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Malaysia's External Trade

By

Khor Eng Lee
MALAYSIA'S EXTERNAL TRADE
by Khor Eng Lee

There are two authoritative sources of information on the state of the economy including the country's trading position -- the annual Economic Report by the Ministry of Finance and the annual report of Bank Negara. However, the Central Bank's annual report is only published in the first quarter of the year for the preceding year. This report is largely based on the latest Economic Report 1983/84 released by the Finance Ministry last October as a supplement to the Minister's 1984 Budget speech in Parliament. As the official economic report is based on firm figures of from six months (for example, the export price index available for the first half of this year) to nine months (for rubber prices), there is an element of speculation.

Three observations may be made before a profile on the country's external trade is attempted.

One: the economic dependence on world trade. Look at Malaysia's estimated total external trade of $62.9 billion as compared with its estimated gross national product (GNP) of $63.8 billion in nominal terms for 1983 ($29.5 billion at constant 1979 prices). Export trade is tied to external demand particularly in the OECD countries (although merchandise exports to the industrial market economies have come down from as high as 58 percent in 1960 to slightly more than half of total merchandise exports today) as well as to prices for the commodities in the international market.

Two: the official policy to restore the balance of payments, which has been under strain since 1980, and to strengthen the Government's financial position. The latter has resulted in measures such as cutting down on imports and rescheduling development expenditure, especially for public investment with high import content as well as curtailing development expenditure (reduced by $3 billion in 1982 and $2.5 billion in 1983).

Three: the cautious and conservative nature of official forecasts. Expected to increase by 4.9 percent a year ago, the Malaysian economy is now expected to register a growth of about 5.6 percent for 1983. Figures for most of the key economic indicators including external trade have been revised upwards.

Owing to the strengthening of the external demand as a result of the upturn in the economies of the major industrial countries, Malaysia's total trade is expected to increase by 10.2 percent (as compared with 6.3 percent in 1982) to
$62.9 billion in 1983. The Ministry says that the increase is sustained mainly by the greater pick-up of export commodities and price stabilisation as a result of stronger demand by Malaysia's main trading partners, particularly the US and Japan. The export of Liquefied Natural Gas (LNG) from early this year and the stepped-up production of crude petroleum largely for export are also expected to contribute significantly to the increase in the value of commodity exports this year.

Export earnings are expected to increase by 13.9 percent to about $32 billion in 1983 (originally expected to decline by 1.7 percent to $26.6 billion), compared with an increase of 3.1 percent in 1982.

Commodity imports, however, are expected to slow down further. Apart from Government policy to reduce imports as stated above, the appreciation of the Malaysia ringgit and the ability of the OECD countries to keep the rate of inflation under control have also helped to contain increases in prices of Malaysia's major imports. Increases in the domestic production of food and manufactured goods have also reduced demand for these imported items. Imports of both investment and consumption goods are expected to grow at a slower rate of 6.7 percent (compared with 8.9 percent in 1982) to total $30.9 billion. (It should be noted, however, that this is more than the original estimate of $28.2 billion).

The overall prospect is one of a favourable trade balance for 1983. A surplus of $1 billion is envisaged from a deficit of $859 million in 1982.

COMMODITY EXPORTS

With the exception of sawnlogs and crude petroleum, export values of the country's major commodities are expected to increase because of the recovery in external demand.

RUBBER -- increase in price and export volume

Exports of natural rubber are expected to increase by 35.6 percent to $3.6 billion due to increases in both export volume by 8.8 percent (from 1.37 million tonnes in 1982 to 1.5 million tonnes in 1983) and prices by 24.6 percent (for example, 24.3 percent for RSS 1 to average 250 sen per kilo). Rubber will account for about 11.2 percent of estimated total exports for 1983.

The buoyant market conditions for natural rubber exports are attributed mainly to improved performance of the auto industry in Japan, the US and some EEC countries. Reports of the GSA entry into the market to build up its strategic stockpile from 120,000 to 850,000 tonnes have also boosted the bullish market sentiments.
If the world economic recovery continues into 1984, Malaysia could expect to increase its rubber exports by 3.3 percent to 1.55 million tonnes. The price of RSS 1 is expected to increase by 16 percent to 290 sen per kilo. Rubber sales are expected to reach $4.3 billion in 1984 with Malaysia accounting for about 40 per cent of world natural exports in that year.

Palm Oil -- increase in demand and price

Crude and processed palm oil exports are expected to increase by 7.4 percent from 2.7 million tonnes in 1982 to 2.9 million tonnes despite the expected 6 percent drop in production of crude palm oil from 3.5 million tonnes in 1982 (which registered an unprecedented 24.4 percent increase following the introduction of the weevil as a pollinating agent) to 3.3 million tonnes in 1983 (attributed to overstress on the palms and a drought in early 1983).

Export earnings from palm oil exports are expected to grow by 5.9 percent to $2.8 billion. The increase in export earnings is due to the substantially stronger demand for palm oil as a result of a decline in the global production of other oil and fat substitutes, such as coconut oil in the Philippines and soyabean in the US because of inclement weather.

It may be noted that Malaysia's palm oil exports continue to be blocked by trade barriers, particularly tariffs imposed by the EEC countries.

The world economic recovery and continued demand are expected to increase palm oil exports by 13.8 percent to 3.3 million tonnes in 1984. With the envisaged 5.2 percent increase in price from $970 per tonne in 1983 to $1,020 per tonne in 1984, palm oil exports are expected to earn about $3.3 billion compared with $2.8 billion in 1983 -- 19.7 percent more.

Exports of other agricultural crops

Pepper -- depressed demand. The demand, estimated at 22,180 tonnes, valued at $63.2 million, is down by 12.1 percent and 4.7 percent compared with 1982. Following the expected economic recovery in the world market and implementation of the minimum export price, Malaysia's pepper output is expected to increase by 11.1 percent to 24,870 tonnes and exports by 11.2 percent to 24,665 tonnes in 1984.

Cocoa -- increase in production and price. From the expected 23 percent increase in production of dry cocoa beans from 65,000 tonnes in 1982 to 80,000 tonnes in 1983, the total exports of dry cocoa beans of estimated 66,000 tonnes are valued at $240 million. This is up by 14.6 percent and 21.2 percent compared with 1982. With the total matured cocoa area of 130,000 hectares (23 percent more) in 1984, Malaysia will produce 99,000 tonnes of cocoa beans that year.
Tin — world demand for tin in 1983 is expected to remain in a depressed state with the overhang of surplus commercial tin in the market and the increased use of substitutes. Malaysia's exports of tin are expected to increase by 9.1 percent to 53,000 tonnes compared with 48,584 tonnes in 1982 owing to the large quantity of imported tin-in-concentrates for smelting domestically and subsequently re-exported.

Actual domestic production is estimated to drop by 25.4 percent to 39,000 tonnes compared with 52,342 tonnes in 1982 because of the continued imposition of export control by the International Tin Council (ITC) through production cutbacks shared by the operating mines in this country.

Since the price of tin is expected to remain depressed due to the overhang of 90,000-100,000 tonnes and the slow uptake in world consumption, the ITC export control will probably continue into 1984. The price of tin is expected to remain at $30.50 per kilo and Malaysian production will remain at the 1983 level. The country's tin exports are estimated to go down by 13.2 percent to 46,000 tonnes in 1984 due to the substantial reduction in the volume of imported tin-in-concentrates for local smelting.

Timber — the recovery in the major consumer countries is expected to push exports of sawnlogs by 7.4 percent from 19.2 million cubic metres to 20.7 million cubic metres, and exports of sawn timber by 8.7 percent from 2.9 million cubic metres in 1982 to 3.2 million cubic metres in 1983.

Exports of sawn timber are forecast to increase by 23.7 percent to $1.28 billion in 1983, bolstered by the spurts in housing overseas particularly in the US and Japan. In contrast, exports of sawnlogs are expected to decline by 8.1 percent to $3.1 billion in 1983 mainly due to an expected 14.3 percent drop in export price for the year. Thus offsetting the estimated 7.4 percent increase in the export volume of sawnlogs in 1983.

With the implementation of the National Forestry Policy to conserve the depleting forest resource, the exports of sawnlogs are expected to fall by 7.2 percent to 19.2 million cubic metres and sawn timber by 4.1 percent to 3 million cubic metres in 1984.

Petroleum — decline in price, increase in production.

Export earnings from crude petroleum are expected to decline marginally (1.2 percent) this year to $7.6 billion despite a 17.3 percent increase in export volume following an unprecedented growth in oil extraction. The decline in export value is due to the fall of about 15.8 percent in export price. Following the trimming of the OPEC reference price by US$5 per barrel in March 1983, Malaysian prices were revised downwards by between 15.3 percent to 16.7 percent per barrel.
Crude petroleum production has been stepped up to average 381,600 barrels per day (bpd) in 1983 compared with 303,250 barrels per day in 1982 (25.8 percent more). From 400,000 bpd in the last quarter of 1983, production is targetted to be further accelerated to 440,000 bpd in 1984 (15.3 percent more than in 1983). Export earnings are expected to top $8.5 billion in 1984 (12.6 percent more than in 1983). Extra petrodollars are needed for development projects in the country.

Malaysia also exports LNG from early this year with the coming on stream of the Bintulu plant in Sarawak. Export earnings from sales of 1.69 million tonnes of LNG are estimated at about $977 million in 1983 -- about 3.1 percent of estimated total export earnings.

Manufacturing exports -- now the leading sector.

Spearheaded by the strong demand for electrical machinery and electronic components by such major importers as the US, Singapore, Japan, Hong Kong and West Germany, manufacturing exports are forecast to take the biggest share or 28.5 percent of total exports in 1983. And they are expected to maintain this lead in 1984.

Exports of manufactured goods are expected to increase by 22.7 percent to $9.1 billion. Electronic components, accounting for 43.7 percent of total manufacturing exports, are expected to increase by about 26.2 percent to $3.9 billion.

Commodity Imports

Commodity imports are expected to grow at a slower pace of 6.7 percent (compared with 8.9 percent in 1982) to register $30.9 billion in 1983.

Imports of food, beverages and tobacco are expected to decrease by about 7 percent to $2.9 billion in 1983 as compared with $3.1 billion (-0.1 percent) in 1982. The decline is due to lower imports of sugar, tobacco, livestock and minor cereals like barley and soyabean.

Imports of crude inedible materials which account for about 4 percent of 1983 imports, are expected to increase by 9.3 percent to $1.2 billion in 1983 compared with $1.1 billion in 1982. The increase will come mainly from higher imports of metallic ores and concentrates for the domestic basic metal industry.

Imports of mineral fuel and lubricants are expected to decline further to $4.3 billion. Following the coming onstream of the 30,000 bpd Kerteh Refinery in Trengganu, imports of petroleum products (accounting for more than half of total imports in this category) are expected to go down.
Imports of vegetable oils and animal fats however, are expected to increase by 24.3 percent in 1983 to total $46 million. This is the result of increased production by the domestic edible oil and fats industry.

Imports of manufactured goods and articles will increase only marginally (by 1.1 percent against 17.1 percent for 1982) to $6.3 billion. The slowdown is due to curtailed imports of some iron and steel products after the ban on imports of iron and bars imposed by the Government and decelerated imports such as textiles.

Imports of machinery, communication and transport equipment which account for 43.5 percent of total imports, are expected to slow down somewhat from 16.9 percent growth in 1982 to 16.5 percent in 1983 to total $13.4 billion. With the expected 7.9 percent cut in public investment (compared with 22.1 percent increase in 1982), imports of industrial machinery and other heavy equipment are expected to show a sharp decline in the growth rate.

Major Trading Partners

Trade deficits are expected with such major trading partners as Japan, the US, Australia, WEst Asian and East European countries. Surplus trade is expected with the EEC and the Asean countries.

Of the estimated $14 billion trade, (22.4 percent of the country's total external trade) with Japan (Malaysia's leading trade partner) exports of $5.7 billion are outbalanced by imports of about $8.3 billion. Because of high tariffs and lengthy and complicated import procedures, exports of manufactured goods to Japan remain insignificant, accounting for only about 5 percent of Malaysia's manufactured exports. Major exports like palm oil and sawn timber face similar obstacles.

Of the estimated $8.9 billion trade with the US (about 14.2 percent of Malaysia's external trade), the expected deficit of $946 million comes from exports of $4 billion and imports of $4.9 billion in 1983. Like other countries, Malaysia's exports are subject to the US Food and Drug Administration's scrutiny and tariff and non-tariff barriers on selected items. However, the country has not been able to maximise its exports under the US Generalised System of Preference Scheme (GSP).

Of the estimated $9.3 billion trade with the EEC (about 15.4 percent of Malaysian trade), the expected surplus of $546 million will come from exports of $5.1 billion against imports of $4.5 billion. Exports are expected to improve with the gradual economic recovery in Europe and easing of some trade restrictions such as increased import quotas for
Malaysian textiles and clothing.

Of the $15.3 billion trade with fellow Asean countries (24.3 percent of Malaysia's total external trade), Malaysia expects to earn a surplus of $4.1 billion with Asean and $3.3 billion with Singapore, the dominant Asean trading partner, in 1983.

Malaysia's trade with Australia, West Asia, and East Europe (accounting for about 11.3 percent of total trade) is expected to yield a $3 billion deficit in 1983. Exports of $2 billion will be offset by imports of $5 billion.

As for 1984, the Finance Ministry expects exports to increase further by 13 percent to $36.1 billion. The expected strong growth will come from anticipated increase in demand for the country's primary commodities such as rubber and palm oil from the major trading partners and increased petroleum and LNG exports. With the rescheduling of development expenditure, imports are expected to increase by only 4.4 percent to total $32.2 billion -- giving a trade surplus of $3.9 billion in 1984 compared with $1 billion for 1983.
CHART 20

COMMODITY EXPORTS BY DESTINATION
1982

CRUDE PETROLEUM

SINGAPORE 47%
JAPAN 27%
AUSTRALIA 10%
PHILIPPINES 10%
OTHERS 7%

$7694 million

RUBBER

U.S.A. 11%
SINGAPORE 21%
JAPAN 18%
CHINA 5%
U.S.S.R. 6%
OTHERS 16%
OTHER EUROPEAN COUNTRIES 4%

$2655 million

TIN

E.E.C. 55%
JAPAN 27%
U.S.S.R. 9%
INDIA 8%
REPUBLIC OF KOREA 3%
REPUBLIC OF CHINA 3%
OTHERS 2%

$1404 million

Palm Oil

SINGAPORE 20%
Pakistan 10%
U.S.S.R. 12%
U.S.A. 9%
JAPAN 9%
OTHERS 17%

$2656 million

SAWLOGS

JAPAN 63%
TAIWAN 19%
REPUBLIC OF KOREA 17%
OTHERS 7%

$3378 million

SAWN TIMBER

WEST ASIA 19%
THAILAND 9%
OTHERS 5%
E.E.C. 8%
FEDERAL REPUBLIC OF GERMANY 7%
NETHERLANDS 23%

$1035 million

1. Excluding U.K.
2. Excluding U.S.S.R. Belgium and Federal Republic of Germany
3. Consisting of crude and refined palm oil, palm olein and stearin only
4. Excluding U.K., Netherlands

CHART 21

MALAYSIA'S COMMODITY EXPORTS (VALUE)

TOTAL EXPORTS

PETROLEUM

RUBBER

TIN

PALM OIL (CRUDE & PROCESSED)

SAWN TIMBER

SAWLOGS

Annual: Left scale
Quarterly: Right scale

CHART 24

PRODUCTION & PRICES OF MALAYSIA'S MAJOR COMMODITIES

EXCLUDING CRUDE PETROLEUM

RUBBER

ANNUAL QUARTERLY

TIN

Palm Oil

Timber


113
CHART 33

MALAYSIA'S EXTERNAL TRADE

BALANCE OF TRADE

COMPOSITION OF EXPORTS

EXPORTS AND IMPORTS BY TYPE AND COUNTRIES 1983

**EXCHANGES AND IMPORTS BY TYPE AND COUNTRIES 1983**

**EXPORTS TOTAL (100%)**

$32,018 M

- Food, beverages & tobacco
- Machinery & transport equipment
- Crude material & ore
- Others

**IMPORTS TOTAL (100%)**

$30,986 M

- Food, beverages & tobacco
- Crude material & ore
- Machinery & transport equipment
- Other goods

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