

RECOVERY OF THE MALAYSIAN ECONOMY

Opportunities and Prospects

Programme

- 9.00 am : *Registration of Participants*
- 9.40 am : *Welcome remarks by YB Datuk Dr Fong Chan Onn, Chairman of the MCA Economic Bureau*
- 9.50 am : *Keynote address by YB Dato Seri Dr Ling Liong Sik, President of the MCA and Minister of Transport*
- 10.20 am : *TEA BREAK*
- 10.45 am : *OVERALL PERSPECTIVE OF THE CURRENT ECONOMIC SITUATION*
Datuk Paul Low, President of the Federation of Malaysian Manufacturers
- 11.10 am : *REVITALIZING THE ECONOMY: THE ROLE OF THE CENTRAL BANK*
Dato Dr Zeti Akhtar Aziz, Assistant Governor of Bank Negara Malaysia
- 11.35 am : *REVITALIZING THE ECONOMY: ROLE OF THE FINANCIAL SECTOR*
Tong Kooi Ong, CEO of Phileo Allied Berhad
- 12.00 pm : *FINANCIAL SOURCING UNDER CRISIS CONDITIONS*
Dr Neoh Soon Bin, Managing Director of Soon Soon Group of Companies
- 12.30 pm : *LUNCH*
- 1.15 pm : *INTERNATIONAL COMPARATIVE ADVANTAGE OF MALAYSIA*
Dr Zainal Aznam Yusuf, Deputy Director General (Economics) of ISIS Malaysia
- 1.40 pm : *PROSPECTS IN THE AGRICULTURE SECTOR*
Datuk Lee Oi Hian, Executive Chairman of KL Kepong
- 2.05 pm : *REAL ESTATE DEVELOPMENT IN MALAYSIA - SOME STRATEGIES TO FACE THE CRISIS: COSTS-MARKETS-CASHFLOWS*
Dato Patrick Lim, Executive Chairman & Director of Taman Equine (M) Sdn Bhd
- 2.30 pm : *PANEL DISCUSSION:*
Chairman:
Datuk Francis Huang, Vice President of the Federation of Malaysian Manufacturers
- 4.30 pm : *ENDS - TEA*

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MCA ECONOMIC SEMINAR

RECOVERY

of the

MALAYSIAN

ECONOMY

Opportunities and Prospects



Overall Perspective of the
Current Economic Situation

By

Datuk Paul Low

President

Federation of Malaysian Manufacturers

0040-69400

APB 978623
NASKAH PEMULIHARAAN
PERPUSTAKAAN NEGARA MALAYSIA
04 JAN 2000

M Thursday, 27 August 1998
330.5759 9am - 4pm
MCA
f Auditorium, Wisma MCA,
Jalan Ampang, KL.



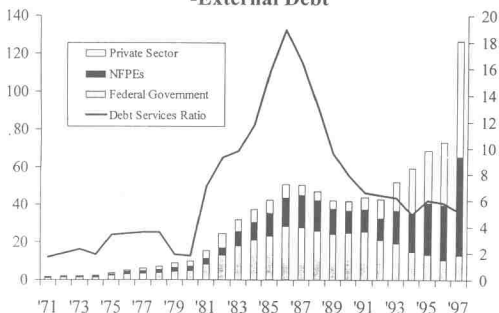
Real GDP Growth (%)

	2Q97	3Q97	4Q97	1Q98
Overall	8.4	7.4	6.9	-1.8
Agriculture	5.0	3.0	0.4	-2.8
Mininig	1.3	-0.1	7.7	2.0
Manufacturing	13.5	11.7	10.9	-2.4
Construction	12.0	11.5	6.0	-10.0
Services	8.1	8.1	6.4	2.9

1



Malaysian Economy -External Debt



- Total external debt of RM168.3 billion end-1997, of which RM127 billion are medium and long-term debt.
- Debt services ratio (which measures debt repayment as a proportion of gross exports) has been declining since 1986, reflecting a healthy trend.

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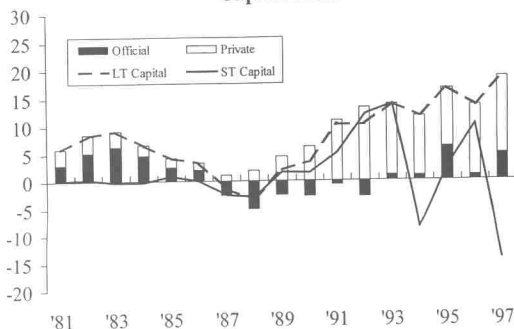
Savings-Investment Gap

	1993	1994	1995	1996	1997
	RM billion				
Public capital formation	23.7	24.8	27.8	27.9	32.2
Public savings	27.3	32.7	32.8	39.7	47.2
Surplus	3.6	7.9	4.9	11.8	15.0
Private capital formation	38.7	52.1	67.3	75.8	86.5
Private savings	27.2	29.4	40.6	51.8	58.1
Deficit	-11.5	-22.7	-26.7	-24.0	-28.4
Gross capital formation	62.5	76.9	95.1	103.8	118.7
as % of GNP	39.8	42.5	45.7	43.6	45.1
Gross national savings	54.5	62.1	73.3	91.5	105.3
as % of GNP	34.7	34.4	35.2	38.5	40.0
Balance on current account	-7.9	-14.8	-21.8	-12.2	-13.4
as % of GNP	-5.0	-8.2	-10.5	-5.1	-5.1

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Malaysian Economy -Capital Flow

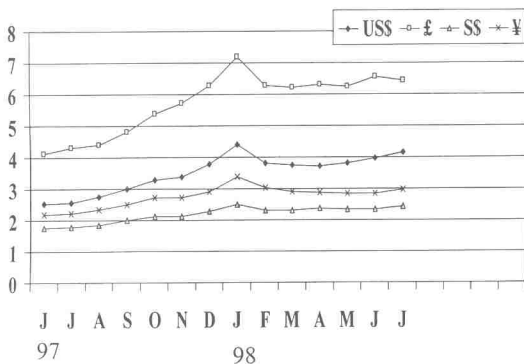


- Flight of RM14.2 billion short term capital in 1997.
- Supported by long term inflow of RM18.7 billion.



Exchange Rates

RM per unit/100units of foreign currency



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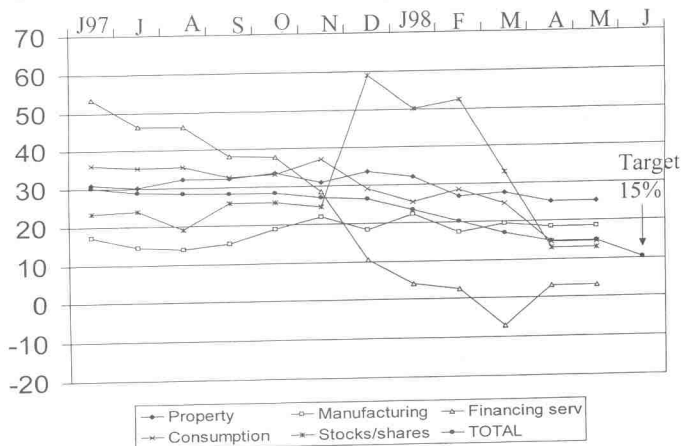
Loans by Banking System

(Year-on-Year Growth %)

	Jun97	Sept97	Dec97	Mar98	May98	Jun98
Broad Property Sector	31.0	32.3	33.6	27.6	21.7	
Manufacturing	17.2	15.2	18.3	19.5	14.0	
Financing, insurance	53.6	38.2	10.5	-7.2	2.3	
Consumption credit	36.0	32.7	29.0	24.8	9.9	
Purchase of stocks/shares	23.4	25.8	59.1	33.1	7.0	
TOTAL	30.3	28.4	26.5	16.9	12.0	10.3



Loan Growth %

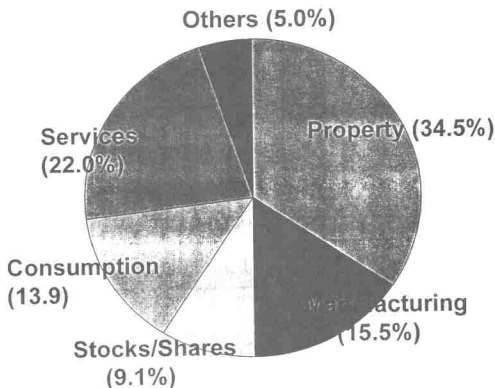


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Loans by Sectors -- Banking System

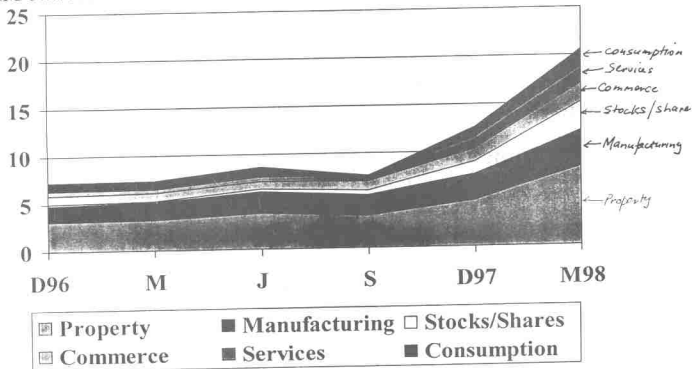
Total Loan at June 98 - RM \$420 billions





Commercial Banks Non-Performing Loans by Sector

RM billions

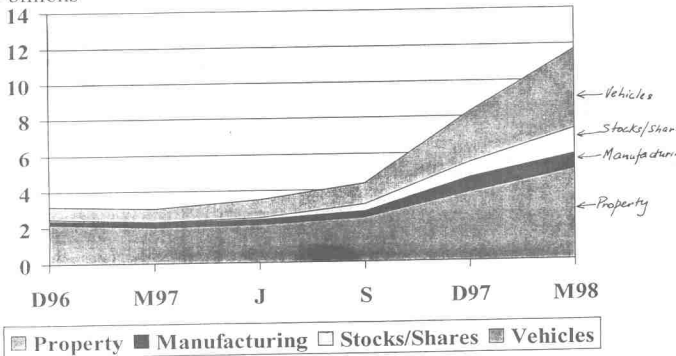


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Finance Companies Non-Performing Loans by Sector

RM billions

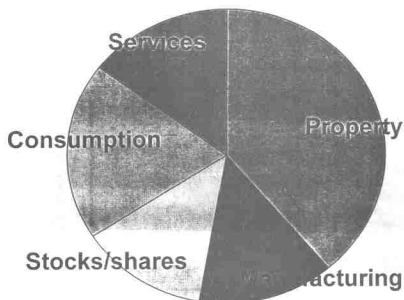


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Total Non-Performing Loans at March 1998

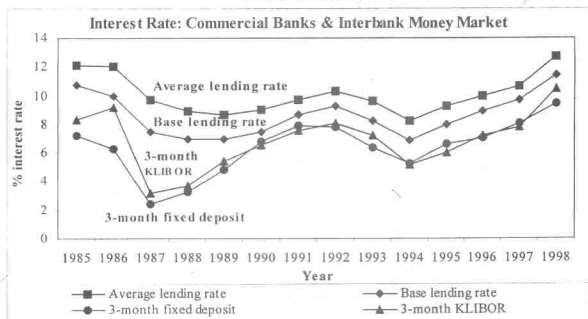
Total: RM 38.3 billions About 9% Total Loan



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Malaysian Economy -Interest Rate



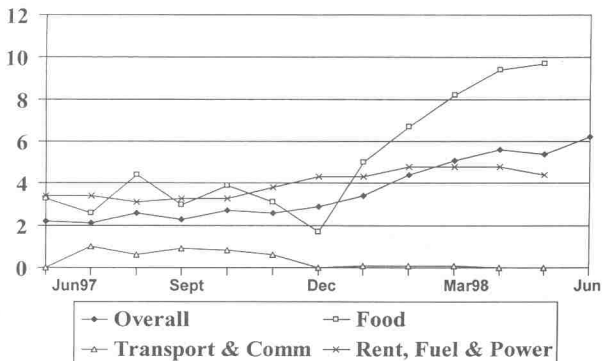
- Stable interest rate regime, before short term interest rates were allowed to rise to counter currency pressure in third quarter 1997.

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Consumer Price Index

(Year-on-Year Growth %)

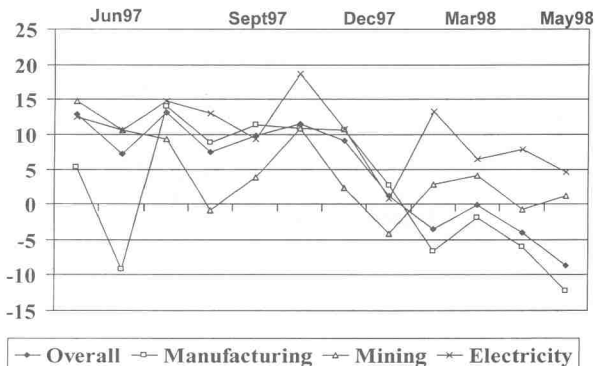


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Industrial Production

(Year-on Year Growth %)

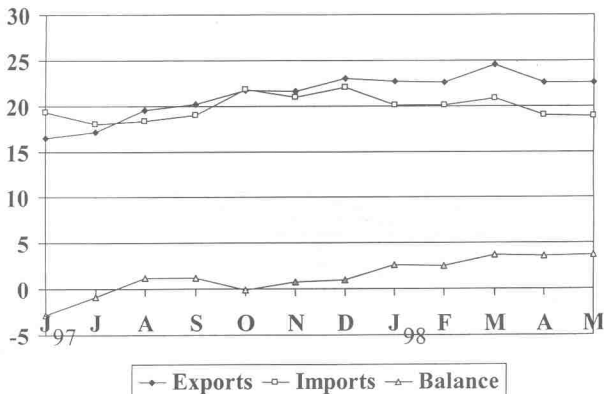


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Trade Balance

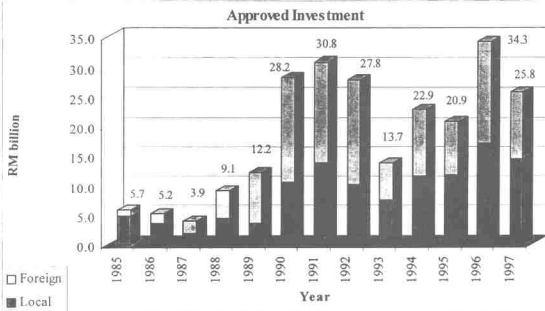
RM billions



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Malaysian Manufacturing Sector -Approved Investment



- Total approved investments of RM240.5 billion over 1985-1997.
- Ratio of foreign to local investments at 52:48 (1985-1997).
- Approved projects Jan -Jun 98 total RM 12.5 billions



Employment Prospects

- Jan-Aug '98 --53,400 retrenched.
- 47,400 registered vacancies
- 34,600 registered job seekers
- 1997 new investments will create 73,000 additional jobs
- Unemployment could rise to 5% from 2.7%

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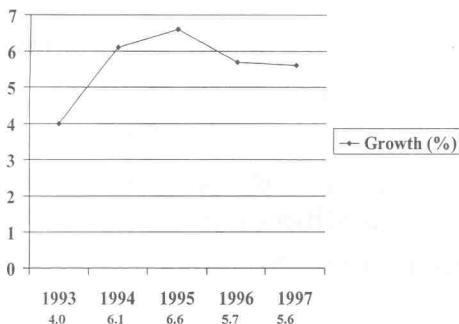


The China Factor

- For first five months China's export to US and Europe increased by 18% and 25%. To Asia decreased by 1.3%.
- China still maintains competitive wage rates & productivity.
- Need to attract FDI with currency stability
- High Downside risks.
- Lack of convertibility. Currency is a domestic issue.
- CONCLUSION: China will not devalue for next 12 months



Productivity Growth



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Sectoral Contribution To Productivity Growth

Sector	1996	1997
Manufacturing	48.00	51.25
Commerce/Trade	15.24	11.49
Transport	12.96	9.46
Finance	13.20	14.00
Construction	5.47	5.43
Electricity	2.58	2.83
Government	2.29	2.10
Other Services	0.65	1.03
Mining & Quarrying	2.56	0.85
Agriculture	-2.92	1.56

Source: National Productivity Corporation, Malaysia



Relative Productivity

Country	Productivity Level	Relative Productivity
	(1985 constant prices US\$)	Level, 1996
Singapore	24,502	2.76
Hong Kong	22,735	2.56
Taiwan	15,450	1.74
Rep. of Korea	10,980	1.24
Malaysia	8,883	1.00
Thailand	3,383	0.38
Philippines	1,659	0.19
Indonesia	2,316	0.26

Source: Asian Productivity Organisation, Japan

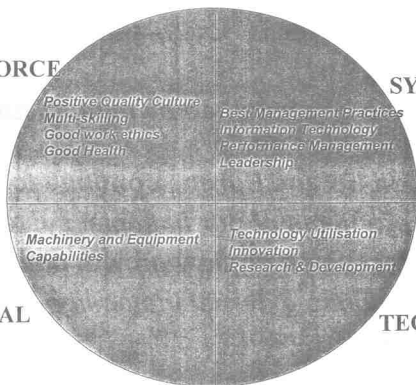
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Sources of Productivity Progress

WORKFORCE

SYSTEMS



CAPITAL

TECHNOLOGY



Average Growth of Productivity

CI & TFP 1987-97

	Productivity	TFP	CI
	(%)	(%)	(%)
1987-97	4.76	2.15	6.07
1987-91	4.52	2.95	3.78
1992-97	4.96	1.48	7.99

Source: National Productivity Corporation, Malaysia

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SHORT -TERM OUTLOOK

- * *GDP growth 1998 - 2-5% negative. For 1999 +1%*
- * *Growth to be sustained by manufacturing and agriculture sectors*
- * *Provided US and Europe continue to grow*
- * *Solve problems of our financial system*
- * *Asian recession or slow growth continues*
- * *Volatile due to external instability - China and Russian Factors*



Outstanding Key Issues

- ☐ *Improving TFP & use of IT*
- ☐ *Intense participation in value-added chain functions*
- ☐ *HR development & adaptability*
- ☐ *Enlargement of service sector*
- ☐ *Efficiency of the financial system*
- ☐ *National capacity to deal with external shocks*

PAGE 2
POINTS TO DELIVER

6. DEVELOPER IS NOT AN INVESTOR
7. INNOVATION
 - BUILDING INDUSTRY SIMILAR TO MICROCHIP AND COMPUTER INDUSTRY
 - NEW INITIATIVES
 - DEVELOPMENT BASED ON THEMES
 - DEVELOPERS AS ORIGINAL EQUIPMENT MANUFACTURER (O.E.M.)
8. HEEDING GOVERNMENT CALL
9. DEVELOPMENT BASED ON 100% LOCAL PRODUCTION

TALK BY

**DATO' PATRICK LIM SOO KIT, EXECUTIVE CHAIRMAN,
TAMAN EQUINE (M) SDN BHD**

**FOR THE MCA ECONOMIC BUREAU SEMINAR ON
27 AUGUST 1998 AT 2.00PM AT WISMA MCA**

**ENTITLED: REAL ESTATE DEVELOPMENT IN MALAYSIA
- SOME STRATEGIES TO FACE THE CRISIS:
COSTS - MARKETS - CASHFLOWS**

POINTS TO DELIVER

1. SURVIVE
 - REDUCE OVERHEADS
 - REDUCE DEBTS
 - SELL AND GENERATE TURNOVER AND CASHFLOW
 - LISTEN TO MARKET NEEDS
2. RECOVER
 - RECOVER CAPITAL DESPITE ANY PROFITS
 - STAY AFLOAT IN THE INDUSTRY
3. WAIT TO PROSPER
 - MAINTAIN COMPETITIVENESS
4. CASHFLOW IS A REALITY, VALUE IS MERELY PERCEPTION
5. DEVELOPER AS MANUFACTURER OF SPACE

For companies with only domestic RM income

1. Local interest rates are coming down and BA rates and just over 10%. Viable companies should be able to get sufficient working capital from local banks.
2. For long term loans to finance projects Bank Industri, Bank Pertanian and MIDF are still able to finance viable projects at competitive rates.
3. Companies seriously affected by the current economic crisis will need to restructure and present viable business plan to bankers. A transparent approach with realistic goals is what banks are looking for. Bankers during this period need more information.
4. Many foreign banks can offer financing in foreign currency on raw material stocks controlled through warehouse management. This is very useful if local banks are unable to provide additional raw material financing but the foreign exchange risk must be considered.

SUGGESTIONS ON HOW TO SECURE FUNDS DURING THE PRESENT ECONOMIC CRISIS

1. For companies that have foreign currency income and can finance in foreign currency :-

- a) Supplies Credit is available for both raw material and equipment purchases typically USD short term financing is available for $\text{libor} + 0.5\% - 1\% \text{ current} = 6.2\% - 6.7\%$ compared with local RM BA @ 10.5%. Usually supplier will need a usance Letter of Credit or Bank Guarantee from a Malaysian Bank to cover the period of the financing. Typically, local banks will charge an additional 1.5% to 2.5% for this service.

2. Foreign Government Credit

Many foreign government has credit schemes for the export of equipment and raw materials. The advantage of this type of financing is that the country risk factor is not factored in fully. For example the US has the GSM 102 schemes for food and agricultural exports. The country risk is barely taken into account and this credit for up to 3 years is available plus libor at $\frac{1}{4}\%$ to $\frac{1}{2}\% = 5.95\%$ to 6.2%. Again you have to open a Letter of Credit from an approved Malaysian Bank (there are 7) for the period of the credit. Local bank charges will amount to another 1.1% to 1.5%

Most European countries have special credit schemes for the export of equipment. The moral of the story is to enquire with your supplier what credit schemes they have.

MCA ECONOMIC SEMINAR

RECOVERY
of the
MALAYSIAN
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Opportunities and Prospects

International Comparative Advantage of Malaysia

Zainal Aznam Yusof
Institute of Strategic and International Studies (ISIS) Malaysia
August 1998

The views expressed in this paper are entirely the writer's own and should not be taken as bearing institutional support.

0048 - 28960

Thursday, 27 August 1998
9am - 4pm

Auditorium, Wisma MCA,
Jalan Ampang, KL.

NASKAH PEMULIHARAAN
PERPUSTAKAAN NEGARA MALAYSIA

International Comparative Advantage of Malaysia

1. Introduction

For much of the post-war years, up to the end of the 1960s, Malaysia was largely known as a producer of primary commodities. Rubber was synonymous with Malaysia. When rubber and tin declined in importance oil palm stepped in to keep Malaysia's reputation as a leading producer of primary commodities flying. While palm oil continued to occupy an important role as an earner of foreign exchange, we enjoyed an oil windfall. In the late 1970s the industrialisation drive began in earnest and by the eighties the manufacturing sector rose in importance so that by the late second-half of the 1990s, manufactured exports accounted for almost 80 percent of total exports.

These snapshots and highlights are merely a reminder of the dynamics of change when the economy grows and undergoes structural changes. An economy's comparative advantage can change with growth and structural changes. Shocks from outside and inside can set in motion deep changes. Over slightly more than a year Malaysia along with the other Asian economies have been buffeted by an economic and financial crisis and because of these shocks the economies are going through massive changes. All sorts of issues and questions can be raised because of the ongoing crisis. The purpose of this paper is more modest. It will raise two questions: What, if any, has been the impact of the crisis on Malaysia's comparative advantage? What more or needs to be done to ensure that Malaysia maintains its comparative advantage and competitiveness? The brief paper will argue that raising the level of competitiveness and productivity will be the important determinants in ensuring that Malaysia does not lose out on its comparative advantage.

2. Comparative Advantage – What is it?

The essence of comparative advantage (CA), as initially developed by David Ricardo, is that an economy specialises in the production of a good if it can produce it at a

lower opportunity cost. Michael Porter, however, has introduced the idea of “competitive advantage” because of CA’s limitation in explaining real world trade pattern. Competitive advantage theory gives more weight to industry structure and government policy. But CA could still be a relevant concept in explaining the performance of nations.

Measurements, or indices, of CA are based on the assumption that the CA of a country is reflected in its trade pattern giving rise to the notion of revealed comparative advantage (RCA). Domestic Resource Cost (DRC) is also used to estimate the CA of an economy. The DRC measures the domestic factor costs relative to the value added at free trade prices. A value of less than 1 implies that the domestic industry can produce at a lower cost than its competitors. Two indices of imports and exports are commonly used to measure RCA – world export share (WES_{ij}) and the export-import ratio (EIR_{ij}):

$$WES_{ij} = (X_{ij} / X_i) / (X_{wj} / X_w) \dots (1)$$

$$EIR_{ij} = (X_{ij} / M_i) / (X_{wj} / M_w) \dots (2)$$

where $X_{ij} (M_{ij})$ = value of country i’s export (import) of commodity j;

$X_i (M_i)$ = value of country i’s total export (imports);

$X_{wj} (M_{wj})$ = value of world exports (imports) of commodity j;

X_w = value of world exports.

Another index which has also been used takes into account the net export to total trade ratio (NX_{ij})

$$NX_{ij} = (X_{ij} - M_{ij}) / (X_{ij} + M_{ij}) \dots (3)$$

The values of NX_{ij} range from +1 to -1 with an increasing positive value indicating a rise in CA in the production of the commodity and vice versa. For WES_{ij} the values can range from 0 to increasing positive values with higher positive values showing increasing CA and rising competitiveness.

Estimates for NX_{ij} , the net export to total trade ratio, show that for the first half of the 1990s (1991 – 1996), before the beginning of the crisis, Malaysia revealed comparative advantage (RCA) is to be found in primary products, crops and animal

products and in labour intensive manufactures, particularly in electronics. But the estimates also suggest that Malaysia is losing its advantage in these products. Malaysia's RCA in moderately and highly capital intensive and skill-intensive manufactures is also weak. Over the early part of the 1990s (1991 – 1993) Malaysia's RCA was focussed on the exports of "crops and animal products", but the ratio is declining. Malaysia's RCA seems to be moving towards the exports of moderately capital and skill-intensive manufactures, with WES_{ij} rising above the world average and signs of increasing RCA in the highly capital and skill-intensive manufactures.

3. League of World Competitiveness

Malaysia's open economy where exports and imports, i.e. trade, account for more than the size of the economy makes it imperative that it remains competitive. Without raising its level of competitiveness it will lose its comparative advantage in the production of goods for the world market. The lower its level of productivity the lower its growth and its potential for long-term growth. Trade will still play a critical role in sustaining economic growth. Empirical evidence supports the conclusion that trade plays a vital role in generating growth and that a more open economy contributes to rapid growth and the ability to adjust to shocks.

While the notion of comparative advantage is usually used in the traditional and narrower sense of the specialisation in production, it is often used in a much looser and general form to imply the standing of a country internationally. This broad sense, normally, applies the term to the country as a nation having an advantage, or edge, or lack of it compared to other countries in term of its attractiveness to doing business and as a location for foreign direct investment. It goes, therefore, beyond merely specialising in exports and refers to a country's standing in the community of nations. Used in this sense countries have been graded and ranked by some measure to denote their relative standing, internationally.

The annual publication of the World Competitiveness Report by the International Institute for Management Development provides some idea of the international standing

of countries in the league of competitiveness. Like any standard or computation it has limitations. Nevertheless, it provides a very rough guide on some consistent basis, as to where countries stand in term of competitiveness. The 1997 Report states that "... competitiveness can not be reduced to the mere notion of GDP and productivity. Firms also have to cope with the political, economic, socio-cultural human and educational dimension of a country. It is in this sense that nation compete, by providing firms with an environment with the most adequate structure, institutions and policies ..." (pg. 40). A large number of variables, or indicators some 244, have been used to calculate the competitiveness index of 46 countries. These indicators have been grouped into 8 categories:

- Domestic economy
- Internationalization
- Government
- Finance
- Infrastructure
- Management
- Science and technology
- People

According to the Report the USA is the top ranked country in world competitiveness, followed by Singapore and Hong Kong. Malaysia is ranked 17th out of the 46 countries assessed compared to its ranking of 23rd in 1997 and 1996. At least before the onset of the crisis Malaysia has been improving on its position.

While we may dispute the approach of assessing world competitiveness and the rankings of the countries, the report does provide some interesting insights on world competitiveness. It does, for example, seem to suggest that economies which have been growing relatively fast have also managed to be ranked higher in competitiveness over countries that have grown at a slower pace, or those that have regressed. At a very least this is suggestive, that growth and competitiveness are positively closely associated with each other.

Table 1
The World Competitiveness Scoreboard

Countries	1996	1997
USA	1	1
Singapore	2	2
Hong Kong	3	3
Finland	15	4
Norway	6	5
Netherlands	7	6
Switzerland	9	7
Denmark	5	8
Japan	4	9
Canada	12	10
United Kingdom	19	11
Luxembourg	8	12
New Zealand	11	13
Germany	10	14
Ireland	22	15
Sweden	14	16
Malaysia	23	17
Australia	21	18
France	20	19
Austria	16	20
Iceland	25	21
Belgium	17	22
Taiwan	18	23
Chile	13	24
Spain	29	25
Israel	24	26
China	26	27
Argentina	32	28
Thailand	30	29
Korea	27	30
Philippines	31	31
Portugal	36	32
Brazil	37	33
Italy	28	34
Czech Republic	34	35
Hungary	39	36
Greece	40	37
Turkey	35	38
Indonesia	41	39
Mexico	42	40
India	38	41
Colombia	33	42
Poland	43	43
South Africa	44	44
Venezuela	45	45
Russia	46	46

Source: IMD The World Competitiveness Yearbook 1997

4. Economic Crisis, Competitiveness and Comparative Advantage

The economic crisis in Asia which was unleashed by the floatation of the Thai baht in May 1997 has still not run its course. The impact of the crisis is still being felt and countries are still in the midst of tracking, assessing and taking corrective measures to adjust their economies. But the general effects of the crisis are fairly clear: there has been a destruction of wealth; countries are in different degree of recession; unemployment and inflation are rising; the financial system, especially the banks, are in disarray and, overall, the standard of living has fallen.

The gyrations in the exchange rates of Asian currencies have contributed, considerably, to uncertainties. The ringgit, baht, peso, rupiah, Singdollar, have all depreciated while the Hong Kong dollar is the subject of speculative attacks in recent weeks. Meanwhile the Japanese yen has slid to its lowest level against the US dollar and the yuan or renminbi is poised in the direction of being devalued. What is the effect of the competitive devaluation forced on the Asian currencies on Malaysia's competitiveness and its comparative advantage?

Theoretically, devaluation is supposedly to be good for competitiveness and for exports. A devalued currency makes exports cheaper and, therefore, competitive. In reality the full benefits of devaluation may not be fully reaped by exporters. Exporters may not enjoy the full benefits of devaluation for three reasons. First, in the initial phase of the crisis most manufacturers were already operating at full capacity. The average capacity utilisation of manufacturing firms stood at more than 80 percent. Second, because of the devaluation many overseas clients have pressured Malaysian exporters for price discounts for exports. According to the Federation of Malaysian Manufacturers (FMM) exporters who have no marketing or distribution-outlets in overseas markets are prone to the pressures of price discounts from overseas clients. Third, the tightening of monetary policy, rigid imposition of the credit plan and the overreaction of banks to the economic crisis have severely curtailed the growth of loans and credit even to the exporters. This monetary shock to exporters is alarming because even exporters with assured markets and clients have had their credit lines stopped or severely curtailed.

In 1997 total exports in ringgit term (RM221.4 billion) grew at 12.4 percent while manufactured exports increased by 12.9 percent (RM178.6 billion). Electronics, electrical machinery and appliances exports, accounted for about RM118 billion, or about 54 percent, of total exports. Competitiveness for most industries was enhanced but the higher export earnings were recouped simply because of the exchange rate valuation gains. Volume growth has been limited by the downturn and recession in the Asia Pacific regions. Exports valued in US dollars resulted in a decline by 2.5 percent in the last quarter of 1997. For 1997 exports of manufactured goods in US dollar terms increased by 1.1 percent in 1997.

The weak exports performance is continuing into the first half of 1998. In ringgit terms for the cumulative period January – May 1998 and 1997 exports increased by 40.5 percent but, as shown in Table 3 exports have contracted by 9.3 percent in US dollars terms while imports fell by 22.1 percent.

The decline in export values in US dollar terms was fairly widespread for manufactured exports as only electronics, industrial and commercial electrical products, chemicals and chemical products, manufactures of metals registered positive growth but not enough to turn around overall manufactured exports.

Expectations of manufactured export growth for the first half of 1998 are not bright at all. The FMM First and Second Quarter Surveys indicate a slight increase of respondents reporting a drop in exports and a further gloomier outlook for new exports sales for the 2Q of 1998. More than half of the respondents expect overall production costs to increase for the 2Q 1998 but more are expecting some stabilisation of costs. At the same time a higher percentage of domestic-oriented manufacturers during the 1Q 1998 reported increase in new exports and this trend was reported for the 2Q period. This evidence, if it persists, suggests that the resources of the domestic-oriented firms are being channelled for exports.

Table 2
Gross Exports 1997

	RM Million	Annual Change (%)	% share	US\$ Million	Annual Change (%)
Manufacturing sector	178,858	12.9	80.8	63,717	1.1
Of which:					
Electronics, electrical machinery and appliances	118,958	14.1	53.7	42,386	2.2
Electronics	80,773	25.0	36.5	28,691	11.7
Semiconductor	40,801	13.8	18.4	14,319	3.6
Electronic equipment & parts	39,972	36.0	18.1	14,172	21.3
Electrical machinery & appliances	38,185	-3.7	17.2	13,677	-13.3
Consumer electrical products	17,755	-11.0	8.0	6,364	-19.8
Industrial & commercial electrical products	11,935	13.8	5.4	4,275	2.5
Electrical industrial machinery and equipment	7,764	-9.4	3.5	2,780	-18.4
Household electrical appliances	731	11.1	0.3	257	-1.7
Textiles, clothing and footwear	7,575	8.8	3.4	2,696	-2.6
Chemicals & chemical products	8,189	21.6	3.7	2,922	9.1
Wood products	6,492	6.6	2.9	2,325	-4.0
Manufactures of metal	5,655	13.0	2.6	2,012	1.2
Transport equipment	4,904	7.9	2.2	1,766	-2.2
Rubber products	3,994	11.4	1.8	1,420	-0.4
Agricultural sector	23,191	3.3	10.5	8,292	-7.1
Of which:					
Rubber	2,971	-15.4	1.3	1,056	-24.3
Saw logs	2,346	2.8	1.1	834	-8.1
Saw timber	2,781	-10.9	1.3	989	-20.3
Palm oil	10,810	14.6	4.9	3,843	2.4
Minerals	15,413	18.3	7.0	5,513	6.5
Of which:					
Tin	479	-10.1	0.2	170	-19.6
Crude oil	7,069	-2.0	3.2	2,513	-12.3
LPG	6,752	42.3	3.0	2,400	27.3
Other	3,950	28.2	1.7	1,396	13.9
Total	221,413	12.4	100.0	78,917	0.7

Source: Bank Negara Malaysia and Department of Statistics

Table 3
Cumulative Gross Exports, Gross Imports and Trade Balance
in US\$ terms from Jan-May 1997 and 1998

Cumulative Period	RM/US\$ Rate *	Gross Exports (US\$)	Gross Imports (US\$)	Trade Balance (US\$)
Jan 97 - May 97	2.50	32,805.1	32,775.6	29.5
Jan 98 - May 98	3.90	29,740.3	25,536.1	4,204.2
% Change	-36%	-9.1%	-22.1%	141.5%

* average RM/US\$ rate for Jan - May 1997 and 1998

A higher percentage of firms are registering a reduction in capacity utilisation in 1Q 1998 and this situation will persist in 2Q 1998. A higher percentage of manufacturers are geared to operating at the 91- 100 percent level of capacity utilisation while almost 58 percent of the respondents who reported an increase in capacity utilisation were the domestic-oriented firms.

Expectations amongst manufacturers for the second half of 1998 does not appear to have deteriorated remarkably. The FMM Survey reported that although the outlook and profitability for the second half of the year was marked by pessimism it did show deepening pessimism.

The ringgit depreciation had variable impact on manufacturers. While the currency basis for the results remain unclear the majority of the surveyed firms reported improved performance in 1Q 1998 and some stabilisation in the currency. Domestic-oriented firms, however, reported to have benefited from the ringgit's devaluation. Ironically, the impact of the exports of export-oriented firms appeared to have weakened with a lower percentage (30.2 percent) reporting improvements in exports.

Several factors were reported as limiting export growth. Keen price competition, high cost of inputs contributing to making manufacturers uncompetitive and the political and economic conditions abroad. Weak marketing/distribution network was also cited as an important factor in limiting the exports of domestic-oriented firms.

5. Pushing Ahead with Exports and Improving Comparative Advantage

It would be best to assume that the uncertainties in the regional and global markets would make the market for exports even more difficult. Competition for exports would be even more keen and sharp. What measures and approaches must be taken to maintain Malaysia's CA? First, the National Economic Recovery Plan (NERP) must be speedily implemented to prevent a deeper recession of the economy and to lift the economy out of recession. Export growth can contribute to economic recovery.

Second, enhancing productivity is a crucial necessity if Malaysia's level of competitiveness is to be raised and its comparative advantage enhanced. Raising the productivity of manufacturing industries must remain a top priority. According to the Seventh Malaysian Plan, between 1971 - 1990, total factor productivity or TFP computations revealed that labour and capital inputs accounted for over 82 percent of

growth. Productivity and quality accounted for only 18 percent. During the period 1991 – 1995, investment and labour inputs accounted for nearly 72 percent of growth while productivity accounted for only 28 percent. While productivity is improving, the rate of improvement is relatively slow.

Essentially, productivity improves when less inputs are required to generate a given output. There are two aspects of productivity, namely, (a) increasing the efficiency and effectiveness of resource utilisation to generate incrementally higher output, including the generation of new enterprise as well as technology; and (b) the reduction elimination of waste in resource utilisation. Though the focus of economic policy thrust is normally on economising inputs, the reduction and elimination of wasteful use of mismanagement of resources requires as much attention as the former in the short to medium term.

Apart from raising labour productivity, capital productivity must also be raised. The objective is to ensure that a unit of capital input generates more output over time. Measuring capital productivity is beset with difficulties as it must incorporate different types of capital inputs – buildings, machines, computers etc. It must also include depreciation i.e. how much of the capital stock is used up during the given period. Some evidence suggest that capital productivity in USA is higher than Japan and Germany. This is a part of explanation why America manages to create more wealth than Japan and Germany when it saves (and invest) less than the other two countries. On average capital productivity has led to higher return on capital. Capital productivity it appears, is influenced by the way managers run their companies such as how plans are run, marketing and finance. Incentive schemes can be introduced to avoid idle capital. A sophisticated capital market encourages investors to put pressure on managers to perform and to be more discriminating in choosing capital projects. Competition also forces managers to use their capital more efficiently.

For the Seventh Plan period of 1996 – 2000, it is projected that TFP contribution to growth will rise substantially to 41 percent, compared with 21 percent during the Sixth Plan period 1991 – 1995. To achieve such a sharp increase, the efficiency and productivity of both labour and capital must rise at a very rapid pace. This is an optimistic assumption.

Using the crude incremental capital-output (ICOR) ratio to measure capital efficiency and productivity, it was noted that this ratio averaged 4.2 for the period 1991 to 1994, indicating that national output efficiency had stagnated during that period. For 1995 the ratio increased to 4.4 and is expected to increase further in 1996 to 5.1, suggesting further capital efficiency deterioration. Given the tight labour market and the influx of cheap and less skilled and unskilled foreign labour, larger inputs of capital have been necessary to improve productivity.

Third, investment in information technology will make a sizable contribution to enhancing productivity. The success of economic and social development of a nation is increasingly dependent on its success in mastering IT or in managing information. As well, productivity will be raised by investing in upgrading of existing technologies and by investing in new technologies.

Investments in service industries somehow have lagged well behind and manufacturing industries. Yet, investments in the service and manufacturing industries are complementary to promote greater efficiency, productivity and competitiveness. In Malaysia's case, there is evidence that the increase in manufacturing investments have, in many cases, gone beyond that the service industries could competitively efficiently and productively provide the necessary services. This needs to be redressed or overheating in certain sectors of the manufacturing industries could result. Reviewing Malaysia's incentives on investments, it is noted that most of the incentives are for manufacturing industries. Few are for the service industries. More incentives should be introduced for investment in service industries such as in shipping, transportation, air-freighting, engineering services, fund and equity management, and construction.

Zainal Aznam Yusof
Institute of Strategic and
International Studies (ISIS) Malaysia
August 26, 1998

Chart 1: Gross Exports in RMm and US\$m
from Jan 1996 to May 1998

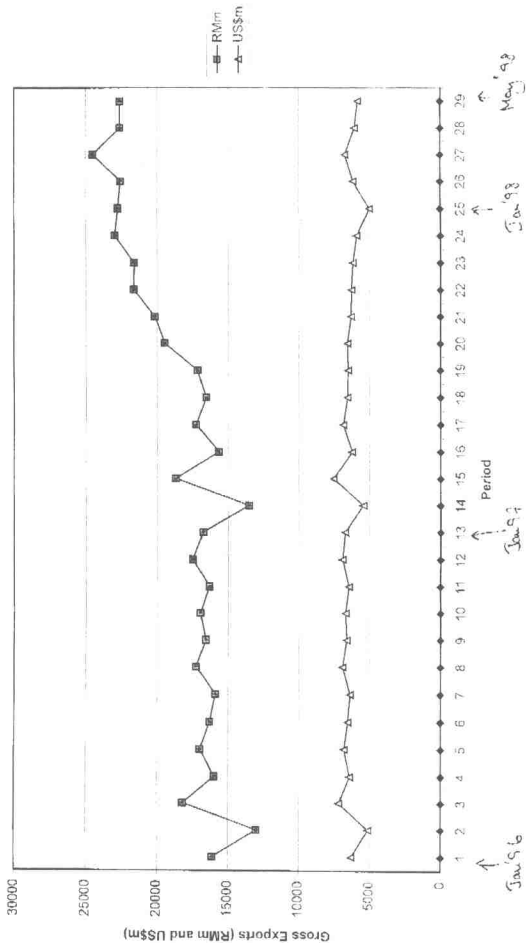
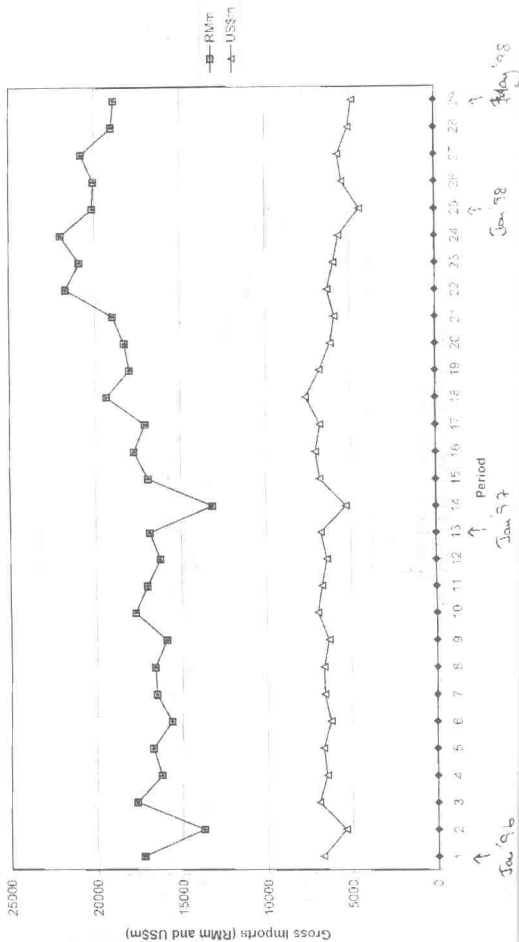


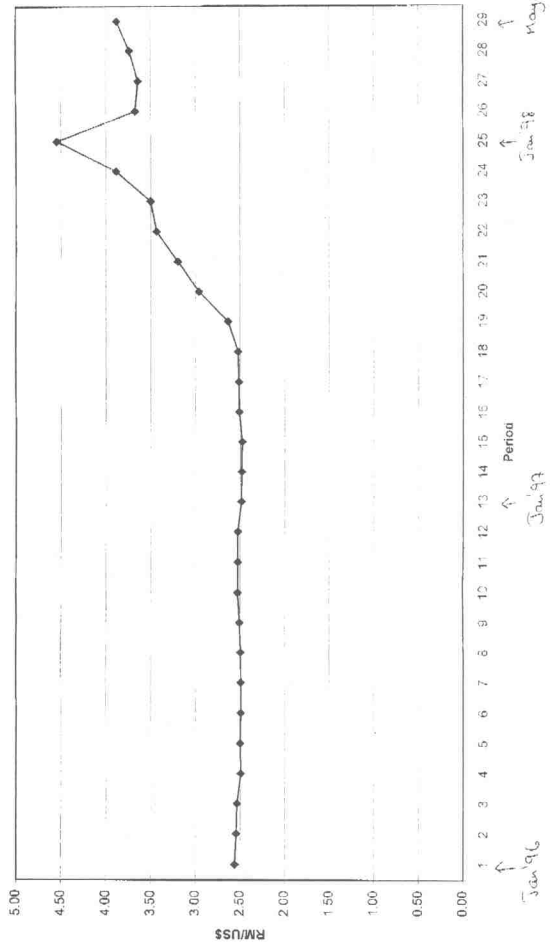
Chart 2: Gross Imports in RMm and US\$m
from Jan 1996 to May 1998



Jan '96 Jan '97 Jan '98 Jan '99

Appendix 3

RM/US\$ Exchange Rate from Jan 1996 to May 1998



RECOVERY
of the
MALAYSIAN
ECONOMY
Opportunities and Prospects

Role of the Financial Sector

By: Mr. Tong Kooi Ong,
Phileo Allied Berhad

0090-6896*

Revitalizing the Economy: Role of the Financial Sector

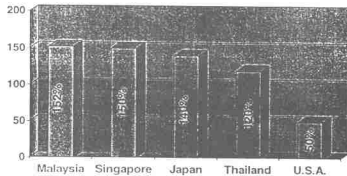
Origin of Malaysia's economic crisis: A chronology

- 8% per annum growth between 1988 - 1997
- Fears of overheating started in 1995
- Signs of cyclical slowdown in 1996
- Over-investment in property sector
- Fall of Thai baht
- Crash in investor confidence
- Massive outflow of funds from Asia

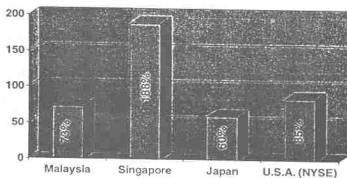
Funding mismatch

- Short-term capital used to fund long-term investments
- Over-dependence on bank borrowings and equity capital

Loan:GDP at end 1997



Stock market capitalization as a percentage of GDP



Over-investment and over-gearing

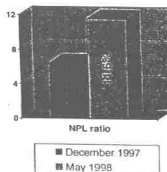
- "Golf course capitalism"
- Property related borrowings accounted for 40% of total loans
- Over-leveraging of corporate sector
- Over-confidence in "Asian miracle"
- Low interest rates in Western economies
- Abundance of cheap funds

Other factors

- Opportunistic capital – trigger of Thai crisis
- Immaturity of financial markets
- Speed of capital flows
- Small economies unable to compete
- Large investment funds monopolizing flow of capital
- High tolerance for risk

Role of the financial sector

- Large portion of leverage held within banking sector
- Crucial role of financial intermediation
- NPLs rising at alarming rate



Solving the problem of non-performing loans

- Pengurusan Danaharta Nasional
 - creates price floor for assets
 - relieve burden on banks by buying up NPLs
- Danamodal Nasional
- Rebuild banks' balance sheets
- Enhance banks' asset quality

Bank recapitalization

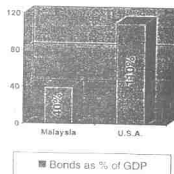
- Necessary because of depletion of shareholders' funds
- Boost confidence in the Malaysian banking system
- Needs to be market-friendly, market-oriented and transparent

Better asset allocation

- Ensure funds are channeled into productive areas
- Benefits wide segment of economy
- Significant growth strategy through rapid development of small and medium-sized enterprises

Development of bond market

- Reduce corporate reliance on bank borrowings and equity funding
- Lessen funding mismatch
- Government bond forms 71% of bond market

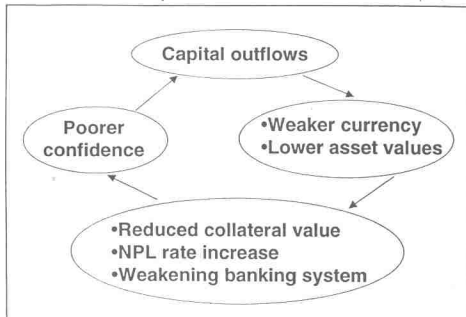


Other financial instruments

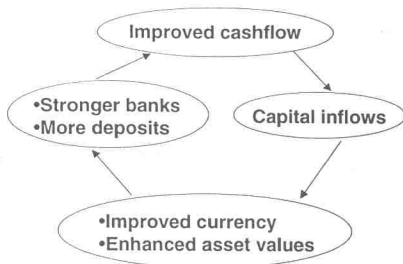
- Real Estate Investment Trust (REIT)
 - tax efficient and long-term vehicle to own properties
- Various options and convertibles to secure additional capital and reduce cost of funding

Enhancing competitiveness of Malaysia's banking sector

- Malaysia will be unable to resist the wave of financial liberalization
- Malaysian banks – carve niche market
- Financial institutions to become intermediaries of risk rather than credit



Return of confidence key to economic recovery



The End

MCA ECONOMIC SEMINAR

RECOVERY *of the* ***MALAYSIAN*** ***ECONOMY***

Opportunities and Prospects

FINANCIAL SOURCING UNDER CRISIS CONDITIONS

BY

DR. NEOH SOON BIN

0040-69050

NASKAH PEMULIHARAAN
PERPUSTAKAAN NEGARA MALAYSIA

Thursday, 27 August 1998
9am - 4pm

Auditorium, Wisma MCA,
Jalan Ampang, KL.

FACTORS THAT CAUSE THE PRESENT ECONOMIC CRISIS AND LIQUIDITY CRUNCH

1. The collapse of the stock market to the present 300 odd points.

This has caused problems for many companies and individuals who have pledge their shares in public listed companies to the banks as collateral's for loans. Many of these collaterals have drop to 10% - 20% of their values requiring companies and individuals to top up their collaterals which they obviously cannot do so. This has resulted in force selling of shares held in collateral. Furthermore, shares of may public listed companies are no longer good collaterals. Many public listed companies have issued Bonds and many are due in the next 12 months under the present market condition, many of the Bond holders are looking to cash in their Bond which will create a cash squeeze for the companies concerned. Many of these bonds are guaranteed by banks who now looked at these companies negatively and is obviously doing damage control.

2. The depreciation of the RM has resulted in imported goods becoming more expensive by up to 60%. This include raw materials and intermediate materials for industries resulting in greatly increased need for working capital. However, due to the limitation on credit growth, many banks are unable to provide the additional working capital causing many companies to cut down production or even shut down. Companies who have foreign currency loans without foreign currency earnings suddenly faced a 50% - 60% increase in loan liabilities. This results in increase in interest payments and a drastic increase in debt to equity ratios which in itself reduce their financial credit worthiness.
3. The pulling out of short-term money from the stock market and banks by both foreigners and Malaysian has caused the stock market to collapse and the banking system to run short of liquidity. The selling of RM and the buying of foreign currency also help to weaken the RM. High interest rates for RM offered by banks in neighbouring countries also help to drain liquidity from the system.

....2/-

4. The collapsed of the stock market, the depreciation of the RM and the resulting liquidity squeeze also badly affected the property and consumer product markets. Sales of cars are down 70%, property sales is very slow except for certain niche markets. In general, consumer spending is drastically down. This has resulted in a serious drop in sales for many companies associated with these sectors. Motor vehicle companies and their suppliers suddenly see a 70% cut in their sales. Similarly, companies associated with the construction industry also report sales reduction of 50% to 80%. The service sector is also facing serious reduction of sales. Companies who have invested in additional production facilities by borrowing heavily are in bad shape. In any case virtually no company can suffer a 50% - 80% reduction in sales and still be profitable. Many cannot restructure their operation virtually overnight. Many of these companies probably cannot survive which will result in them defaulting banks and creditors even those who can survive may have to reschedule their loans and payment to creditors which will further create liquidity problems. Companies in tight cash situation are unable to pay creditors resulting in the need for additional working capital for all companies.
5. The lack of liquidity has caused interest rates to go up and at one time SME's were paying over 20% for trade financing. Recently the government has moved to lower interest rates. Higher interest rates will definitely cripple many companies and many go down.
6. The general pessimistic sentiments and the negative growth projected for the 1st half of this year have made lenders and creditors more conservative when extending loans and credits.
7. Rising NPLs due to more and more companies failing is forcing banks to react and further cut back on loans.

NSB/zhz
26/8/98

MAIN OBSTACLE MALAYSIAN COMPANIES FACED WHEN SOURCING FOR FUNDS

1. Domestic credit growth controlled at less than 15 %.
2. Their business type has been classified as not viable under the present economic situation.
3. Banks adopting a cautious and conservative attitude towards all customers.
4. Cost of financing high, interest rates and foreign exchange spreads are high.
5. Due to the downgrading of Malaysian countryrisk by international rating agencies. International sellers are unhappy even unwilling to accept letters of credit and guarantees for Malaysian banks. Furthermore, Malaysian banks are unable to borrow funds competitively from foreign sources. The premium most Malaysian companies and banks have to pay for overseas borrowing range from 3% to 5% above libor.
6. Even for exporters with foreign exchange earnings, many Malaysian banks limited foreign currency loans to shorter terms are even unwilling to advance foreign currency loans altogether.
7. Many Malaysian banks are reducing short-term loans and working capital facilities to companies deem to be in the not viable sectors.
8. Most SMI's faced problems in obtaining loans from the various SMI loan schemes.
9. There is a shortage of funds in the Malaysian Banking sectors.
10. Neighbouring countries offer very high interest rates (up to 45%) for RM resulting in RM being withdrawn from the Malaysian banks further aggravating their liquidity.

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26/8/98

SUGGESTIONS ON HOW TO SECURE FUNDS DURING THE PRESENT ECONOMIC CRISIS

1. For companies that have foreign currency income and can finance in foreign currency :-

- a) Supplies Credit is available for both raw material and equipment purchases typically USD short term financing is available for $\text{libor} + 0.5\% - 1\%$ current = $6.2\% - 6.7\%$ compared with local RM BA @ 10.5% . Usually supplier will need a usance Letter of Credit or Bank Guarantee from a Malaysian Bank to cover the period of the financing. Typically, local banks will charge an additional 1.5% to 2.5% for this service.

2. Foreign Government Credit

Many foreign government has credit schemes for the export of equipment and raw materials. The advantage of this type of financing is that the country risk factor is not factored in fully. For example the US has the GSM 102 schemes for food and agricultural exports. The country risk is barely taken into account and this credit for up to 3 years is available plus libor at $\frac{1}{4}\%$ to $\frac{1}{2}\% = 5.95\%$ to 6.2% . Again you have to open a Letter of Credit from an approved Malaysian Bank (there are 7) for the period of the credit. Local bank charges will amount to another 1.1% to 1.5%

Most European countries have special credit schemes for the export of equipment. The moral of the story is to enquire with your supplier what credit schemes they have.

SUGGESTIONS ON HOW TO SECURE FUNDS DURING THE PRESENT ECONOMIC CRISIS

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Most European countries have special credit schemes for the export of equipment. The moral of the story is to enquire with your supplier what credit schemes they have.

Some Sources of Funding Available Locally

(A) SMI FUND

- 1 Fund allocated : RM1.5b
- 2 Bankers : 20 local banks
- 3 Lending Rate : 10.0%
- 4 Max Funding : RM5.0m
- 5 Eligibility
 - (i) Shareholders' fund <RM10m
 - (ii) Malaysian owned companies (at least 51% ownership)
 - (iii) Sectors : Manufacturing, Agro-based industry & Services.

(B) FINANCING FOR THE MANUFACTURING SECTOR

- 1 Fund allocated : Subject to availability
- 2 Banker : Bank Industri (M) Bhd
- 3 Lending Rate : 9.5% to 11%
- 4 Max Funding : up to 85% of project cost
- 5 Eligibility : Metal, Electronic, Electrical, Plastic and Food processing sectors

(C) FUND FOR FOOD (3F)

- 1 Fund allocated : RM1.0b
- 2 Bankers : Majority of local banks
- 3 Lending Rate : 4.0%
- 4 Max Funding : RM3.0m
- 5 Eligibility
 - (i) For primary food production
 - (ii) For related food products covering mainly processed food (provided materials are sourced locally)

(D) TECHNOLOGY ACQUISITION FUND

- 1 Fund allocated : RM45.0m for 1998
- 2 Banker : MTDC
- 3 Grant : up to 50% or 70%
- 4 Eligibility
 - (i) Purchase of High-Tech Equipment & Machinery
 - (ii) Technology licensing
 - (iii) Acquisition of patent right, development of prototypes and design
 - (iv) Placement of Malaysians in foreign technology based companies or foreign technology institutes

MCA ECONOMIC SEMINAR

RECOVERY

of the

MALAYSIAN

ECONOMY

Opportunities and Prospects

**PROSPECTS IN THE
AGRICULTURAL SECTOR**

BY: DATO' LEE OI HIAN

Thursday, 27 August 1998
9am - 4pm

Auditorium, Wisma MCA,
Jalan Ampang, KL.

PROSPECTS IN THE AGRICULTURAL SECTOR

BY DATO' LEE OI HIAN

I must first convey my appreciation to YB Dato' Dr Fong Chan Onn, the Chairman of MCA Economic Bureau, for this honour to share with you on the prospects of the Agricultural Sector with regard to its contribution to our economic recovery.

Having experienced through the past one year of unimaginable economic downturn and having listened to the various speakers on this topic, I am glad to have the more pleasant task of bringing to you the more cheerful side of Malaysian economy, the Agricultural Sector, particularly that of palm oil. I will first speak on the contribution of the Agricultural Sector to our economy and then followed by my opinion on our economic scenario.

Let us first get an overall view of the size of the Agricultural Sector in relation to our economy. A review of the components of our Gross Domestic Product (GDP) will show the relative importance of manufacturing and services sector (Slide 1). For 1997, the Agricultural Sector only contributed 12.2% of the GDP.

Similarly, in terms of our country's total exports, agricultural products only amount to 15.2% of the total exports of RM221 billion (Slide 2). In fact, the Agricultural Sector, in contribution both to the GDP and total exports, has been declining during the decade of the 1990s as a result of our industrialisation successes (Slide 3). Currently, about 15% of our working population are employed in the Agricultural Sector.

Thus, a rational conclusion is that the Agricultural Sector is no longer a significant economic driver of our economy and like many industrialised nations, will be less relevant for future economic growth. I feel this position grossly underestimates the importance of our Agricultural Sector to our national economy.

My reasons for believing in the strength of the Agricultural Sector to assist in the recovery and providing a solid platform for our economy, alongside the other sectors like manufacturing and services, are (Slide 4):

- (1) Diversity and strength of primary commodities
- (2) Basis for resource based industries
- (3) Highest value added/local content of any industry
- (4) Maximum multiplier effect
- (5) Promising prospects

(1) DIVERSITY AND STRENGTH OF PRIMARY COMMODITIES

Since the beginning of the 20th century, the Agricultural Sector has been a reliable engine in building up the Malaysian economy. Over this past period, our country has benefited from a rich, diverse basket of primary products of coffee, spices, rubber, cocoa, timber and palm oil. Each crop has had its period of heyday as we ride through the commodities cycle (Slide 5). The diversity of the primary products can be seen in the exports value of the various agricultural crops.

Malaysia is a blessed nation and over the decades has built up world leadership - with technological advantages in many agricultural sectors like palm oil and timber. In fact, in the palm oil and timber sectors, Malaysian firms are dominant players in the world with investments in upstream and downstream ventures in Brazil, Indonesia, Papua Guinea, Ecuador and PRC. The agribusiness is predominantly Malaysian owned unlike the petrochemicals or electronics sectors, which are largely controlled by foreign multinationals.

(2) RESOURCE BASED INDUSTRIES (Slide 6)

With the plentiful supply of raw materials produced by our primary industries and our excellent infrastructure available, we have grown many clusters of resource based industries. We have a clear competitive advantage in these industries and the result is that Malaysia is the leading world producer of rubber gloves, oleochemicals and wood products like furniture.

These resource based industries' contribution to GDP or exports is included under manufacturing sector but the reason for their existence is clearly derived from our agricultural base.

(3) **VALUE ADDED/LOCAL CONTENT (Slide 7)**

The primary industry sectors have by far the highest value added or local content as compared with the manufacturing sector. For example, in electronics to generate the export value, it has to import its components, thus the value added is estimated only to be 24%.

Compared to palm oil or rubber, where the only imported ingredients are fertilisers, tractors, the value added locally is estimated to be 90%.

Thus, despite the larger export revenues of certain manufacturing sectors, their impact on Malaysian trade surplus is less than for palm products which have a much lower export value.

(4) **MULTIPLIER EFFECT**

The Agricultural sector has the most significant multiplier impact on the Malaysian Economy. Being homegrown and mainly with Malaysian ownership, the value added derived are retained by Malaysians locally. Also, being a matured economy, the Government enjoys the 28% tax on the profits, as pioneer status or other tax incentives given to the industrial sector are not extended to this basic sector.

The wealth created in this Agricultural sector is distributed widely (Slide 8). For example, over 50% of the palm oil production is the smallholders sector, including FELDA. Here, more than 50% of the industry profits are being distributed among many individuals, who have a much greater propensity to consume. Today, the economic prosperity enjoyed by the FELDA settlers and smallholders provides much of the economic and social stability in the rural areas.

The estates sector in the palm oil industry accounts for only 46% of the planted area. Here again, the ownership distribution is wide, with the biggest plantations group like Golden Hope, Guthrie, KLK each producing no more than 3% to 4% of the country's production. PNB and its unit shareholders together with other Malaysian shareholders dominate ownership in the plantations companies and thus ultimately enjoy in the dividends reaped (Slide 9). Retained profits are generally reinvested in the country.

Agricultural products are by nature heavy and bulky and produced in huge tonnages - as compared to semiconductors. Palm products alone amount to over 11 million tonnes and provide substantial businesses for our transportation industries.

Many supporting industries, particularly SMLs, exist to support the Agricultural Sector. For example, our local engineering workshops fabricate and construct the palm oil mills and even export them to Indonesia. The fertiliser industry, the bleaching earth industry exist because of the plantations sector.

(5) **PROMISING PROSPECTS**

To illustrate this point, I will use the palm oil industry as an example.

Palm oil is the second largest oil produced globally with 17.5 million tonnes or a share of 17.5%. The slide (Slide 10) shows the other oils and fats making a total world production of 100 million tonnes. Malaysian output of palm oil in 1997 was 9.1 million tonnes.

As most of the world's oils and fats are consumed in the countries that they are produced, the world export volume of oils and fats is only 32 million tonnes (Slide 11). Out of this, palm oil has a 37% market share. Malaysian palm oil dominates the export trade with 63% of the world's palm oil exports.

Total demand of oils and fats in the world is influenced by 2 major factors - population and affordability of consumers (Slide 12). World

population is growing and Asia will have nearly 59% of world population by the year 2000. The per capital consumption of oils and fats in the developing economies is low compared to nations like USA (Slide 13).

<u>Country</u>	<u>Population</u>	<u>Per Capital Consumption</u>
China PR	1200	9.0
India	920	8.0
Pakistan	137	17.0
Taiwan	21	> 30.0
USA	240	40.0

In addition, palm oil exists in the oils and fats industry with trades denominated in the US currency. The graph shows the close relationship with soyabean oil prices over 1997 in US dollars (Slide 14).

The strength of palm oil is our ability of being a smaller player in the oils and fats industry to peg or piggy back our prices closely to that of soyabean in US dollar prices. Hence, this is a valuable industry in this period of the ringgit weakening.

During the late 1980s and early 1990s period, what was known to us as the "war of oils", the Soyabean Association went on a huge negative image campaign against palm oil. The initial result was that palm oil prices were depressed for a number of years with discount of as much as US\$200 pmt or 30% to soyabean oil prices. Our peg to soyabean prices was broken. This was clearly a trade war.

Fortunately, palm oil is now well established and accepted worldwide with good nutritional and functional properties, resulting from the extensive research and promotional work done by the Ministry of Primary Industries. The facts are :

- (a) The Oil Palm tree is the world's most efficient producer of oil with near 5 tonnes per hectare.

- (b) Like any vegetable oils, it has no cholesterol (Slide 15).
- (c) Palm oil is very rich in Vitamin A and Vitamin E (especially tocotrienols)(Slide 16 & 17).
- (d) Palm oil is twice as stable compared to other oils in frying (Slide 18).
- (e) Nutritional studies have shown that the saturated fats in palm oil (stearic and palmitic) are neutral and in human studies, palm oil reduces blood cholesterol (Slide 19 & 20).

To conclude, palm oil has a promising future with only 17.5% share of the world's oils and fats, with a rapidly growing population that has the capacity to consume more oils as their economies develop. Malaysian palm oil production has grown from 2.5 million tonnes in 1980 to 9.1 million tonnes in 1997, with over 90% of it exported. In 1998 it is expected that palm oil products will contribute over RM18 to RM20 billion in export proceeds as compared to RM12 billion last year.

Ladies and gentlemen, please allow me to express some personal opinion on our national economic situation. Without a doubt, this economic turmoil is the worse imaginable for Asean and will take time to resolve itself. Our Government had on November 20 last year formed the National Economic Action Council (NEAC) under the leadership of Tun Daim, and since then the NEAC had come out with a 6-objective plan to tackle the financial crisis. Priority is given to the stabilising and strengthening of the ringgit, as without which there would be runaway inflation, rising wages and business decisions almost impossible. The approach to keep interest rates reasonably low compared to Thailand and Indonesia is the right one. Our trade balance for the last six months at RM22.1 billion surplus is encouraging and this should eventually result in a stronger ringgit. Long term capital through foreign direct investments continue to flow in through multinationals like Intel, Dell, BASF, etc.

I must sincerely congratulate the Government for providing the stable, social and economic conditions during this stressful era. I believe that we will continue to see the Government encouraging long term foreign funds to invest in existing companies. The construction industry in which we have a high local content will be stimulated by fiscal policies to promote low to medium costs housing, infrastructure and roads. During this credit crunch period, the Government through special funds like the FSMI has been careful to continue to nurture the small medium industries (SMI's) and the manufacturing sector, as these industries are very vital to our longer term economic recovery.

In conclusion, I came across two famous statements from Mr John Rockefeller, that I would like to share with you (Slide 21).

" I believe that every right implies responsibility, every opportunity its obligation, every possession a duty. "

" I believe that thrift is essential to well ordered living and that economy is a prime requisite of a sound financial structure whether in government, business or personal affairs. "

It is now our duty as Malaysians to do our utmost best to assist our country in the recovery process. I have also every confidence that arising from this setback, Malaysia in the coming decade with prudence will have even more stronger, solid economic fundamentals for sustainable growth in our quest for Vision 2020.

By Dato' Lee Oi Hian
27 August 1998

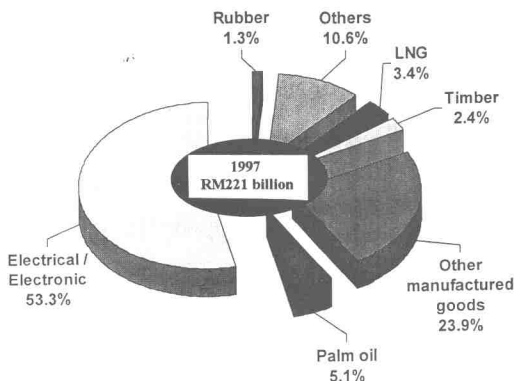
Gross Domestic Product (GDP) by Sector

Share of GDP (%)	1996	1997
Agriculture, Forestry and Fishing	12.7	12.2
Mining and Petroleum	7.2	6.8
Manufacturing	34.2	35.5
Construction	4.7	4.8
Services	44.8	45.0
Less: Imputed Bank Charges	7.7	8.3
Plus: Import Duties	4.1	4.0
	100.0	100.0

Source: Ministry of Finance, Economic Report 1997/98

1

EXPORTS STRUCTURE



Source: Economic Report 97/98

2

AGRICULTURAL CONTRIBUTION

	<u>1990</u>	<u>1997</u>
RM million	18,823	33,546
% Total Exports	23.6%	15.2%
% GDP	16.3%	12.2%

3

REASONS FOR MY BELIEF ...

- ✧ Diversity and strength of primary commodities
- ✧ Basis for resource based industries
- ✧ Highest value added/local content of any industry
- ✧ Maximum multiplier effect
- ✧ Promising prospects

Exports of Major Agricultural Products

	1997 (RM million)	% Total Exports
Palm Oil, Palm Kernel Oil Palm Kernel Cake	12,032	5.4
Rubber	2,971	1.3
Processed Rubber Products	3,934	1.8
Cocoa Beans	114	0.1
Sawn Logs	2,346	1.1
Processed Timber	11,850	5.3
Pepper	299	0.2
Total	33,546	15.2

5

Resource Based Industries

Commodities

Palm Oil,
Palm Kernel Oil

Rubber

Timber

Cocoa

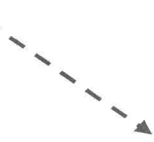
Resource Based Industries

Fatty Acids, Glycerine, Fatty
Alcohols,
Fatty Acids Derivatives, Soap
Noodles,
Cocoa Butter Substitutes,
Shortenings

Latex Gloves, Catheters,
Rubber Products, Tyres
(RM 4 billion industry)

Medium Density Fibreboard (MDF),
Plywood,
Parquet, Mouldings,
Furniture

Cocoa liquor, Butter, Powder,
Couvertures, Milo



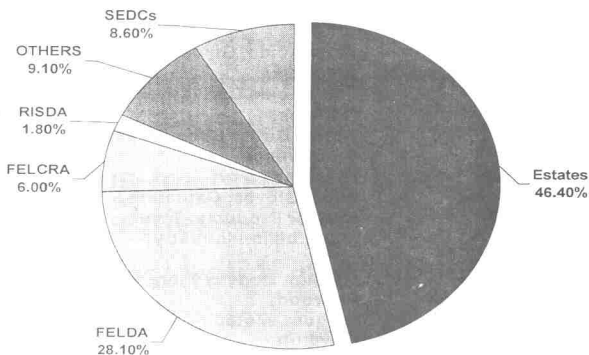
6

Comparative Value Added

	1997 Export Value RM m	Estimated % Value Added	Value Added RM m
Air Conditioner, etc	1,364	30	409
Radio, TV, Recording Equipment	17,755	13	2,308
Data processing machines & parts	31,169	24	7,480
Semi conductors, IC & Electronic Components	40,801	24	9,792
Palm Oil & its products (SITC 421- 431)	12,993	90	11,694

7

Malaysian Oil Palm Growers



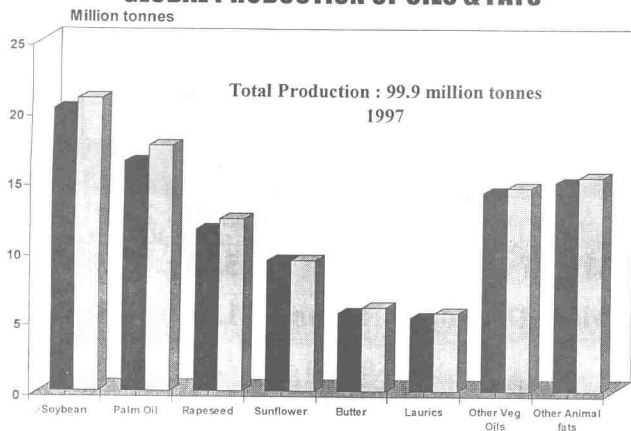
Total 2,515,842 (hectares)

PNB Ownership Of Plantations

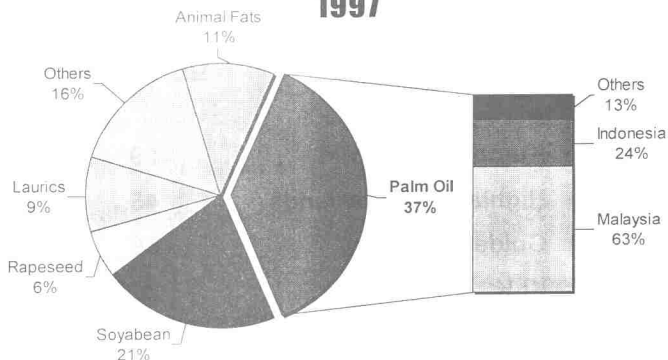
	<u>Effective Ownership</u> %
(1) Kumpulan Guthrie	69
(2) Highlands & Lowlands	45
(3) Golden Hope	68
(4) KLK	25
(5) Austral Enterprise	38
(6) Sime Darby	36

9

GLOBAL PRODUCTION OF OILS & FATS



WORLD EXPORTS OF OILS AND FATS 1997



Source : Oil World Statistics Update 1997 / PORLA

11

Less Developed Countries Will Account For About 90% of Total World Population Growth

Population (billion)			
	1990	2000	2010
World	5.30	6.23	7.15
More Developed Region	1.21	1.28	1.34
Less Developed Region	4.08	4.95	5.81

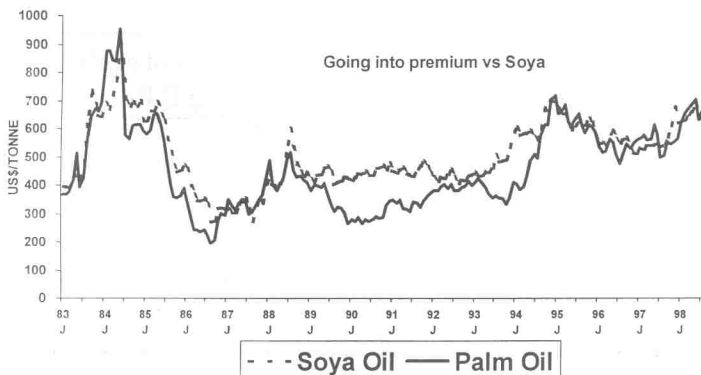
Per Capital Consumption of Oils and Fats

Country	Population (millions)	Per capital Consumption (kg/person)
China PR	1200	9
India	920	8
Pakistan	137	17
Taiwan	21	> 30

USA	240	40
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PRICE of CPO & SOYA OIL



CHOLESTEROL CONTENT in EDIBLE OILS & FATS (ppm)

<u>Fats & Oils</u>	<u>Average</u>
COCONUT	14
PALM OIL	16
SUNFLOWER	17
SOYA BEAN	28
COTTONSEED	44
RAPESEED	53
MAIZE	50
LARD	3500
BUTTER	3150
BEEF FAT	1100

Source :

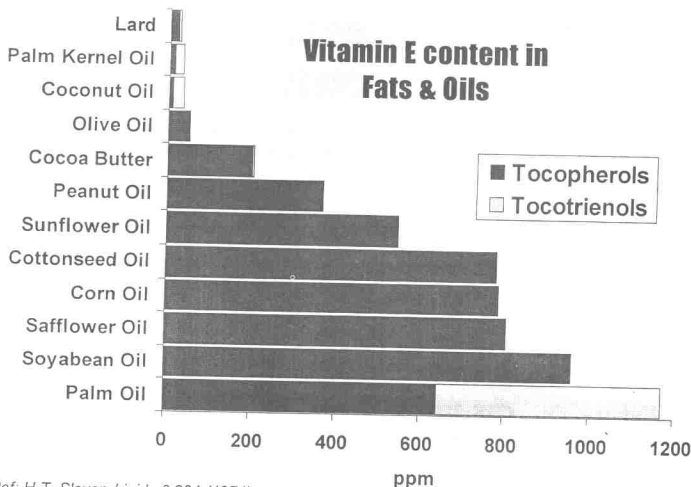
¹ M.J. Downes, Leatherhead Research Report No. 781 (1982), No. 436 and 411 (1983), No. 487 and 455 (1984), No. 518 and 519 (1985).

² F.D. Gunstone, J.L. Hardwood and F.B. Padley in The Lipid Handbook, Chapman and Hall. London, New York, pp. 104 and 124 (1986).

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Vitamin A Content

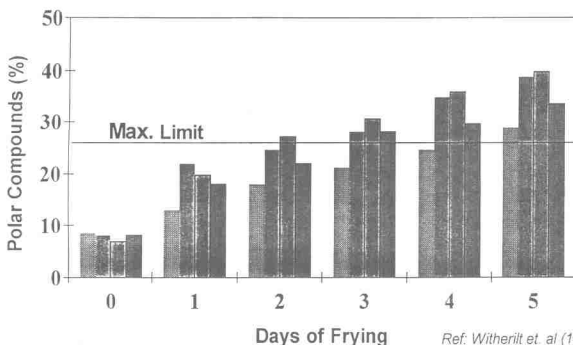
FOOD	micro g retinol equiv. /100g E.P.
ORANGES	21
BANANA	50
TOMATOES	130
CARROTS	400
CRUDE PALM OIL	6,700



Ref: H. T. Slover, *Lipids* 6:291 (1971)
F.D. Gunstone (1986)

17

Polar Compounds in Frying Oils during deep-frying of french fries



Ref: Witherill et. al (1995)

■ Palm Oil

■ Soya Bean Oil

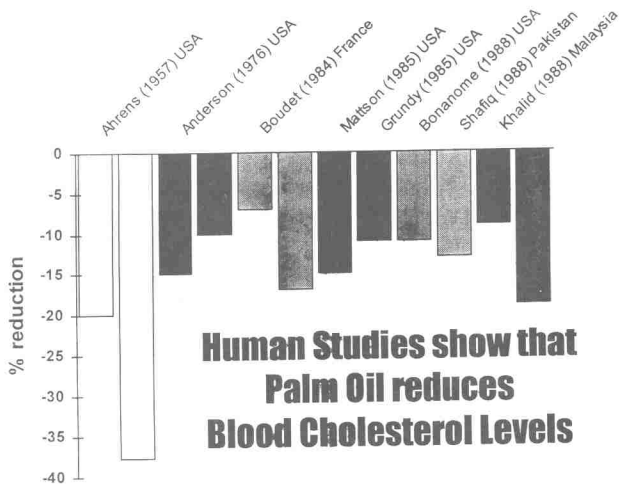
■ Sunflower Oil

■ Olive Oil

Effects of Fatty Acids in Palm Oil on Total Serum Cholesterol

Fatty acids		Composition in Palm Oil (%)	Effect on Serum Cholesterol
Lauric	C12:0	0.1	Increase or Neutral
Myristic	C14:0	1.0	Increase
Palmitic	C16:0	44.3	Neutral
Stearic	C18:0	4.6	Neutral
Oleic	C18:1	38.7	Decrease
Linoleic	C18:2	10.5	Decrease
Palm Oil			Decrease

19



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“ I believe that thrift is essential to well ordered living and that economy is a prime requisite of a sound financial structure whether in government, business or personal affairs. ”

John Rockefeller