	*Exports*	*Imports*	*Total Trade*
ASEAN[1]	50,392	99,063	33,748	75,031	84,140	174,094	*27.2*	*26.5*	*17.4*	*24.0*	*22.2*	*25.4*	*14.5*	*17.3*	*15.7*
Singapore	37,585	68,592	24,080	44,704	61,665	113,296	*20.3*	*18.4*	*12.4*	*14.3*	*16.3*	*16.5*	*12.8*	*13.2*	*12.9*
Indonesia	2,441	6,488	3,057	8,622	5,499	15,110	*1.3*	*1.7*	*1.6*	*2.8*	*1.4*	*2.2*	*21.6*	*23.0*	*22.4*
Thailand	7,258	13,492	5,132	12,067	12,390	25,559	*3.9*	*3.6*	*2.6*	*3.9*	*3.3*	*3.7*	*13.2*	*18.7*	*15.6*
Philippines	1,692	6,561	1,154	7,565	2,846	14,126	*0.9*	*1.8*	*0.6*	*2.4*	*0.8*	*2.1*	*31.1*	*45.7*	*37.8*
European Union	26,274	51,026	29,960	33,692	56,234	84,718	*14.2*	*13.7*	*15.4*	*10.8*	*14.8*	*12.4*	*14.2*	*2.4*	*8.5*
United Kingdom	7,484	11,572	5,480	6,102	12,963	17,674	*4.0*	*3.1*	*2.8*	*2.0*	*3.4*	*2.6*	*9.1*	*2.2*	*6.4*
Fed. Republic of Germany	5,927	9,333	8,613	9,276	14,539	18,609	*3.2*	*2.5*	*4.4*	*3.0*	*3.8*	*2.7*	*9.5*	*1.5*	*5.1*
United States of America	38,279	76,584	31,413	51,863	69,692	128,447	*20.7*	*20.5*	*16.2*	*16.6*	*18.4*	*18.7*	*14.9*	*10.5*	*13.0*
Canada	1,505	3,045	1,034	1,440	2,539	4,485	*0.8*	*0.8*	*0.5*	*0.5*	*0.7*	*0.7*	*15.1*	*6.8*	*12.1*
Australia	2,825	9,217	5,259	6,096	8,084	15,313	*1.5*	*2.5*	*2.7*	*2.0*	*2.1*	*2.2*	*26.7*	*3.0*	*13.6*
Japan	23,449	48,742	53,089	65,860	76,538	114,602	*12.7*	*13.1*	*27.3*	*21.1*	*20.2*	*16.7*	*15.8*	*4.4*	*8.4*
China	4,904	11,506	4,298	12,310	9,203	23,816	*2.7*	*3.1*	*2.2*	*3.9*	*2.4*	*3.5*	*18.6*	*23.4*	*20.9*
NIEs	20,875	43,481	22,073	40,044	42,947	83,525	*11.3*	*11.6*	*11.4*	*12.8*	*11.3*	*12.2*	*15.8*	*12.7*	*14.2*
Hong Kong, SAR	9,899	16,872	4,194	8,602	14,093	25,474	*5.4*	*4.5*	*2.2*	*2.8*	*3.7*	*3.7*	*11.3*	*15.5*	*12.6*
South Korea	5,162	12,383	7,965	13,921	13,127	26,304	*2.8*	*3.3*	*4.1*	*4.5*	*3.5*	*3.8*	*19.1*	*11.8*	*14.9*
Taiwan ROC	5,813	14,226	9,914	17,521	15,727	31,747	*3.1*	*3.8*	*5.1*	*5.6*	*4.1*	*4.6*	*19.6*	*12.1*	*15.1*
South Asia	4,546	10,521	1,631	3,041	6,178	13,562	*2.5*	*2.8*	*0.8*	*1.0*	*1.6*	*2.0*	*18.3*	*13.3*	*17.0*
Central and South America	2,895	5,636	2,337	2,610	5,232	8,246	*1.6*	*1.5*	*1.2*	*0.8*	*1.4*	*1.2*	*14.2*	*2.2*	*9.5*
Africa	2,015	3,017	1,024	1,438	3,040	4,455	*1.1*	*0.8*	*0.5*	*0.5*	*0.8*	*0.6*	*8.4*	*7.0*	*7.9*
Others	7,028	11,470	8,477	19,001	15,505	30,471	*3.8*	*3.1*	*4.4*	*6.1*	*4.1*	*4.4*	*10.3*	*17.5*	*14.5*
Total	**184,987**	**373,307**	**194,345**	**312,427**	**379,331**	**685,734**	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	***15.1***	***10.0***	***12.6***
South Countries[2]	32,122	67,967	20,445	56,047	52,567	124,014	*17.4*	*18.2*	*10.5*	*17.9*	*13.9*	*18.1*	*16.2*	*22.3*	*18.7*

Notes:

[1] Include all ASEAN member countries.

[2] Include ASEAN excluding Singapore, South Asia, North-East Asia excluding NIEs and Japan, CIS countries, Latin America, West Asia and the South Pacific island nations.

2.20 *Gross imports* grew at 10.0 per cent per annum. About 88.9 per cent were intermediate and capital goods used for productive purposes. Imports of intermediate goods grew at an average rate of 12.8 per cent per annum to account for 73.8 per cent of gross imports, while capital goods grew marginally at 3.8 per cent per annum, constituting 15.1 per cent of imports at the end of 2000, as shown in *Table 2-5*. The slower growth in the imports of capital goods was due to the contraction in investment as well as the higher cost of imports as a result of the crisis.

TABLE 2-4

MERCHANDISE TRADE, 1995-2000
(RM million)

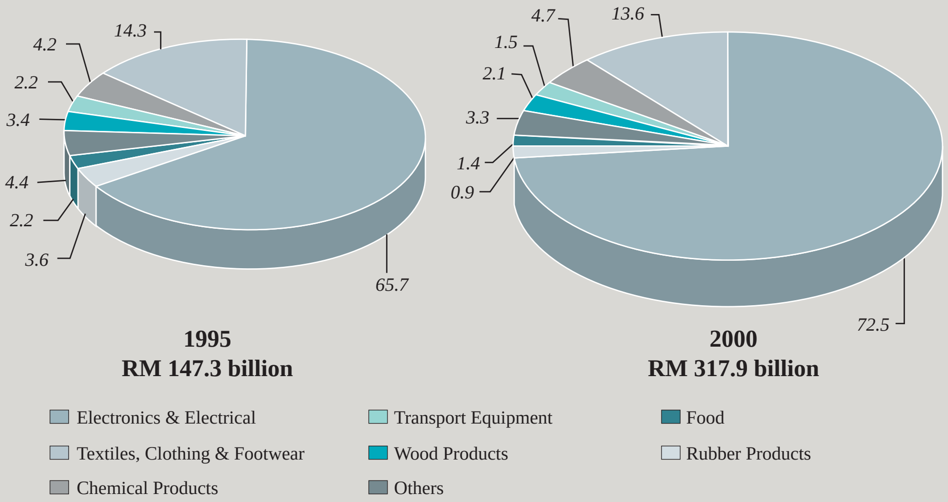
Item	*1995*	*%*	*2000*	*%*	*Average Annual Growth Rate (%), 1996-2000*
Gross Exports					
Agriculture	21,642	*11.7*	22,914	*6.1*	*1.1*
Mining	10,723	*5.8*	26,801	*7.2*	*20.1*
Manufacturing	147,253	*79.6*	317,937	*85.2*	*16.6*
Others	5,369	*2.9*	5,655	*1.5*	*1.0*
Total	**184,987**	***100.0***	**373,307**	***100.0***	***15.1***
Gross Imports					
Capital Goods	39,127	*20.1*	47,064	*15.1*	*3.8*
Intermediate Goods	126,338	*65.0*	230,611	*73.8*	*12.8*
Consumption Goods	11,975	*6.2*	17,372	*5.6*	*7.7*
Others[1]	9,676	*5.0*	11,070	*3.5*	*2.7*
Retained Imports	187,116	*96.3*	306,118	*98.0*	*10.3*
Imports For Re-Export	7,229	*3.7*	6,309	*2.0*	*-2.7*
Total	**194,345**	***100.0***	**312,427**	***100.0***	***10.0***

Note: [1] Dual use goods

CHART 2-1

GROSS EXPORTS OF MANUFACTURED GOODS, 1995 AND 2000

(% of total)



Balance of Payments

2.21 The balance of payments position strengthened towards the latter part of the Plan period following significant growth in merchandise exports. The growth rate of merchandise exports peaked in 1998 at 29.4 per cent while the growth rate of merchandise imports was low at 2.4 per cent for the same year. The merchandise account was in surplus throughout the Plan period, with the largest surplus of RM86.5 billion recorded in 1999. From 1998 to 2000, the merchandise surplus accounted for more than 25 per cent of GNP.

2.22 The services account continued to register a deficit, which doubled from RM19.2 billion in 1995 to RM40.6 billion in 2000, mainly due to the net outflows of investment income comprising the repatriation of profits and dividends by foreign investors. In addition, higher payments in freight and insurance as well as contract and professional charges also contributed to this deficit. Although there was an increasing surplus in the travel account, it was insufficient to offset the deficit. Net outflow of transfer payments were recorded since 1994 as a result of remittances by foreign workers, reflecting high employment of migrant labour.

TABLE 2-5

GROSS IMPORTS BY END USE AND BROAD ECONOMIC CATEGORIES, 1995-2000

(RM million)

Item	*1995*	*%*	*2000*	*%*	*Average Annual Growth Rate (%), 1996-2000*
Capital Goods	**39,127**	***20.1***	**47,064**	***15.1***	***3.8***
Capital Goods (except transport equipment)	32,804	*16.9*	44,762	*14.3*	*6.4*
Transport Equipment, Industrial	6,323	*3.3*	2,303	*0.7*	*-18.3*
Intermediate Goods	**126,338**	***65.0***	**230,611**	***73.8***	***12.8***
Food & Beverages, Primary, mainly for Industry	1,365	*0.7*	1,886	*0.6*	*6.7*
Food & Beverages, Processed, mainly for Industry	1,524	*0.8*	1,984	*0.6*	*5.4*
Industrial Supplies, n.e.s, Primary	4,253	*2.2*	6,372	*2.0*	*8.4*
Industrial Supplies, n.e.s, Processed	47,229	*24.3*	62,715	*20.1*	*5.8*
Fuel & Lubricants, Primary	591	*0.3*	5,378	*1.7*	*55.5*
Fuel & Lubricants, Processed, Others	2,554	*1.3*	6,706	*2.1*	*21.3*
Parts & Accessories of Capital Goods (except transport equipment)	65,454	*33.7*	141,347	*45.2*	*16.6*
Parts & Accessories of Transport Equipment	3,368	*1.7*	4,224	*1.4*	*4.6*
Consumption Goods	**11,975**	***6.2***	**17,372**	***5.6***	***7.7***
Food & Beverages, Primary, mainly for Household Consumptions	1,473	*0.8*	2,095	*0.7*	*7.3*
Food & Beverages, Processed, mainly for Household Consumptions	2,737	*1.4*	4,369	*1.4*	*9.8*
Transport Equipment, Non-Industrial	311	*0.2*	101	*0.0*	*-20.2*
Consumer Goods, n.e.s	7,454	*3.8*	10,808	*3.5*	*7.7*
Durables	1,655	*0.9*	2,196	*0.7*	*5.8*
Semi-Durables	2,744	*1.4*	4,482	*1.4*	*10.3*
Non-Durables	3,055	*1.6*	4,130	*1.3*	*6.2*
Dual Use Goods	**5,386**	***2.8***	**6,391**	***2.0***	***3.5***
Fuel & Lubricants, Processed, Motor Spirit	1,194	*0.6*	2,467	*0.8*	*15.6*
Transport Equipment, Passenger Motor Cars	4,192	*2.2*	3,924	*1.3*	*-1.3*
Goods, n.e.s	**-25**	***0.0***	**186**	***0.1***	
Transactions Below RM5,000	**4,315**	***2.2***	**4,493**	***1.4***	***0.8***
Retained Imports	187,116	*96.3*	306,118	*98.0*	*10.3*
Imports for Re-Exports	7,229	*3.7*	6,309	*2.0*	*-2.7*
Total Gross Imports	**194,345**	***100.0***	**312,427**	***100.0***	***10.0***

Note: n.e.s not elsewhere stated

2.23 There were notable improvements in the current account as a result of the remarkable trade performance, which compensated for the services deficit as well as the net transfer payments. Consequently, the current account which had been in deficit since 1990, turned positive starting from 1998 and recorded its highest surplus of RM47.9 billion in 1999 or 17.1 per cent of GNP.

Sectoral Output

2.24 The economic downturn in 1998 affected sectoral growth rates during the Plan period, despite the impressive growth performance during the 1996-1997 period. As a result of the implementation of aggressive recovery measures, the manufacturing and the services sectors turned around with levels of value added exceeding the pre-crisis period.

2.25 The *manufacturing sector* grew at 9.1 per cent per annum during the Plan period, as shown in *Table 2-6*. The sector grew rapidly at an average rate of 14.1 per cent during 1996-1997 before contracting by 13.4 per cent in 1998. With the rebound in external as well as domestic demand, the sector staged a turnaround and grew by 17.2 per cent per annum during the 1999-2000 period. At the initial stage, the turnaround in the sector was predominantly export-led, supported by the strong external demand for semi-conductors and electronic machinery as well as telecommunications equipment. Subsequently, as stability returned to the financial markets and consumer confidence improved following the implementation of pro-recovery measures by the Government, manufacturing activities of the domestic-oriented industries rebounded. In particular, the efforts made to revive the automotive and construction-related materials sectors resulted in the strong growth registered by both the transport equipment and basic metals industries. The stability and certainty accorded by the selective capital controls and fixed exchange rate introduced in September 1998 helped to sustain the performance of Malaysian exports by facilitating the business decision-making process and enabling Malaysia to benefit from the strong recovery in external demand.

2.26 The *services sector*, which was least affected by the crisis, nevertheless recorded a contraction of 0.7 per cent in 1998. The sector, however, grew at an average rate of 5.2 per cent per annum during the Plan period. This growth was led by the finance, insurance, real estate and business services as well as the

TABLE 2-6

GROSS DOMESTIC PRODUCT BY INDUSTRY OF ORIGIN, 1995-2005

(RM million in 1987 prices)

Sector	*1995*	*%*	*2000*	*%*	*2005*	*%*	*Contribution to Growth (%)*		*Average Annual Growth Rate (%)*		
							7MP	*8MP*	*Target 7MP*	*Achieved 7MP*	*Target 8MP*
Agriculture, Forestry, Livestock & Fishing	17,115	*10.3*	18,154	*8.7*	21,018	*7.0*	*0.1*	*0.2*	*1.9*	*1.2*	*3.0*
Mining & Quarrying	13,643	*8.2*	13,907	*6.6*	16,387	*5.5*	*0.0*	*0.2*	*1.7*	*0.4*	*3.3*
Manufacturing	45,174	*27.1*	69,867	*33.4*	107,237	*35.8*	*2.5*	*3.1*	*3.9*	*9.1*	*8.9*
Construction	7,411	*4.4*	6,996	*3.3*	9,596	*3.2*	*0.0*	*0.2*	*-1.8*	*-1.1*	*6.5*
Electricity, Gas & Water	5,876	*3.5*	7,090	*3.4*	10,197	*3.4*	*0.1*	*0.3*	*7.9*	*3.8*	*7.5*
Transport, Storage & Communications	12,298	*7.4*	16,643	*8.0*	25,719	*8.6*	*0.5*	*0.7*	*3.9*	*6.2*	*9.1*
Wholesale & Retail Trade, Hotels & Restaurants	25,304	*15.2*	31,081	*14.9*	45,080	*15.0*	*0.6*	*1.2*	*5.2*	*4.2*	*7.7*
Finance, Insurance, Real Estate & Business Services	17,287	*10.4*	24,643	*11.8*	37,120	*12.4*	*0.8*	*1.0*	*7.9*	*7.3*	*8.5*
Government Services	11,803	*7.1*	14,678	*7.0*	17,055	*5.7*	*0.3*	*0.2*	*3.7*	*4.5*	*3.0*
Other Services	12,780	*7.7*	15,599	*7.5*	23,948	*8.0*	*0.3*	*0.7*	*5.1*	*4.1*	*9.0*
(-) Imputed Bank Service Charges	8,888	*5.3*	14,252	*6.8*	19,488	*6.5*	*0.6*	*0.4*	*11.5*	*9.9*	*6.5*
(+) Import Duties	6,823	*4.1*	4,864	*2.3*	5,916	*2.0*	*-0.2*	*0.1*	*-5.8*	*-6.5*	*4.0*
GDP at Purchasers' Value	**166,625**	***100.0***	**209,269**	***100.0***	**299,785**	***100.0***	***4.7***	***7.5***	***3.0***	***4.7***	***7.5***
Primary Sector	30,758	*18.5*	32,061	*15.3*	37,405	*12.5*	*0.1*	*0.4*	*1.7*	*0.8*	*3.1*
Secondary Sector	52,585	*31.6*	76,864	*36.7*	116,833	*39.0*	*2.7*	*3.3*	*3.3*	*7.9*	*8.7*
Tertiary Sector	85,348	*51.2*	109,733	*52.4*	159,119	*53.1*	*2.7*	*4.1*	*5.4*	*5.2*	*7.7*
Adjusted for Import Duties less Imputed Bank Service Charges											
Primary Sector	30,408	*18.2*	30,776	*14.7*	35,900	*12.0*	*0.0*	*0.4*	*0.9*	*0.2*	*3.1*
Secondary Sector	51,987	*31.2*	73,783	*35.3*	112,132	*37.4*	*2.4*	*3.2*	*2.3*	*7.3*	*8.7*
Tertiary Sector	84,230	*50.6*	104,709	*50.0*	151,753	*50.6*	*2.2*	*3.9*	*4.4*	*4.4*	*7.7*

transport, storage and communications subsectors. These subsectors experienced rapid growth prior to the crisis and benefited from the continued emphasis on information and communications technology (ICT) development. In addition, the expansionary monetary policy stimulated domestic spending and generated demand for intermediate and final services, in particular the finance, transport and communications subsectors. The biggest contributor to the services sector value added was the wholesale and retail trade, hotels and restaurants subsector.

2.27 The *agriculture and forestry* sector grew at 1.2 per cent per annum, mainly due to the decline in palm oil production, which was affected by the cyclical fluctuations from tree stress as well as the drought effects of *El-Nino* in 1998. In addition, natural rubber production declined further due to the decrease in planted area, labour shortage, uneconomic-sized holdings among smallholders, low assimilation of modern rubber extraction technology and low natural rubber prices. Cocoa production also declined as a result of a reduction in planted area and adverse weather conditions during the period. The fall in the supply of timber was in line with the sustainable forest management policy. Pepper, however, showed improved performance in terms of planted area, production and export earnings following the increase in price. Efforts aimed at reducing food imports led to an increase in food production, particularly vegetables, livestock and fisheries.

2.28 The *mining and quarrying sector* grew at 0.4 per cent per annum during the period, mainly due to the petroleum and gas subsectors, which benefited from higher prices, particularly in 2000. In the minerals subsector, growth was recorded in metallic and industrial minerals, which provided the raw materials for the expanding ceramics, cement, refractories, pigments, glass and chemical industries. However, the output of tin declined further because of poor prices.

2.29 The *construction sector,* which grew rapidly at 13.4 per cent per annum during the 1996-1997 period arising from the active property market and accelerated development of infrastructure projects, suffered a contraction of 23.0 and 5.6 per cent in 1998 and 1999, respectively. However, efforts undertaken to revive the sector, particularly the lowering of interest rates, Home Ownership Campaigns and the resumption of several infrastructure projects, helped the sector to turnaround.

Employment and Prices

2.30 *Employment.* The rapid economic growth prior to the crisis generated rapid growth of jobs and the attainment of full employment in the economy. The labour market remained tight with shortages of workers reported in the agriculture, manufacturing and services sectors. However, with the contraction of the economy in 1998, unemployment increased slightly to 3.2 per cent from 2.5 per cent in 1996. The unemployment situation was moderated by the absorption of retrenched workers by sectors facing labour shortages. In addition, the return of migrant labour to their respective countries also helped to keep the unemployment rate at a low level. The economic recovery during the 1999-2000 period contributed towards employment creation, thus lowering the unemployment rate to 3.1 per cent.

2.31 *Prices.* After experiencing stable and low prices during the 1996-1997 period, inflation became a concern in 1998 following the sharp depreciation of the Ringgit, which led to higher consumer and producer prices. The Consumer Price Index (CPI) rose from 2.7 per cent in 1997 to a peak of 5.3 per cent in 1998, with all categories of consumer items recording price increases, particularly food which accounted for 63 per cent of the increase in the CPI. The Producer Price Index (PPI) also increased from 2.7 per cent in 1997 to 10.7 per cent in 1998. However, price pressures were eased through a combination of monetary, fiscal and administrative measures undertaken since mid-1998. The CPI declined to 1.6 per cent and the PPI to 3.1 per cent in 2000. For the Plan period, CPI and PPI averaged 3.0 per cent.

Resource Balance

2.32 During the Plan period, the country maintained high levels of savings, averaging 40.1 per cent of GNP as shown in *Table 2-7*. Investment as a percentage of GNP was 33.6 per cent. Gross national savings grew at 17.6 per cent per annum during the 1996-1997 period, before moderating to 4.2 per cent per annum during the 1999-2000 period, giving rise to an average growth rate of 10.2 per cent per annum during the Plan period. The higher growth of gross national savings prior to the crisis was contributed by the higher public savings with an average growth of 8.5 per cent per annum during the Plan period, despite, the sharp decline by 26.0 per cent in 1998 arising from the adoption of expansionary fiscal policy to stimulate growth.

TABLE 2-7

RESOURCE BALANCE, 1995-2005

(% of GNP)

Sector	*1995*	*2000*	*2005*	*Cumulative*	
				7MP	*8MP*
Public					
Savings	15.4	15.9	13.2	17.1	14.0
Investment	13.0	15.0	10.4	12.6	12.1
Resource Balance	**2.4**	**0.9**	**2.8**	**4.5**	**1.9**
Private					
Savings	20.2	23.1	22.4	23.0	21.3
Investment	32.8	14.0	22.8	21.0	19.3
Resource Balance	**-12.6**	**9.1**	**-0.4**	**2.0**	**2.0**
Total					
Savings	35.6	39.0	35.6	40.1	35.3
Investment	45.8	29.0	33.2	33.6	31.4
Resource Balance	**-10.2**	**10.0**	**2.4**	**6.5**	**3.9**

2.33 Private savings grew at 6.0 per cent per annum prior to the crisis and increased sharply by 48.5 per cent in 1998 due to the cautious stance of consumers in an uncertain environment. Consequently, private investment declined drastically by 51.0 per cent in 1998, resulting in an overall contraction of 8.3 per cent per annum during the Plan period. This also led to a decline in the ratio of gross investment to GNP from 45.8 per cent in 1995 to 29.0 per cent in 2000. Gross national savings increased from 35.6 per cent in 1995 to 39.0 per cent in 2000, contributing to a surplus resource balance of 10.0 per cent of GNP in 2000.

III. MACROECONOMIC FRAMEWORK FOR THE EIGHTH MALAYSIA PLAN

Macroeconomic Strategies

2.34 Macroeconomic management in the medium term will focus on sustaining high growth with economic resilience. The strategies adopted will aim at promoting sustainable economic growth, developing economic resilience as well as increasing productivity and competitiveness. The private sector, which remained weak during the post-crisis period, is expected to recover to lead economic growth, while the public sector will continue to facilitate economic growth with pro-business policies. In this context, the focus of macroeconomic policy will be to consolidate the economy and place it on a sustainable growth path. The key macroeconomic strategies during the Eighth Plan period are as follows:

- *pursuing sound macroeconomic management to strengthen economic resilience and enhance competitiveness as well as avoid any imbalances;*

- *strengthening the governance and resilience of the financial and corporate sectors to shocks;*

- *enhancing efforts to develop the knowledge-based economy as well as increase the contribution of TFP to growth;*

- *accelerating the development of growth sectors to become modern and globally competitive;*

- *strengthening domestic investment particularly through the development of small and medium enterprises (SMEs) as well as Malaysian multinational corporations (MNCs); and*

- *attracting quality FDI associated with high technology, R&D and market access.*

International Economic Outlook

2.35 Being an open economy, Malaysia's prospects during the Eighth Plan period will be influenced by developments in the international economy. During the Plan period, the world economy is expected to grow at an average rate of 3.0 per cent per annum. The advanced economies are expected to spearhead this growth with the projected average growth of 2.8 per cent per annum for OECD countries. The expected overall growth of the world economy will also depend on the continued positive growth of the US economy expected at an average rate of 2.7 per cent per annum, the continued stability in the global financial market and the recovery of the East Asian economies from the financial crisis. Growth prospects for China and India are expected to be moderate, while Japan is expected to grow at 2.2 per cent per annum.

2.36 During the Plan period, global inflation is expected to average at 2.7 per cent per annum, reflecting the adoption of non-inflationary monetary policies by major developed countries. The CPI for developed countries is expected to increase at an average rate of 1.9 per cent. In East Asia, the inflation rate is expected to be 3.8 per cent per annum compared with 6.1 per cent for the period 1991-1998.

2.37 World trade is expected to grow at 7.0 per cent per annum with increasing trade integration at the regional and sub-regional levels. In addition, trade in services is expected to grow at a faster rate than merchandise trade due to the higher flow of FDI, particularly in the services sector.

The Malaysian Economy

2.38 The strengthening of macroeconomic fundamentals and the financial sector together with the strong performance of the economy in 2000 will provide the base to sustain the high growth during the Plan period. The economy is expected to grow in line with its potential output with the recovery in private investment, which will exceed the pre-crisis level. The private sector will be encouraged to maximize the opportunities arising from the implementation of AFTA during the Plan period.

Growth Prospects

2.39 The Malaysian economy is projected to grow at an average rate of 7.5 per cent per annum with low inflation and price stability. This growth will be supported by domestic demand with the strong recovery in private investment. Foreign investment will remain important, particularly for the upgrading of technology, skills and management expertise. Private consumption is expected to grow at 7.4 per cent per annum, reflecting increasing affluence, while public consumption will grow at 7.7 per cent per annum.

2.40 As the economy matures, there will be less reliance on labour and capital input, while the contribution of TFP as a source for growth will be further enhanced during the Plan period. TFP is expected to contribute 37.2 per cent of the 7.5 per cent growth target, while the contribution of labour and capital will be 21.5 per cent and 41.3 per cent, respectively, as shown in *Table 2-1*.

2.41 The increase in TFP contribution to growth will require wide-ranging structural transformation to upgrade economic efficiency. This will include improving skills and management capabilities, increasing R&D spending, and greater use of technology and IT in all economic sectors, in line with efforts to develop the knowledge-based economy. In addition, public investment will be increased to improve the education and training delivery system. The private sector will be encouraged to play a bigger role particularly in terms of R&D and product innovation.

Aggregate Demand

2.42 The economy is expected to continue to expand during the Plan period, buoyed by strong domestic demand and the sustained growth of the world economy. In the domestic sector, private demand will continue to be the driving force of the economy, consistent with the overall policy of encouraging the private sector to spearhead economic growth. The Government will reduce its involvement in economic activities but will continue to support business growth.

2.43 *Private investment* will continue to provide the stimulus for the economy with its growth averaging 19.0 per cent per annum, as shown in *Table 2-2*. Its share to total investment is expected to be 68.7 per cent in 2005. Private investment in nominal terms, however, will have to increase by more than double from RM42.9 billion in 2000 to RM105.5 billion in 2005. The total amount of private investment required for the Plan period is RM374.5 billion in current terms compared with RM288.0 billion during the Seventh Plan period. The capital market particularly the private debt securities market as well as the pension and provident funds will provide an important source of financing to meet the investment needs of the productive sectors of the economy during the Plan period. Foreign investment will continue to be important, although its share to total investment is expected to decline as a result of the anticipated higher growth in domestic investment and increased global competition for FDI. In this regard, while domestic investment will be further emphasized, targeted promotion of FDI will be undertaken.

2.44 *Public investment.* During the Plan period, there will be a slight increase in the Federal Government development expenditure from RM99.0 billion in the Seventh Plan to RM110.0 billion. Public investment however, will grow at a slower rate of 1.1 per cent per annum compared with 7.1 per cent per annum during the Seventh Plan period. Its share to GNP is expected to decline from 17.2 per cent in 2000 to 12.4 per cent by 2005. Public investment will focus on the further expansion of the productive capacity of the economy as well as productivity and efficiency enhancement through the upgrading of the workforce, increasing investment in R&D, fostering and promoting technology development as well as improving physical and social infrastructure. Overall, total private and public investment is expected to grow by 11.3 per cent per annum during the Eighth Plan period.

2.45 Total *consumption* is expected to grow at a rate of 7.5 per cent per annum, higher than that achieved during the Seventh Plan period. *Private consumption* in real terms is projected to increase at 7.4 per cent per annum in line with the expected rise in per capita income from RM13,359 in 2000 to RM17,779 in 2005. Private consumption per capita is expected to increase from RM6,198 in 2000 to RM9,073 in 2005, in view of the growth in disposable income. *Public consumption* will grow at 7.7 per cent per annum, contributing 12.6 per cent of GNP by 2005. The Federal Government operating expenditure will amount to RM322.4 billion during the Eighth Plan period compared with RM236.4 billion in the previous Plan.

2.46 In terms of external demand, *exports of goods and non-factor services* are expected to grow by 6.8 per cent per annum in real terms due to improved competitiveness and better prospects in world trade. To support the anticipated growth of the manufacturing sector, *imports of goods and non-factor services* are expected to grow at 7.8 per cent per annum.

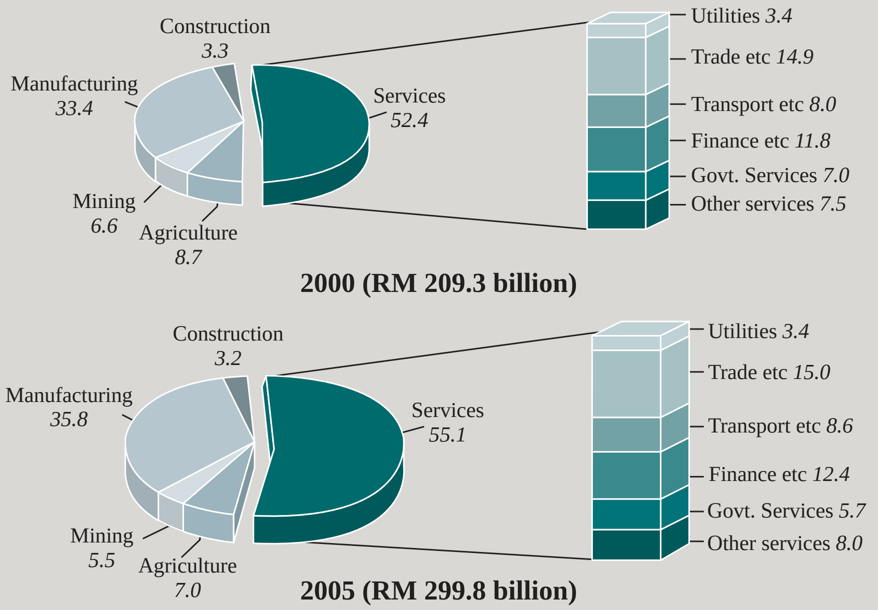
Sectoral Output

2.47 The manufacturing and services sectors will continue to be the major contributors to growth in the Eighth Plan period, as shown in *Table 2-6*. The *manufacturing sector* is expected to grow at an average rate of 8.9 per cent per annum, with its share to GDP increasing to 35.8 per cent by 2005, as shown in *Chart 2-2*. Electrical and electronics products industry will remain the driving force shifting towards higher technology and value added consumer and industrial products. Further developments in this industry will include the operation and expansion of wafer fabrication projects. With technology transfer and greater R&D efforts, more linkages are expected to be forged between the larger enterprises and SMEs thereby contributing towards the sustained growth of the manufacturing sector. Resource-based industries, particularly the petrochemical, pharmaceutical, furniture and food product industries as well as the handicraft industry, are also expected to strengthen during the Plan period. Transport equipment and fabricated metal products industries will play a more aggressive role in line with efforts to maximize opportunities from increased market access following the implementation of AFTA.

CHART 2-2

GROSS DOMESTIC PRODUCT BY INDUSTRY OF ORIGIN, 2000 AND 2005

(% of GDP)



Note: Total of percentage will be more than 100% as bank sevice charges and import duties are not taken into account

2.48 The *services sector* is expected to grow by 7.7 per cent during the Plan period. Higher growth is expected from three major subsectors, namely, the finance, insurance, real estate and business services; the wholesale and retail trade, hotels and restaurants; and transport, storage and communication subsectors. The wholesale and retail trade, hotels and restaurants subsector will be propelled by positive wealth effects and also the concerted efforts to make Malaysia a major tourist and shopping destination. These efforts will include hosting major sporting events, making Malaysia a major centre for meetings, conventions and exhibitions as well as organizing year-long event-based activities. At the same time, efforts will be undertaken to promote domestic tourism, especially to take advantage of the additional two non-working Saturdays a month for the public sector.

2.49 The consolidation and restructuring of the finance, insurance, real estate and business services subsector as well as the greater use of e-commerce are expected to contribute to the growth of this subsector. This subsector will also benefit from the implementation of the Capital Market Masterplan as well as the Financial Sector Masterplan particularly in the development of the bond market and strengthening of the insurance industry. A more integrated transport, storage and communications subsector will also contribute to the greater utilization of ports and airports. The expected increase in passenger and cargo handling in the KL International Airport (KLIA), Sepang will contribute to making KLIA a regional load cargo centre and aviation hub. The modernization of Malaysian ports, particularly the West Port of Port Klang and the Port of Tanjung Pelepas, will enable them to handle high volume of cargo.

2.50 The *agriculture sector* is expected to expand at an annual average rate of 3.0 per cent during the Plan period. Oil palm production is anticipated to expand by 2.8 per cent with increased hectarage of newly-planted areas in Sabah and Sarawak as well as conversion from other crops. In addition, improvements in yield are expected through higher-yielding clones and better plantation management. However, contributions from rubber and sawlogs are projected to decline. The implementation of the new measures under the Third National Agriculture Policy is expected to increase the production of cocoa, food commodities and other non-traditional agriculture commodities. The food sector is estimated to grow at an average of 6.2 per cent per annum, contributing 37.1 per cent of the total agriculture value added. Efforts will be aggressively undertaken to increase the production of vegetables, livestock and fish. In addition, agro-forestry, bamboo and rattan, floriculture, herbs and medicinal plants and ornamental fish, will continue to be promoted.

2.51 The *mining* sector is expected to grow at 3.3 per cent per annum during the Plan period. The crude oil subsector remains the major contributor to the sector, accounting for 82.3 per cent of the mining value added at the end of the Plan period. However, production of crude oil is expected to record a minimal growth of 0.7 per cent, in line with the National Depletion Policy. Excluding the production of crude oil, the mining sector is expected to record a positive growth of 8.3 per cent with the contribution from the gas subsector amounting to 12.1 per cent of mining value added.

2.52 The *construction sector* is projected to grow at an annual average rate of 6.5 per cent during the Plan period, taking into consideration the excess supply of office and commercial space in the property market. In addition, major infrastructure projects have been completed or are at various stages of implementation. Among the major projects that will be implemented are the East

Coast Expressway, Express Rail Link (ERL), electrified double track railway projects from Rawang to Ipoh as well as infrastructure and residential developments in the Multimedia Super Corridor (MSC).

International Trade

2.53 Gross exports are expected to grow at an average rate of 7.9 per cent per annum during the period. World trade will increase as a result of the East Asian economic recovery and the inclusion of China and Russia into the World Trade Organization (WTO). With the scheduled liberalization of trade in goods and services under the WTO as well as the commitments to tariff reductions under bilateral and regional trade arrangements, Malaysian exports are anticipated to penetrate a wider range of markets. Towards this end, Malaysia will need to enhance the competitiveness of its products through productivity increases and quality improvement. This will have to be completed by efficient support services such as the establishment of trading houses to promote Malaysian exports overseas.

2.54 The export of manufactures is expected to expand by an average rate of 8.9 per cent per annum during the Plan period, with earnings increasing from RM317.9 billion in 2000 to RM486.1 billion in 2005, as shown in *Table 2-8*. Export earnings from manufactured goods will thus increase from 85.2 per cent of total merchandise exports in 2000 to 89.0 per cent in 2005. The major manufactured exports will include electronics and electrical machinery; chemicals and chemical products; textiles, clothing and footwear; wood products; and manufactures of metal.

2.55 Agricultural exports are expected to grow by 2.5 per cent per annum during the Plan period, with the main contribution from palm oil. Exports from the mining sector are expected to decrease by 4.0 per cent per annum, mainly due to moderate prices for crude oil and liquefied natural gas as well as decline in the export of tin.

2.56 Gross imports will grow at a rate of 10.2 per cent per annum, comprising mainly capital and intermediate goods. Efforts will be taken to increase the production of locally manufactured capital and intermediate goods, including parts and components, to reduce import intensity. The local inputs will also have to be produced more efficiently in order to compete with cheaper imports. Imports of consumption goods are expected to grow moderately in line with efforts to contain imported inflation, including the *Buy Malaysian* campaign.

TABLE 2-8

COMMODITY PRODUCTION AND EXPORTS, 1995-2005

Commodity	*1995*	*2000*	*2005*	*Average Annual Growth Rate (%)*	
				7MP	*8MP*
Agriculture					
Palm Oil					
Production ('000 tonnes)	7,811	10,840	12,444	*6.8*	*2.8*
Export ('000 tonnes)	6,656	8,863	8,760	*5.9*	*0.2*
Unit Value (RM/tonne)	1,473	1,122	1,260	*-5.3*	*2.3*
Value (RM million)	10,395	9,948	11,035	*-0.9*	*2.1*
Rubber					
Production ('000 tonnes)	1,089	616	560	*-10.8*	*-1.9*
Export ('000 tonnes)	1,013	996	700	*-0.4*	*-6.8*
Unit Value (sen/kg)	398	258	270	*-8.3*	*-0.9*
Value (RM million)	4,038	2,571	1,890	*-8.6*	*-6.0*
Sawlogs					
Production ('000 cu.m.)	31,644	23,898	21,143	*-5.5*	*-2.4*
Export ('000 cu.m.)	7,746	6,484	5,266	*-3.5*	*-4.1*
Unit Value (RM/cu.m.)	292	384	380	*5.6*	*0.2*
Value (RM million)	2,264	2,489	2,000	*1.9*	*-4.3*
Sawn Timber					
Production ('000 cu.m.)	9,280	5,224	4,763	*-10.9*	*-1.8*
Export ('000 cu.m.)	4,364	2,875	2,382	*-8.0*	*-3.7*
Unit Value (RM/cu.m.)	879	1,051	1,386	*3.6*	*5.7*
Value (RM million)	3,838	3,020	3,300	*-4.7*	*1.8*
Cocoa					
Production ('000 tonnes)	131	70	100	*-11.8*	*7.4*
Export ('000 tonnes)	53	11	33	*-26.8*	*24.6*
Unit Value (RM/kg)	3,276	2,878	3,600	*-2.6*	*4.6*
Value (RM million)	172	33	119	*-28.3*	*29.6*
Mining					
Crude Oil and Condensates					
Production (barrels/day)	705	680	702	*-0.7*	*0.7*
Export (barrels/day)	399	345	302	*-2.9*	*-2.6*
Unit Value (RM/tonne)	350	858	579	*19.7*	*-7.6*
Price (USD/barrel)	18.29	29.58	21.75	*10.1*	*-6.0*
Value (RM million)	6,701	14,241	8,387	*16.3*	*-10.0*
LNG					
Production ('000 tonnes)	9,923	15,453	20,500	*9.3*	*5.8*
Export ('000 tonnes)	9,923	15,453	20,295	*9.3*	*5.6*
Unit Value (RM/tonne)	320	731	565	*18.0*	*-5.0*
Value (RM million)	3,171	11,300	11,466	*28.9*	*0.3*
Tin					
Production ('000 tonnes)	6.4	6.7	6.5	*0.9*	*-0.5*
Export ('000 tonnes)	35.2	21	20	*-10.1*	*-1.1*
Unit Value (RM/tonne)	15,488	21,090	20,684	*6.4*	*-0.4*
Value (RM million)	545	435	404	*-4.4*	*-1.5*
Manufactured Exports (RM million)	**147,253**	**317,937**	**486,140**	***16.6***	***8.9***
Other Exports (RM million)	**5,368**	**6,657**	**12,447**	***1.1***	***17.1***
Gross Exports (RM million)	**184,987**	**373,307**	**546,408**	***15.1***	***7.9***

2.57 Malaysia will continue to undertake efforts to forge trade links with non-traditional trading partners and the transitional economies, while strengthening trade with its traditional partners such as the ASEAN countries, the US, Japan, the EU, South Korea and China. Within the ASEAN region, intra-ASEAN trade is expected to increase substantially with the accelerated tariff reduction under AFTA.

Balance of Payments

2.58 The current account is expected to remain in surplus for the whole Plan period, although on a declining trend, as shown in *Table 2-9*. The merchandise account of the balance of payments is expected to register a surplus of 17.4 per cent of GNP while the services account will continue to be in deficit at 11.4 per cent of GNP.

2.59 The continued deficit in the services account will be mainly due to the repatriation of profits and dividends by foreign investors. In addition, freight and insurance as well as payments for contract and professional charges will also contribute to this deficit. However, the surplus in the travel and education account is expected to increase mainly due to tourism receipts and the continued development of Malaysia as an international centre for education and healthcare.

2.60 The Government will continue to implement measures aimed at reducing the large deficit in the services account. Increased foreign exchange earnings are expected from tourism, education, shipping and insurance, finance and consultancy services. These measures include increasing the efficiency of the transportation services in view of the large deficit in freight and insurance. To enhance the efficiency of port services, efforts will be undertaken to streamline administrative procedures through the implementation of the electronic data interchange, increasing in the number of haulage companies, expansion of the domestic shipping fleet and stricter enforcement of cabotage rules.

Terms of Trade

2.61 Improvements in productivity and quality as well as the stable exchange rate are expected to contribute to Malaysia's export competitiveness. Export prices are projected to increase at a rate of 1.0 per cent during the Plan period compared with 1.8 per cent for import prices. Malaysia's terms of trade is, thus, expected to decline by 0.8 per cent. The real purchasing power, however, is estimated to increase by 6.4 per cent due to the elasticity of exports.

TABLE 2-9

BALANCE OF PAYMENTS , 1995 - 2005

Item	RM million			% of GNP			Cumulative RM million		Cumulative % of GNP	
	1995	*2000*	*2005*	*1995*	*2000*	*2005*	*7MP*	*8MP*	*7MP*	*8MP*
Merchandise Account	**97**	**79,522**	**64,750**	***0.0***	***25.6***	***14.0***	**255,635**	**340,952**	***18.7***	***17.4***
Exports	179,491	372,778	540,004	*84.6*	*119.9*	*116.7*	1,384,469	2,338,286	*101.2*	*119.0*
Imports	179,394	293,256	475,254	*84.6*	*94.4*	*102.7*	1,128,834	1,997,334	*82.5*	*101.7*
Services Account	**-19,229**	**-40,624**	**-46,104**	***-9.1***	***-13.1***	***-10.0***	**-136,163**	**-223,971**	***-10.0***	***-11.4***
Freight & Insurance	-9,028	-12,850	-17,815	*-4.3*	*-4.1*	*-3.9*	-48,019	-79,005	*-3.5*	*-4.0*
Other Transportation	737	1,988	4,422	*0.3*	*0.6*	*1.0*	8,982	16,376	*0.7*	*0.8*
Travel & Education	4,143	9,738	15,545	*2.0*	*3.1*	*3.4*	26,249	62,604	*1.9*	*3.2*
Investment Income	-10,338	-27,985	-31,873	*-4.9*	*-9.0*	*-6.9*	-89,345	-152,020	*-6.5*	*-7.7*
Government Transactions	-23	-21	-52	*0.0*	*0.0*	*0.0*	-461	-193	*0.0*	*0.0*
Other Services	-4,720	-11,493	-16,331	*-2.2*	*-3.7*	*-3.5*	-33,568	-71,733	*-2.5*	*-3.7*
Transfers	**-2,515**	**-7,735**	**-7,545**	***-1.2***	***-2.5***	***-1.6***	**-30,936**	**-40,961**	***-2.3***	***-2.1***
Current Account	**-21,647**	**31,163**	**11,101**	***-10.2***	***10.0***	***2.4***	**88,536**	**76,020**	***6.5***	***3.9***
Capital Account										
Official Long-term Capital	6,147	3,961		*2.9*	*1.3*		18,188		*1.3*	
Private Long-Term Capital	10,464	7,510		*4.9*	*2.4*		49,128		*3.6*	
Overall Balance	**-4,403**	**-3,703**		***-2.1***	***-1.2***		**49,770**		***3.6***	
Central Bank Reserves[1]	63,770	113,541		*30.1*	*36.5*		113,540		*8.3*	
Months of Retained Imports[1]	4.0	4.5								

Note: [1] End period

Price Development

2.62 Efforts will continue to be undertaken to maintain a low rate of inflation and stable prices during the Plan period. Towards this end, measures to enhance local food production will continue to be implemented, particularly through the provision of land and the promotion of joint public and private sector initiatives to increase the supply of food, thereby reducing food imports. In addition, the Government will ensure that the growth of money supply is consistent with price stability and adopt a prudent fiscal policy during the Plan period.

2.63 The anti-inflation strategy will also include various administrative measures, such as the enforcement of price-tagging and averting irresponsible price increases, prevention of restrictive sales practices and monitoring the price index of basic necessities for the lower-income group. Measures to encourage automation and labour-saving techniques as well as increased participation of females and pensioners in the labour market will continue to be undertaken in order to moderate labour demand pressures and ensure that wage increases are in line with productivity growth. In addition, the price index is expected to be maintained at a low level with the availability of cheap imports in the domestic market.

Resource Balance

2.64 The savings-investment gap during the Plan period augurs well for sustained growth of the Malaysian economy. During the Plan period, savings will constitute an average of 35.3 per cent of GNP and investment at 31.4 per cent, as shown in *Table 2-7*. Consequently, aggregate savings will exceed investment requirements by 3.9 per cent of GNP. The savings-investment balance of the public sector is expected to be 1.9 per cent of GNP, while that of the private sector 2.0 per cent of GNP during the Plan period.

Public Sector Account

2.65 With the economic recovery, the public sector will resume its role as the facilitator of private sector participation in the economy. The operating expenditure during the Plan period will be moderated through prudent fiscal management and efficient use of resources. Meanwhile, the public sector development expenditure is estimated to increase from RM222.9 billion during the Seventh Plan to RM253.4 billion during the Eighth Plan period, as shown in *Table 2-10*. Of this total,

TABLE 2-10

CONSOLIDATED PUBLIC SECTOR DEVELOPMENT EXPENDITURE, 1995-2005

Item	*RM million*			*% of GNP*			*Cumulative*				*Average Annual Growth Rate (%)*	
							RM million		*% of GNP*			
	1995	*2000*	*2005*	*1995*	*2000*	*2005*	*7MP*	*8MP*	*7MP*	*8MP*	*7MP*	*8MP*
Development Expenditure	**29,801**	**58,979**	**43,039**	***14.1***	***19.0***	***9.3***	**222,877**	**253,355**	***16.3***	***12.9***	***14.6***	***-6.1***
General Government[1]	16,171	29,794	26,712	*7.6*	*9.6*	*5.8*	103,409	144,017	*7.6*	*7.3*	*13.0*	*-2.2*
NFPEs	13,630	29,185	16,327	*6.4*	*9.4*	*3.5*	119,468	109,337	*8.7*	*5.6*	*16.4*	*-11.0*

Note: [1] General Government comprises Federal Government, State Governments, Local Authorities and Statutory Bodies.

RM110.0 billion or 43.4 per cent will constitute the development expenditure of the Federal Government and RM109.3 billion or 43.2 per cent will be the development expenditure of the non-financial public enterprises (NFPEs). Although the absolute level of the public sector development expenditure is larger in current terms, it will be lower than that in the Seventh Plan in real terms, in line with the policy to reduce the public sector's role in economic activities.

2.66 The Federal Government development expenditure will continue to focus on human resource development as well as the provision and maintenance of social and physical infrastructure. These efforts aim to further reduce poverty, improve social facilities, modernize the security sector and reduce regional imbalances.

IV. CONCLUSION

2.67 The growth of the Malaysian economy during the Seventh Plan period was satisfactory, despite the crisis which severely affected the economy in 1998. The measures adopted by the Government since mid-1998 brought about a swift economic recovery. The prospects for growth during the Eighth Plan period will take into account the challenges arising from a more liberalized global economy and rapid technological transformation. Greater efforts, therefore, will be undertaken to ensure the sustainability and resilience of the economy in the long-term to attain the targets of Vision 2020.