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2005

Ministry of International Trade and Industry
Malaysia

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FOREWORD

In 2005, the world economy recorded a growth rate of 4.8 per cent (2004 : 5.3 per cent), amid rising oil prices, occurrence of natural disasters and outbreak of avian influenza. The growth was attributed to increases in global industrial production and trade, resilience of the services sector and improvement in global market conditions.

In respect of Malaysia's external sector, total trade increased by 9.9 per cent to RM967.8 billion in 2005. Exports recorded a double-digit growth of 11 per cent to RM533.8 billion, while imports grew by 8.5 per cent to RM434 billion, resulting in the trade surplus widening to RM99.8 billion, the highest recorded since November, 1997. The robust export performance was driven by the sustained external demand from Malaysia's major trading partners, increasing intra-ASEAN trade, as well as double-digit growth of exports to its fast expanding non-traditional markets.

Output of the manufacturing sector expanded by 5.1 per cent, with export- and domestic-oriented industries recording growth of 5.7 per cent and 3.2 per cent, respectively. The Government continued to facilitate the development and growth of the sector. New incentives were introduced, which included the reduction of import duties on required raw materials and inputs, and group relief to all manufacturing companies undertaking selected activities, such as food production and biotechnology.

In this Report, a new chapter on the performance of the services sector has been included. The sector is a major contributor to the growth of the Malaysian economy. MITI, through its agency, MIDA, has developed a database on investments in the services sector for the period 2003-2005. The database will provide information to the Government for the formulation of policies and measures to enhance further the growth of the sector.

In 2005, Malaysia continued to attract a significant level of investments, both foreign and domestic, into the manufacturing sector. Investments totalling RM31 billion were approved, the second highest level recorded since 1996, involving 1,026 projects. Of the total investment, RM17.9 billion or 57.7 per cent were from foreign sources, while RM13.1 billion

(42.3 per cent), domestic sources. Of significance, 454 projects were expansion/diversification projects and 659 projects were approved without incentives. This indicates that the decision by investors to remain and continue to invest in Malaysia is not based solely on the availability of incentives, but more on the conducive and business friendly environment prevailing in the country.

At the multilateral level, Malaysia continues to participate in WTO negotiations in the effort to ensure that the outcomes will be beneficial to Malaysia's export interest and provide flexibility to Malaysia in promoting its strategic industries. In addition, Malaysia is also engaged in negotiations with developed and developing countries, both at regional and bilateral levels, to secure better market access for the export of products and services, as well as expand opportunities for Malaysia's outward investments. In 2005, Malaysia concluded its first bilateral free trade agreement with Japan. MITI has been and will continue to undertake consultations domestically with all stakeholders, in particular, the private sector, on issues of concern to Malaysia in the free trade area negotiations.

DATO' SERI RAFIDAH AZIZ

Minister of International Trade and Industry
Malaysia

16 June 2006

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OVERVIEW

In 2005, the world economy continued to remain resilient, growing at 4.8 per cent, despite high oil prices and adverse effects of the avian flu pandemic and several natural disasters. The growth momentum accelerated in the second half of 2005, following significant increases in global industrial production and trade, resilience of the services sector, strengthening of consumer and business confidence, and improvement in market conditions.

Economic expansion was broad-based. The economy of the United States of America (USA), which grew by 3.5 per cent, remained an important contributor to world economic growth. While the Japanese economy expanded by 2.7 per cent, the Euro-area had recorded a more sustained recovery, at 1.3 per cent. Robust growth was recorded in most emerging and developing countries, particularly the People's Republic of China, at 9.9 per cent, India (8.3 per cent) and Russia (6.4 per cent).

World merchandise trade grew by 13 per cent to US$20.6 trillion in 2005. In comparison, world trade in commercial services increased by 11 per cent to US$4.8 trillion. The expansion of merchandise trade was attributed mainly to higher oil and commodity prices. This development had contributed to high exports revenue for the African and West Asian regions. Trade in commercial services was led by increases in both the travel and transportation services sub-sectors.

In 2005, global foreign direct investment (FDI) flows increased by 29 per cent, with flows mainly to developed countries, thus reversing their four-year decline in FDI inflows. The United Kingdom (UK) was the leading recipient of world FDIs for the first time since 1977.

ECONOMIC DEVELOPMENTS BY REGION

Asia

Asia, excluding Japan, continued to sustain high growth, expanding by 8.6 per cent in 2005 (2004: 8.8 per cent). Early in the year, Asia recorded a slowdown in growth, but it recovered in the second half, as a result of a rebound in corporate investments in industrialised countries and recovery of the global semiconductor industry, as well as increase in exports of information technology (IT) products. The high economic growth of the People's Republic of China, at 9.9 per cent, and India (8.3 per cent) continued to drive the growth of other economies in the Asian region.

The overall economic growth of the Southeast Asia region expanded by 5.5 per cent in 2005 (2004: 6.4 per cent). Amid rising fuel prices and the increase in inflation and interest rates, Indonesia sustained a growth of 5.6 per cent, attributed mainly to increases in private consumption and fixed capital formation. Singapore's economy expanded by 6.4 per cent, with growth attributed to the rebound in the exports of electronics and the recovery of domestic demand in the final quarter. Growth in the Philippines was supported by remittance inflows, however, it softened to 5.1 per cent, due to the decline in agriculture output. The Thai economy slowed to 4.4 per cent, as a result of rising oil prices, weakening of the tourism industry and unrest in its southern provinces.

The Malaysian economy grew at 5.3 per cent in 2005. The growth was driven by stronger electronics exports, following the recovery in the global electronics industry during the fourth quarter of 2005, and activities in the wholesale and retail trade, as well as business related sub-sectors.

In Japan, economic activities accelerated in the fourth quarter and the Japanese economy expanded by 2.7 per cent in 2005. The growth momentum was supported by strong export growth to the USA and the People's Republic of China, more competitively priced exports due to the depreciation of the yen, and recovery in domestic demand, underpinned by rising employment and buoyant corporate profits.

The Indian economy grew by 8.3 per cent in 2005. The high growth was led by the strong expansion in the manufacturing and services sectors, as well as driven by broad-based domestic demand and expanding business activities. The rebound in the agriculture sector from the weak performance in 2004 also contributed to the growth.

Taiwan's economic expansion decelerated to 4.1 per cent in 2005 (2004: 6.1 per cent). The decline was attributed mainly to weaker exports of electronics in the first half of the year. The rebound in the global electronics industry in the fourth quarter had contributed to the growth.

West Asia's economy grew by 5.9 per cent in 2005. The growth continued to be contributed by oil exporting countries in the region, which benefited from high export earnings, for a third consecutive year, arising from higher world oil prices and export volume.

North America

The growth of the US economy moderated to 3.5 per cent in 2005 (2004: 4.2 per cent). The growth decelerated in the fourth quarter of 2005, reflecting weakening private consumption expenditures, due to the contraction in the purchase of automobiles, corporate fixed investments and net exports. However, increases in industrial production and orders of capital goods towards the end of the quarter contributed to a rebound.

The Canadian economy, in 2005, sustained the same rate of growth, at 2.9 per cent, as in 2004. Canada's growth was driven by high energy and commodity prices, healthy corporate profits and business investments and increase in private consumption, supported by rising employment and asset prices.

Europe

The economy of the Euro-zone grew by 1.3 per cent in 2005 (2004: 2.1 per cent). The deceleration was a result of a slower growth in the final quarter, due essentially to the volatility of oil prices, decline in global demand and low consumption spending, particularly in Germany, and softening of net exports. The Euro-area continued to face difficulties in harmonising reforms in sensitive areas, such as the labour market, business takeovers and social system, which have a bearing on the growth.

In 2005, growth in Germany moderated to 0.9 per cent (2004: 1.6 per cent). The economic growth of France decelerated to 1.4 per cent (2004: 2.1 per cent), while the Netherlands declined to 1.1 per cent (2004: 1.7 per cent). Growth in the UK slowed to 1.8 per cent, due primarily to the decline in the performance of the property market and increases in interest rates and energy prices. Business investments and export growth remained steady for the UK.

Australia and New Zealand

Both Australia and New Zealand sustained a slower GDP growth in 2005. The Australian economy grew by 2.5 per cent (2004: 3.6 per cent), while New Zealand expanded by 2.2 per cent (2004: 4.4. per cent). The slower growth in Australia was attributed to the poor performance of the property market and rising price of oil. The appreciation in the exchange rate of both countries had affected adversely exports revenue, as exports became less competitive.

Africa

The African economy grew by 5.2 per cent in 2005 (2004: 5.5 per cent). Low prices of agriculture raw materials, decline in food production and poor demand for cotton were among the factors contributing to the slower growth. Growth, however, continued to be sustained by robust economic activities in sub-Saharan Africa, as a result of high global oil and commodity prices.

With the exception of Chad and Equatorial Guinea, growth continued to expand in most oil exporting countries, such as Angola, at 15.7 per cent, and Sudan (8 per cent). Following the expansion in Nigeria's oil and non-oil sectors, the Nigerian economy grew by 6.9 per cent (2004: 6 per cent). High world prices for metals also contributed to the growth of exporting countries, including Mozambique, at 7.7 per cent, Zambia (5.1 per cent) and South Africa (4.9 per cent). A number of textiles exporting countries, namely Cote d'Ivoire and Zimbabwe, were affected adversely by the removal of textiles quotas, which caused a significant reduction in output.

Latin America

In 2005, the Latin American economy grew by 4.3 per cent (2004: 5.6 per cent) and continued to record two consecutive years of current account surplus, supported by rising exports of fuels, metals and agriculture produce. The pace of growth in the Andean region, at 6.3 per cent (2004: 7.8 per cent) was also faster, compared with that of Latin American Southern Cone Common Market (MERCOSUR), at 4.2 per cent (2004: 6 per cent).

Venezuela's economy, which continued to be influenced mainly by oil exports, grew at a lower rate of 9.3 per cent in 2005 (2004: 17.9 per cent). Rising domestic demand accelerated the growth of Peru's economy to 6.7 per cent in 2005 (2004: 4.8 per cent). The expansion of the Argentine economy by 9.2 per cent, and Uruguayan economy by 6 per cent, was supported by increasing domestic demand and robust export growth, mainly agriculture. The Chilean economy, which benefited from rising prices of metals, grew by 6.3 per cent. Growth in Brazil slowed to 2.3 per cent (2004: 4.9 per cent), due to the decline in investments, tightening of monetary policy and softening in consumer sentiments.

Table 1.1:
World Real GDP Growth

Countries	2005		2004
	Change (%)	GDP Value[1] (US$ billion)	Change (%)
World	**4.8**		**5.3**
USA	3.5	12,485.7	4.2
East Asia			
People's Republic of China	9.9	2,224.8	10.1
Taiwan	4.1	346.1	6.1
Republic of Korea	4.0	793.1	4.6
Japan	2.7	4,571.3	2.3
EU			
UK	1.8	2,201.5	3.1
France	1.4	2,105.9	2.1
Germany	0.9	2,797.3	1.6
Netherlands	1.1	625.3	1.7
Italy	0.1	1,766.2	0.9
ASEAN			
Singapore	6.4	117.9	8.7
Indonesia	5.6	276.0	5.1
Malaysia	5.3	130.8	7.1
Philippines	5.1	97.7	6.0
Thailand	4.4	168.8	6.2
Canada	2.9	1,130.2	2.9
Australia	2.5	708.0	3.6
New Zealand	2.2	108.5	4.4
South Asia			
India	8.3	775.4	8.1
Pakistan	7.0	118.5	7.1
Bangladesh	5.8	61.2	5.9
West Asia			
Saudi Arabia	6.5	307.8	5.2
Iran	5.9	196.4	5.6
Egypt	5.0	93.0	4.1
Latin America			
Argentina	9.2	181.7	9.0
Chile	6.3	114.0	6.1
Brazil	2.3	792.7	4.9
Mexico	3.0	768.4	4.2
Africa			
Nigeria	6.9	99.1	6.0
Ghana	5.8	10.7	5.8
South Africa	4.9	239.1	4.5
Kenya	4.7	19.2	4.3

Source: International Monetary Fund, World Economic Outlook, April 2006
Note: [1] GDP value at current price

In 2005, world merchandise trade started with sluggish growth, but gained momentum in the second quarter and ended the year with global trade growing by 13 per cent (2004: 21.5 per cent) to US$20.6 trillion. In comparison, world trade in commercial services increased by 11 per cent to US$4.8 trillion in 2005.

The expansion of merchandise trade was attributed to the strengthening of the global manufacturing base and continuing rise in prices of crude oil and refined products and commodities. As a result, the share of fuels and other mining products in world merchandise trade rose by 16 per cent, the highest level since 1985. The development in the oil market benefited Africa and West Asia, as indicated by their high share in world merchandise exports. They accounted for 6.9 per cent of the world merchandise exports in 2005, the highest share in two decades. Trade in commercial services was led by increases in the travel and transportation services sub-sectors, which grew by 10 per cent and 12 per cent, respectively.

The removal of quota restrictions on exports of textiles and clothing, following the full implementation of the Agreement on Textiles and Clothing in 2005, provided substantial market access for competitive global suppliers in Asia, particularly the People's Republic of China and India, into developed markets, such as the USA and the EU. In 2005, in value terms, the market share of the imports of textiles from the People's Republic of China in the USA increased to 12.1 per cent (2004: 7.9 per cent) and clothing, to 22 per cent (2004: 13.8 per cent). The market share of the imports of textiles and clothing from the People's Republic of China in the EU rose to 30.7 per cent (2004: 23 per cent). Other textiles and clothing exporting countries, such as Bangladesh, Cambodia, Indonesia, Pakistan, Sri Lanka and Viet Nam, also recorded increases in their market shares in the USA and the EU.

In 2005, Malaysia's exports of textiles and apparel expanded by 6.2 per cent to US$2.7 billion. Exports to the USA remained at US$772.5 million, as in 2004, while exports to the EU increased by 4.5 per cent to US$447.8 million.

Trade Developments by Region

Asia

In 2005, Asia's merchandise trade decelerated, with exports growing by 15 per cent to US$2,773 billion (2004: growth of 25 per cent to US$2,411.3 billion), and imports expanding by 16 per cent to US$2,599 billion (2004: growth of 27 per cent to US$2,240.5 billion). Although the People's Republic of China continued to be the world's third largest source of exports and market for imports, there was a deceleration. In 2005, exports from the People's Republic of China declined by 7 percentage points to 28 per cent to US$762 billion, while imports decreased by half to 18 per cent to US$660.1 billion. Japan retained its ranking as the fourth largest exporter. However, the growth of its exports moderated to 5 per cent (2004: 20 per cent) to US$595.8 billion. Japan was the fourth largest import market in 2005.

In 2005, ASEAN, as a region, accounted for US$653 billion or 6.5 per cent of the global merchandise exports, and US$593 billion or 5.7 per cent of world imports. ASEAN's merchandise exports and imports in 2005 declined by 6 percentage points and 9 percentage points to 14 per cent and 16 per cent, respectively. Singapore was ranked 14th largest exporter and 15th largest importer in 2005, accounting for 2.2 per cent of world exports and 1.9 per cent of the total import, respectively. As the 19th largest exporter and 24th largest importer, Malaysia accounted for 1.4 per cent of global exports and 1.1 per cent of world imports.

West Asia continued to benefit from rising global demand for oil and high prices oil in 2005, resulting in the exports of the region increasing by 6 percentage points to 36 per cent,

Table 1.2:
Merchandise Trade Performance, 2005

	Exports			Imports		
	2005 (US$ billion)	Change (%)	2004 (US$ billion)	2005 (US$ billion)	Change (%)	2004 (US$ billion)
World	**10,121.0**	**13.0**	**8,956.6**	**10,481.0**	**13.0**	**9,275.2**
Asia	**2,773.0**	**15.0**	**2,411.3**	**2,599.0**	**16.0**	**2,240.5**
Peoples' Republic of China	762.0	28.0	595.3	660.1	18.0	559.4
Japan	595.8	5.0	567.4	516.1	14.0	452.7
ASEAN 10	**653.0**	**14.0**	**572.8**	**593.0**	**16.0**	**511.2**
Singapore	229.6	16.0	197.9	200.0	15.0	173.9
Malaysia	140.9	11.0	126.9	114.6	9.0	105.1
Thailand	110.1	14.0	96.6	118.2	25.0	94.6
Indonesia	86.3	20.0	71.9	68.7	25.0	55.0
Philippines	41.2	4.0	39.6	46.3	9.0	42.5
West Asia	**529.0**	**36.0**	**389.0**	**318.0**	**19.0**	**267.2**
USA	**904.3**	**10.0**	**822.1**	**1,732.7**	**14.0**	**1,519.9**
Mexico	**213.7**	**14.0**	**187.5**	**231.7**	**12.0**	**206.9**
Europe	**4,353.0**	**8.0**	**4,030.6**	**4,521.0**	**9.0**	**4,147.7**
EU-25	3,988.0	7.0	3,727.1	4,120.0	8.0	3,814.8
Latin America	**351.0**	**25.0**	**280.8**	**294.0**	**22.0**	**241.0**
MERCOSUR	163.0	20.0	135.8	113.0	18.0	95.8
Africa	**296.0**	**29.0**	**229.5**	**248.0**	**16.0**	**213.8**

Source: World Trade Organisation, 2006

valued at US$529 billion, which accounted for 5.2 per cent of world exports. Growth in imports was slower, at 19 per cent (2004: 26 per cent).

In 2005, Asia accounted for US$543 billion or 22.5 per cent of global exports of commercial services and US$595 billion or 25.2 per cent of world imports of commercial services. In Asia, Japan led in the world export of commercial services, with a share of 4.4 per cent, and was ranked the fifth largest exporter of commercial services. This was followed by the People's Republic of China, with a share of 3.4 per cent, India (2.8 per cent), Hong Kong (2.5 per cent), Singapore (1.9 per cent) and the Republic of Korea (1.8 per cent).

Asia's imports of commercial services were also led by Japan, with a share of 5.8 per cent of world imports, followed by the People's Republic of China (3.6 per cent), India (2.9 per cent), the Republic of Korea (2.5 per cent), Singapore (1.9 per cent) and Hong Kong (1.3 per cent). In 2005, Malaysia was ranked 28th largest exporter and 27th largest importer of commercial services.

North America

The USA continued to be the largest import market for both trade and commercial services globally in 2005, with imports of merchandise trade growing at 14 per cent to US$1,732.7 billion and commercial services, at 10 per cent to US$288.7 billion. The USA was also the largest exporter of commercial services, with exports growing at 10 per cent to US$353.3 billion, and second largest exporter in merchandise trade, with exports increasing by 10 per cent to US$904.3 billion.

In 2005, Canada was the ninth largest exporter in merchandise trade and 15th largest exporter of commercial services. Exports of merchandise grew by 14 per cent to US$359.6 billion, while exports of commercial services expanded by 9 per cent to US$50.6 billion.

As the 10th largest import market for merchandise and 12th largest import market for commercial services in 2005, Canada's imports of merchandise and commercial services rose by 14 per cent to US$320.1 billion and 10 per cent to US$62.3 billion, respectively.

European Union

In 2005, Europe recorded the lowest growth in the export and import of merchandise and commercial services among the regions. Europe's exports of merchandise and commercial services grew by 8 per cent and 7 per cent, respectively, and imports expanded by 9 per cent and 8 per cent, respectively. The slower growth was attributed to the fiscal problem in Europe.

The EU-25 accounted for 39.4 per cent of world merchandise exports (2004: 41.6 per cent) and 39.3 per cent of global merchandise imports (2004: 41.1 per cent) in 2005. Germany was the largest exporter of merchandise and third largest exporter of commercial services, with both exports growing at 7 per cent to US$970.7 billion and US$142.9 billion, respectively. Germany continued to be the second largest import market for both merchandise, valued at US$774.1 billion, and commercial services (US$198.6 billion), after the USA. In the UK, negative growth of 1 per cent was registered for exports of commercial services, due mainly to the increase in insurance claims.

Table 1.3:
Leading Exporters and Importers in World Merchandise Trade, 2005

Rank	Exporters	US$ billion	Share (%)	Annual Change (%)	Rank	Importers	US$ billion	Share (%)	Annual Change (%)
1	Germany	970.7	9.3	7.0	1	USA	1,732.7	16.1	14.0
2	USA	904.3	8.7	10.0	2	Germany	774.1	7.2	8.0
3	People's Republic of China	762.0	7.3	28.0	3	People's Republic of China	660.1	6.1	18.0
4	Japan	595.8	5.7	5.0	4	Japan	516.1	4.8	14.0
5	France	459.2	4.4	2.0	5	UK	501.2	4.7	6.0
6	Netherlands	401.3	3.9	12.0	6	France	495.8	4.6	5.0
7	UK	377.9	3.6	9.0	7	Italy	379.7	3.5	7.0
8	Italy	366.8	3.5	4.0	8	Netherlands	357.9	3.3	12.0
9	Canada	359.6	3.5	14.0	9	Belgium	320.4	3.0	12.0
10	Belgium	329.6	3.2	7.0	10	Canada	320.1	3.0	14.0
11	Hong Kong	292.3	2.8	10.0	11	Hong Kong	300.6	2.8	10.0
12	Republic of Korea	284.7	2.7	12.0	12	Spain	277.6	2.6	7.0
13	Russia	245.3	2.4	34.0	13	Republic of Korea	261.0	2.4	16.0
14	Singapore	229.6	2.2	16.0	14	Mexico	231.7	2.2	12.0
15	Mexico	213.7	2.1	14.0	15	Singapore	200.0	1.9	15.0
16	Taiwan	196.6	1.9	8.0	16	Taiwan	185.9	1.7	10.0
17	Spain	186.1	1.8	2.0	17	India	131.6	1.2	35.0
18	Saudi Arabia	178.8	1.7	42.0	18	Australia	125.3	1.2	15.0
19	Malaysia	140.9	1.4	11.0	19	Russia	125.1	1.2	28.0
20	Sweden	129.9	1.3	5.0	20	Austria	124.7	1.2	4.0
21	Switzerland	125.9	1.2	6.0	21	Switzerland	121.2	1.1	9.0
22	Austria	123.3	1.2	4.0	22	Thailand	118.2	1.1	25.0
23	Brazil	118.3	1.1	23.0	23	Turkey	116.4	1.1	19.0
24	United Arab Emirates	112.5	1.1	36.0	24	Malaysia	114.6	1.1	9.0
25	Thailand	110.1	1.1	14.0	25	Sweden	110.6	1.0	10.0
26	Ireland	109.5	1.1	5.0	26	Poland	100.5	0.9	12.0
27	Australia	105.8	1.0	22.0	27	Brazil	77.6	0.7	17.0
28	Norway	103.3	1.0	25.0	28	United Arab Emirates	77.0	0.7	25.0
29	India	89.8	0.9	19.0	29	Czech Republic	76.9	0.7	10.0
30	Poland	88.9	0.9	19.0	30	Denmark	76.5	0.7	12.0

Source: World Trade Organisation, 2006

Table 1.4:
Leading Exporters and Importers in World Commercial Services Trade, 2005

Rank	Exporters	US$ billion	Share (%)	Annual Change (%)	Rank	Importers	US$ billion	Share (%)	Annual Change (%)
1	USA	353.3	14.6	10.0	1	USA	288.7	12.2	10.0
2	UK	183.4	7.6	-1.0	2	Germany	198.6	8.4	4.0
3	Germany	142.9	5.9	7.0	3	UK	150.1	6.4	4.0
4	France	113.7	4.7	4.0	4	Japan	135.9	5.8	1.0
5	Japan	106.6	4.4	12.0	5	France	102.9	4.4	7.0
6	Italy	93.4	3.9	13.0	6	Italy	92.3	3.9	15.0
7	Spain	91.2	3.8	8.0	7	People's Republic of China	85.3	3.6	19.0
8	People's Republic of China	81.2	3.4	31.0	8	Netherlands	69.2	2.9	1.0
9	Netherlands	75.0	3.1	4.0	9	Ireland	67.5	2.9	5.0
10	India	67.6	2.8	76.0	10	India	67.4	2.9	73.0
11	Hong Kong	60.3	2.5	11.0	11	Spain	65.3	2.8	15.0
12	Ireland	54.7	2.3	5.0	12	Canada	62.3	2.6	10.0
13	Austria	53.8	2.2	11.0	13	Republic of Korea	58.0	2.5	17.0
14	Belgium	53.4	2.2	6.0	14	Austria	51.7	2.2	12.0
15	Canada	50.6	2.1	9.0	15	Belgium	51.2	2.2	6.0
16	Switzerland	45.2	1.9	9.0	16	Singapore	44.0	1.9	9.0
17	Singapore	45.1	1.9	10.0	17	Russia	37.6	1.6	15.0
18	Republic of Korea	43.5	1.8	9.0	18	Denmark	36.0	1.5	8.0
19	Sweden	42.8	1.8	12.0	19	Sweden	35.2	1.5	7.0
20	Luxembourg	39.6	1.6	20.0	20	Hong Kong	31.6	1.3	5.0

Source: World Trade Organisation, 2006

Africa

Africa's growth of exports, which continued to be robust in 2005, eased slightly by 1 percentage point to 29 per cent, while imports declined by 13 percentage points to 16 per cent. The growth of exports of this region continued to be supported by high exports of fuel by oil exporting countries, such as Angola, Sudan and Nigeria, and exports of metals by, among others, Mozambique, Zambia and South Africa. Consistent with the increasing global demand for fuel oil, exports of oil exporting countries grew by 45 per cent (2004: 41 per cent) to US$166 billion. The increase in exports revenue, however, did not stimulate the growth of imports, as the growth of imports of oil exporting countries slowed to 17 per cent in 2005 (2004: 34 per cent).

Latin America

The Latin American region continued to record robust growth in the export and import of merchandise and commercial services in 2005. Exports of merchandise grew by 25 per cent (2004: 29 per cent) to US$351 billion, while imports expanded by 22 per cent (2004: 28 per cent) to US$294 billion. Improved economic performance, favourable commodity prices and exchange rate appreciation were among the factors contributing to the growth.

Growth in commercial services trade was the highest among the regions, with exports and imports growing at 20 per cent (2004: 16 per cent) and 22 per cent (2004: 14 per cent), respectively. In 2005, Brazil's exports of commercial services grew by 28 per cent (2004: 21 per cent), while imports expanded by 38 per cent (2004: 12 per cent). In merchandise trade, Brazil was ranked as the 23rd largest exporter and 27th largest importer, accounting for 1.1 per cent of world exports and 0.7 per cent of world imports, respectively.

INVESTMENT DEVELOPMENTS

World Foreign Direct Investment Inflows

According to United Nations Conference on Trade and Development (UNCTAD), in 2005, FDI inflows increased significantly by 29 per cent (2004: 9 per cent) to US$896.7 billion. Developed countries were the major recipients of world FDIs, accounting for 63.9 per cent share and reversing their four-year continuous decline in FDI inflows. In 2005, FDI inflows to developed countries rose by 38.2 per cent to US$573.2 billion (2004: declined by 6.1 per cent), while developing countries registered a lower increase of 12.5 per cent to US$273.5 billion (2004: 41.3 per cent). Increases in FDI inflows were recorded among all regions.

Table 1.5:
World FDI Inflows, 2004-2005

Region/Economy	2005[2]			2004[1]	
	US$ billion	Share (%)	Change (%)	US$ billion	Change (%)
World	**896.7**	**100.0**	**29.0**	**695.0**	**9.0**
Developed Countries	**573.2**	**63.9**	**38.2**	**414.7**	**-6.1**
Europe	**449.2**	**50.1**	**74.0**	**258.2**	**-28.1**
EU-25	445.3	49.7	71.9	259.1	-23.8
EU-15	407.7	45.5	76.2	231.4	-29.4
UK	*219.1*	*24.4*	*182.3*	*77.6*	*183.2*
France	*48.5*	*5.4*	*99.6*	*24.3*	*-42.8*
Luxembourg	*13.4*	*1.5*	*-80.1*	*67.2*	*-19.8*
Italy	*13.0*	*1.4*	*-22.6*	*16.8*	*2.4*
Germany	*4.9*	*0.5*	*112.7*	*-38.6*	*-241.4*
New 10 EU Member States	37.7	4.2	35.6	27.8	122.4
Czech Republic	*12.5*	*1.4*	*177.8*	*4.5*	*114.3*
Poland	*8.7*	*1.0*	*-31.0*	*12.6*	*173.9*
Hungary	*6.0*	*0.7*	*30.4*	*4.6*	*119.0*
USA	**106.0**	**11.8**	**10.5**	**95.9**	**68.8**
Japan	**9.4**	**1.0**	**20.5**	**7.8**	**23.8**
Developing Countries	**273.5**	**30.5**	**12.5**	**243.1**	**41.3**
Africa	**28.9**	**3.2**	**54.5**	**18.7**	**8.7**
South Africa	*7.2*	*0.8*	*800.0*	*0.8*	*14.3*
Egypt	*4.1*	*0.5*	*215.4*	*1.3*	*550.0*
Sudan	*2.1*	*0.2*	*40.0*	*1.5*	*15.4*
Morocco	*1.2*	*0.1*	*33.3*	*0.9*	*-60.9*
Latin America and the Caribbean	**72**	**8.0**	**4.5**	**68.9**	**43.5**
Mexico	*17.2*	*1.9*	*-3.9*	*17.9*	*39.8*
Brazil	*15.5*	*1.7*	*-14.8*	*18.2*	*80.2*
Chile	*7.0*	*0.8*	*-7.9*	*7.6*	*72.7*
Colombia	*4.5*	*0.5*	*45.2*	*3.1*	*72.2*
Argentina	*4.2*	*0.5*	*2.4*	*4.1*	*141.2*
Asia and Pacific	**172.7**	**19.3**	**11.1**	**155.5**	**45.5**
West Asia	26.5	3.0	50.6	17.6	47.9
Turkey	*4.8*	*0.5*	*77.8*	*2.7*	*50.0*
South, East and South-East Asia	146.2	16.3	6.1	137.8	45.5
People's Republic of China	*60.3*	*6.7*	*-0.5*	*60.6*	*13.3*
Hong Kong	*39.7*	*4.4*	*16.8*	*34.0*	*150.0*
Singapore	*15.9*	*1.8*	*-1.2*	*16.1*	*73.1*
India	*6.0*	*0.7*	*13.2*	*5.3*	*23.3*
Republic of Korea	*4.5*	*0.5*	*-41.6*	*7.7*	*102.6*
Malaysia	*4.2*	*0.5*	*-8.7*	*4.6*	*84.0*
Thailand	*3.7*	*0.4*	*164.3*	*1.4*	*-26.3*
Indonesia	*3.5*	*0.4*	*250.0*	*1.0*	*266.7*
South-East Europe and the Commonwealth of Independant States	**49.9**	**5.6**	**34.0**	**37.2**	**55.0**

Source : UNCTAD and UNCTAD's own estimates
Notes : [1] Revised data
[2] Preliminary estimates

Foreign Direct Investments in Developed Countries

The bulk of FDI inflows to developed countries in 2005 were concentrated in the EU, valued at US$445.3 billion, or 77.7 per cent of the total world FDI inflow to developed countries. FDI inflows to the EU also expanded significantly by 71.9 per cent (2004: declined by 23.8 per cent). The UK emerged as the leading recipient for the first time since 1977, with FDI inflows totalling US$219.1 billion, an increase of almost three-fold from 2004. Other countries in the EU, such as France, Czech Republic, Hungary and Germany, also recorded high FDI inflows. The increase in inflows in the new EU states was due mainly to high rates of reinvestment earnings.

All other developed countries recorded increases in FDI inflows. The USA registered an increase of 10.5 per cent to US$106 billion, while inflows into Japan expanded by 20.5 per cent to US$9.4 billion. The increase in FDI inflows to developed countries in 2005 were attributed mainly to rising profits, due to the favourable business environment, increasing activities in cross-border mergers and acquisitions, which grew by 40 per cent to US$2.9 trillion, and higher share prices in major financial markets.

Foreign Direct Investments in Developing Countries

In 2005, the Asia and the Pacific, and the Latin America and the Caribbean regions were the top destinations for FDI inflows for developing countries, accounting for 63.1 per cent and 26.3 per cent, respectively, of the total FDI inflows to the developing countries.

FDI inflows to Asia and the Pacific region increased by 11.1 per cent (2004: 45.5 per cent) to US$172.7 billion in 2005. The FDI inflows to Asia were associated mainly with investments in the oil sector and related activities, telecommunications and real property.

Main destinations for FDIs were the People's Republic of China, at US$60.3 billion, Hong Kong (US$39.7 billion), Singapore (US$15.9 billion) and India (US$6 billion). Collectively, these countries attracted US$121.9 billion or 70.6 per cent of the total global FDI inflow to this region. FDI inflows to Malaysia amounted to US$4.2 billion, registering a decline of 8.7 per cent. For West Asia, FDI inflows in 2005 expanded by 50.6 per cent to US$26.5 billion.

In 2005, FDI inflows to the Latin America and the Caribbean region expanded at a slower pace, by 4.5 per cent (2004: 43.5 per cent) to US$72 billion. Main recipients of FDI inflows were Mexico, at US$17.2 billion, Brazil (US$15.5 billion), Chile (US$7 billion), Colombia (US$4.5 billion) and Argentina (US$4.2 billion). The increase in inflows was due mainly to the economic recovery in the region, stronger growth in the global economy, higher commodity prices, and activities in cross-border mergers and acquisitions.

FDI inflows to Africa increased by 54.5 per cent to US$28.9 billion in 2005. All major oil exporting countries, as well as Egypt and South Africa, recorded increase in FDI inflows. Investments were mostly in the oil and natural resources industries.

OUTLOOK

The global economy is expected to remain resilient in 2006, despite high oil prices and interest rates. Economic activities, which accelerated in the second half of 2005 and early 2006, are expected to be sustained, with economic expansion continuing to be broad-based. International Monetary Fund (IMF) projected that the world GDP in 2006 will grow by 4.9 per cent. The continued growth in the USA, rapid recovery in Japan and robust economic development in Asia, particularly in the People's Republic of China and India, and Russia, are among the factors expected to contribute to global growth. The anticipated recovery in the Euro-area will be subdued, unless its fiscal problem resolved.

World trade is expected to grow by 7 per cent in 2006. It will be supported by stronger economic growth, increased demand for semiconductors, resulting from the recovery of the global electronics industry, and high prices for fuel, commodities and raw materials. Based on estimates by WTO, the share of the People's Republic of China in world trade had risen consistently to 6.9 per cent in 2005 from 4.1 per cent in 2001. Continued steady growth is expected for the country in 2006. The global economic developments, particularly in the USA and the EU, will continue to have a bearing on global trade growth.

Following the rebound in 2005, global FDI flows are expected to increase further in 2006, given the stronger economic growth and broad-based expansion, greater corporate restructuring, sustained growth in profits and continuing expansion of new markets. The competitive pressure on firms, continued off-shoring of services, on-going liberalisation initiatives and growth of Multinational Corporations from developing countries, will be among the major factors leading to increase in FDIs. In view of the robust economic developments in Asia and Latin America, the prospects for FDI flows to these regions will remain positive.

Chapter 2 Malaysia's External Trade

OVERVIEW

Continued growth of exports and imports led to further expansion of Malaysia's total trade, which increased by 9.9 per cent to RM967.8 billion in 2005. Malaysia registered its eighth consecutive year of trade surplus since November 1997, with a record trade balance of RM99.8 billion.

Driven by economic expansion in both industrialised and developing countries, as well as strong external demand in 2005, Malaysia's merchandise exports grew by 11 per cent to RM533.8 billion. Imports increased by 8.5 per cent to reach RM434 billion.

From the regional perspective, Malaysia's major trading partners were the Association of South East Asian Nations (ASEAN), North East Asia, North America and the European Union (EU). In 2005, trade with these four regions accounted for 87.2 per cent of Malaysia's global trade.

The most significant expansion in trade was with ASEAN, which grew by 13.8 per cent to RM246.2 billion in 2005. The complementarities of industries and growing

Table 2.1:
External Trade

Description	2005		2004
	RM billion	Change (%)	RM billion
Total Trade	**967.8**	**9.9**	**880.8**
Exports	533.8	11.0	480.7
Imports	434.0	8.5	400.1
Trade Balance	99.8	23.7	80.7

Compiled by Ministry of International Trade and Industry

Table 2.2:
Top 15 Trading Partners

Country	2005			2004	
	RM billion	Share (%)	Change (%)	RM billion	Share (%)
Total Trade	**967.8**	**100.0**	**9.9**	**880.8**	**100.0**
USA	161.0	16.6	8.7	148.1	16.8
Singapore	134.2	13.9	15.0	116.7	13.2
Japan	112.9	11.7	0.5	112.3	12.7
People's Republic of China	85.1	8.8	19.1	71.4	8.1
Thailand	51.6	5.3	14.8	45.0	5.1
Hong Kong	42.0	4.3	6.2	39.5	4.5
Republic of Korea	39.6	4.1	7.7	36.7	4.2
Taiwan	38.8	4.0	3.7	37.4	4.2
Germany	30.5	3.2	7.6	28.4	3.2
Indonesia	29.1	3.0	5.5	27.6	3.1
Australia	26.2	2.7	16.1	22.6	2.6
Netherlands	20.8	2.1	8.4	19.2	2.2
Philippines	19.7	2.0	8.8	18.1	2.1
India	19.1	2.0	17.3	16.3	1.9
UK	16.0	1.7	7.0	17.2	2.0

Compiled by Ministry of International Trade and Industry

intra-regional linkages were the primary factors that had resulted in the expansion of trade with ASEAN. Significant growth in trade was also recorded with other regions, such as West Asia, which expanded by 23.1 per cent, Latin America (23 per cent), Africa (20.7 per cent) and South Asia (16.3 per cent).

In terms of trade with individual countries, Malaysia's top four trading partners remained unchanged in 2005. They were the United States of America (USA), accounting for 16.6 per cent of Malaysia's total trade, followed by Singapore (13.9 per cent), Japan (11.7 per cent) and the People's Republic of China (8.8 per cent). Collectively, trade with these four markets accounted for 51 per cent of Malaysia's total trade.

In 2005, among the top 15 individual trading partners, movements were observed in the rankings of certain countries. For example, the Republic of Korea moved from eighth position in 2004, to seventh position. Similarly, India moved to 14th position, one notch above last year's ranking.

EXPORTS

Robust growth in exports, which continued from the previous year, had driven Malaysia's total export to RM533.8 billion, up from RM480.7 billion in 2004. The 11 per cent export growth registered for 2005 was higher than the world merchandise export growth of 6.5 per cent estimated for that year by the World Trade Organisation (WTO).

In 2005, export growth was recorded in all sectors. The composition of exports was relatively unchanged during the year, with manufactures being the major contributor to export, accounting for 77.4 per cent of total export. Manufactured exports grew by 9.6 per cent to reach RM413.1 billion, from RM376.8 billion in 2004. Exports of mining goods

Table 2.3:
Exports by Sector

Description	2005			2004	
	RM billion	Share (%)	Change (%)	RM billion	Share (%)
Total Exports	**533.8**	**100.0**	**11.0**	**480.7**	**100.0**
Manufactured Exports	**413.1**	**77.4**	**9.6**	**376.8**	**78.4**
Electrical and electronics products	264.7	49.6	9.6	241.5	50.2
Chemicals and chemical products	26.3	4.9	5.4	24.9	5.2
Machinery, appliances and parts	18.1	3.4	16.4	15.6	3.2
Wood products	14.6	2.7	4.0	14.1	2.9
Optical and scientific equipment	12.3	2.3	6.5	11.6	2.4
Manufactures of metals	10.8	2.0	12.7	9.6	2.0
Textiles and apparel	10.3	1.9	6.2	9.7	2.0
Iron and steel products	7.0	1.3	-3.2	7.2	1.5
Rubber products	7.0	1.3	13.0	6.2	1.3
Manufactures of plastics	6.7	1.3	19.8	5.6	1.2
Processed food	6.5	1.2	7.9	6.1	1.3
Agricultural Exports	**41.2**	**7.7**	**0.2**	**41.1**	**8.6**
Palm oil	22.9	4.3	-8.3	25.0	5.2
Saw logs and sawn timber	6.6	1.2	18.8	5.6	1.2
Crude rubber	5.8	1.1	11.3	5.2	1.1
Mining Exports	**70.2**	**13.2**	**26.9**	**55.3**	**11.5**
Crude petroleum	30.2	5.7	32.7	22.8	4.7
LNG	20.8	3.9	21.7	17.1	3.6
Refined petroleum	17.5	3.3	26.4	13.8	2.9

Compiled by Ministry of International Trade and Industry

Table 2.4:
Top 20 Export Destinations

Country	2005			2004	
	RM billion	Share (%)	Change (%)	RM billion	Share (%)
Total Exports	**533.8**	**100.0**	**11.0**	**480.7**	**100.0**
USA	105.0	19.7	16.5	90.2	18.8
Singapore	83.3	15.6	15.5	72.2	15.0
Japan	49.9	9.4	2.8	48.6	10.1
People's Republic of China	35.2	6.6	9.6	32.2	6.7
Hong Kong	31.2	5.8	8.8	28.7	6.0
Thailand	28.7	5.4	25.1	23.0	4.8
Australia	18.0	3.4	14.3	15.8	3.3
Republic of Korea	17.9	3.4	6.6	16.8	3.5
Netherlands	17.5	3.3	10.7	15.8	3.3
India	15.0	2.8	31.2	11.4	2.4
Taiwan	14.8	2.8	-6.0	15.8	3.3
Indonesia	12.6	2.4	7.7	11.7	2.4
Germany	11.3	2.1	7.4	10.5	2.2
UK	9.5	1.8	-10.3	10.6	2.2
Philippines	7.5	1.4	1.5	7.4	1.5
United Arab Emirates	7.0	1.3	18.5	5.9	1.2
France	6.9	1.3	-2.4	7.1	1.5
Viet Nam	4.4	0.8	1.3	4.3	0.9
Canada	2.9	0.5	-5.5	3.0	0.6
Pakistan	2.8	0.5	5.2	2.7	0.6

Compiled by Ministry of International Trade and Industry

expanded by 26.9 per cent to RM70.2 billion, while agricultural exports increased marginally by 0.2 per cent to RM41.2 billion.

Within the manufacturing sector, almost all sub-sectors registered expansion in exports in 2005. The main increases were for electrical and electronics (E&E) products, which expanded by 9.6 per cent to RM264.7 billion, followed by chemicals and chemical products (increased by 5.4 per cent to RM26.3 billion), machinery appliances and parts (increased by 16.4 per cent to RM18.1 billion), manufactures of metals (increased by 12.7 per cent to RM10.8 billion) and manufactures of plastics (increased by 19.8 per cent to RM6.7 billion).

Malaysia's textiles and apparel industry remained resilient despite the removal of quotas under the Agreement on Textiles and Clothing in January 2005. The export of textiles and apparel expanded by 6.2 per cent last year to reach RM10.3 billion. Export to the mainstay market, the USA previously subjected to quotas, remained unchanged at RM2.9 billion in 2005, while export to the EU increased by 4.5 per cent to RM1.8 billion.

Crude and refined petroleum, as well as liquefied natural gas (LNG), were the principal exports within the mining sector. Collectively, these exports contributed to 12.9 per cent of total export and 97.6 per cent of mining exports.

The top four agricultural exports were palm oil, saw logs and sawn timber, crude rubber and seafood, accounting for 6.9 per cent of total export and 90 per cent of agricultural exports. Despite registering 7.2 per cent increase in export volume, the value of palm oil exports was lower. Exports of palm oil amounted to RM22.9 billion in 2005, compared with RM25 billion in 2004. The lesser value in exports was primarily due to the lower average price of palm oil in 2005. However, double-digit growth was recorded for the other three major agricultural exports.

Table 2.5:
Imports by End-Use

Description	2005			2004	
	RM billion	Share (%)	Change (%)	RM billion	Share (%)
Gross Imports	**434.0**	**100.0**	**8.5**	**400.1**	**100.0**
Intermediate Goods	**308.3**	**71.0**	**7.2**	**287.7**	**72.0**
Parts and accessories	**163.7**	**37.7**	**2.7**	**159.3**	**40.0**
Semiconductors, printed circuits and parts	102.5	23.6	1.9	100.5	25.0
Parts for office machines	24.3	5.6	4.6	23.2	5.8
Electrical apparatus and resistors	15.2	3.5	8.3	14.0	3.5
Parts for checking instruments	1.4	0.3	35.8	1.0	0.3
Processed industrial supplies	**87.7**	**20.2**	**6.5**	**82.4**	**21.0**
Iron and steel	14.2	3.3	17.6	12.1	3.0
Plastics in primary forms (excluding scrap)	8.5	2.0	10.0	7.8	1.9
Organic chemicals	8.5	2.0	10.3	7.7	1.9
Copper products	5.5	1.3	15.0	4.7	1.2
Paper and paperboard	4.0	0.9	1.9	3.9	1.0
Manufactures of base metals	3.4	0.8	9.2	3.1	0.8
Inorganic chemicals (excluding spent fuel element of nuclear reactors)	2.6	0.6	6.3	2.5	0.6
Fertiliser, excluding crude fertilisers	2.4	0.6	1.6	2.4	0.6
Plastics in non-primary forms	2.2	0.5	1.6	2.1	0.5
Dying, tanning and colouring materials (excluding artists' colours)	1.5	0.3	1.9	1.5	0.4
Residual petroleum products	1.1	0.3	-12.0	1.2	0.3
Primary fuels and lubricants	**15.2**	**3.5**	**61.0**	**9.5**	**2.4**
Parts and accessories for transport equipment	**12.2**	**2.8**	**34.8**	**9.1**	**2.3**
Other processed fuels and lubricants	**12.3**	**2.8**	**24.3**	**9.9**	**2.5**
Primary industrial supplies	**8.9**	**2.0**	**1.6**	**8.8**	**2.2**
Processed food and beverages, mainly for industry	**4.6**	**1.1**	**-9.6**	**5.1**	**1.3**
Primary food and beverages, mainly for industry	**3.7**	**0.9**	**-0.1**	**3.7**	**0.9**
Capital Goods	**60.7**	**14.0**	**9.5**	**55.5**	**14.0**
Capital goods (except transport equipment)	**53.9**	**12.4**	**10.0**	**49.0**	**12.0**
Automatic data processing machines	10.8	2.5	25.1	8.6	2.1
Electrical machinery and apparatus	7.7	1.8	22.5	6.3	1.6
Telecommunications equipment (excluding parts)	5.6	1.3	2.8	5.4	1.4
Other machinery specialised for particular industry	4.2	1.0	8.4	3.9	1.0
Transformer and other electric power machines	2.7	0.6	8.9	2.5	0.6
Rotating electric plants and parts	2.4	0.6	10.1	2.2	0.6
Measuring, checking and analysing equipment	1.2	0.3	-21	1.6	0.4
Medical, dental and surgical instruments	1.0	0.2	10.3	0.9	0.2

Continued ...

Description	2005			2004	
	RM billion	Share (%)	Change (%)	RM billion	Share (%)
Transport equipment for industries	**6.8**	**1.6**	**5.3**	**6.5**	**1.6**
Consumption Goods	**24.6**	**5.7**	**5.9**	**23.2**	**5.8**
Non-durable consumer goods	6.8	1.6	10.2	6.2	1.5
Processed food and beverages for household consumption	5.9	1.4	5.2	5.6	1.4
Semi-durable consumer goods	4.7	1.1	0.4	4.7	1.2
Durable consumer goods	3.5	0.8	12.3	3.1	0.8
Primary food and beverages for household consumption	3.4	0.8	1.9	3.3	0.8
Transport equipment for non-industries	0.3	0.1	-4.9	0.3	0.1
Dual Purpose Goods	**11.3**	**2.6**	**21.5**	**9.9**	**2.3**
Processed motor spirit	6.4	1.5	35.4	4.7	1.2
Passenger motor cars	4.9	1.1	7.0	4.6	1.1

Compiled by Ministry of International Trade and Industry

Major markets for Malaysia's exports remained unchanged in 2005. The USA, Singapore and Japan were the top three export destinations, accounting for 44.7 per cent of total export, compared with 43.9 per cent in 2004.

Higher exports to India and Australia in 2005 had shifted their rankings in Malaysia's top export destinations. India became Malaysia's 10th largest export destination from 12th position previously, while Australia moved up one notch to the seventh position.

IMPORTS

Similar to exports, Malaysia's imports in 2005 also registered expansion. Growing by 8.5 per cent, imports increased to RM434 billion, from RM400.1 billion in the previous year. Growth in imports was mainly attributed to higher demand for intermediate and capital goods to sustain increased manufacturing and investment activities. Intermediate and capital goods formed the bulk of imports, accounting for 85 per cent of total import.

In terms of composition, intermediate imports, valued at RM308.3 billion, comprised mainly components for down-stream production in the E&E, machinery and appliances and chemical industries. These included, among others, semiconductors, printed circuits, parts of machines, electrical apparatus, iron and steel and plastics in primary and non-primary forms. Imports of capital goods, with a value of RM60.7 billion, comprised mainly E&E, machinery and apparatus, and transport equipment.

Major import sources in 2005 were Japan, the USA, Singapore and the People's Republic of China. The most significant increase in imports was from the People's Republic of China, registering an increase of 27 per cent to RM49.9 billion, compared with RM39.3 billion in 2004. Although lower imports were recorded from Japan, it continued to be Malaysia's major source of imports for 2005, accounting for 14.5 per cent of total import. Lesser imports from Japan was a result of changes in sourcing patterns over recent years, with Malaysia importing more from other countries, such as the People's Republic of China, Singapore, Taiwan and the Republic of Korea.

Table 2.6:
Top 20 Import Sources

Country	2005			2004	
	RM billion	Share (%)	Change (%)	RM billion	Share (%)
Total Imports	**434.0**	**100.0**	**8.5**	**400.1**	**100.0**
Japan	63.0	14.5	-1.2	63.7	15.9
USA	55.9	12.9	-3.4	57.9	14.5
Singapore	50.8	11.7	14.3	44.5	11.1
People's Republic of China	49.9	11.5	27.0	39.3	9.8
Taiwan	24.0	5.5	10.7	21.7	5.4
Thailand	22.9	5.3	4.1	22.0	5.5
Republic of Korea	21.6	5.0	8.7	19.9	5.0
Germany	19.3	4.4	7.8	17.9	4.5
Indonesia	16.6	3.8	4.0	15.9	4.0
Philippines	12.2	2.8	13.8	10.7	2.7
Hong Kong	10.8	2.5	-0.6	10.9	2.7
Australia	8.2	1.9	20.3	6.8	1.7
UK	6.5	1.5	-1.8	6.6	1.7
Saudi Arabia	5.9	1.4	56.5	3.7	0.9
France	5.7	1.3	2.1	5.5	1.4
Italy	4.7	1.1	29.8	3.6	0.9
Switzerland	4.7	1.1	21.8	3.9	1.0
India	4.2	1.0	-15.0	4.9	1.2
Viet Nam	3.9	0.9	75.3	2.2	0.6
Netherlands	3.4	0.8	-2.4	3.4	0.9

Compiled by Ministry of International Trade and Industry

TRADE BALANCE

Stronger export performance and reduction of trade deficit with selected trading partners, such as Japan, contributed to the widening of the trade surplus to a record level of RM99.8 billion in 2005. Trade surplus expanded by 23.7 per cent, from RM80.7 billion in the year before.

Large surpluses were registered with the USA, Singapore, Hong Kong and the Netherlands, while high deficits were recorded with the People's Republic of China, Japan, Taiwan and Germany.

Table 2.7:
Trading Partners with which Malaysia Recorded Trade Surpluses

Country	2005	2004
	RM billion	RM billion
USA	49.1	32.3
Singapore	32.5	27.7
Hong Kong	20.4	17.8
Netherlands	14.1	12.3
India	10.8	6.5
Australia	9.9	9.0
Thailand	5.8	1.0
United Arab Emirates	4.2	4.2
UK	2.9	3.9
Pakistan	2.6	2.5

Compiled by Ministry of International Trade and Industry

Table 2.8:
Trading Partners with which Malaysia Recorded Trade Deficits

Country	2005	2004
	RM billion	RM billion
People's Republic of China	14.7	7.1
Japan	13.1	15.2
Taiwan	9.2	5.9
Germany	8.0	7.4
Philippines	4.7	3.3
Saudi Arabia	4.1	1.9
Indonesia	4.0	4.3
Switzerland	3.9	3.2
Republic of Korea	3.7	3.0
Italy	2.0	0.7

Compiled by Ministry of International Trade and Industry

ASEAN, as a grouping, was Malaysia's largest and fastest growing trading partner in 2005. Trade with other major trading partners, namely the USA, Japan, the People's Republic of China and the EU, had also expanded. Significant increase in exports was also recorded for certain fast growing potential markets for Malaysia, such as Finland, Turkey and Myanmar.

ASEAN

In 2005, total trade with ASEAN countries grew by 13.8 per cent to RM246.2 billion, compared with RM216.4 billion in 2004. Exports to ASEAN expanded by 15.4 per cent to RM139.2 billion, from RM120.6 billion in 2004, while imports increased by 11.6 per cent, from RM95.8 billion to RM107 billion. With exports to ASEAN outpacing imports from the region, trade surplus widened to RM32.2 billion in 2005, from RM24.8 billion in 2004.

Singapore was Malaysia's largest trading partner within ASEAN, accounting for 54.5 per cent share. This was followed by Thailand and Indonesia, with 21 per cent and 11.8 per cent share, respectively.

Malaysia's exports to all ASEAN countries expanded in 2005, with the most significant growth of 63.7 per cent recorded to Myanmar, Cambodia (30.3 per cent), Thailand (25.1 per cent) and Singapore (15.5 per cent).

Within ASEAN, Singapore continued to be Malaysia's major market, accounting for 59.9 per cent of its total export to ASEAN. This was followed by Thailand with 20.6 per cent share and Indonesia (9 per cent).

For the fifth consecutive year, Malaysia was the leading exporter to Singapore, accounting for 14.4 per cent of its total import. In 2005, Malaysia continued to be the fourth largest source of imports for Thailand, accounting for 6.9 per cent of its total import, compared with 5.8 per cent in the previous year. For Indonesia and the Philippines, Malaysia was their ninth largest exporter in 2005.

Export growth was recorded for all sectors in 2005. Major exports to ASEAN were E&E products, which expanded by 7.2 per cent in 2005, to RM59.7 billion, or 42.9 per cent of total export to the region. This was followed by refined petroleum products (56.5 per cent growth to RM12.3 billion), crude petroleum (63 per cent growth to RM12 billion),

Table 2.9:
Malaysia's Trade with ASEAN

Country	2005							2004		
	Exports			Imports			Total Trade	Exports	Imports	Total Trade
	RM million	Share (%)	Change (%)	RM million	Share (%)	Change (%)	RM million	RM million	RM million	RM million
ASEAN	**139,207.9**	**26.1**	**15.4**	**106,975.9**	**24.6**	**11.6**	**246,183.8**	**120,601.1**	**95,816.5**	**216,417.6**
Singapore	83,333.4	59.9	15.5	50,827.0	47.5	14.3	134,161.4	72,176.4	44,477.0	116,653.4
Thailand	28,722.9	20.6	25.1	22,889.2	21.4	4.1	51,612.0	22,953.9	21,996.5	44,950.3
Indonesia	12,579.7	9.0	7.7	16,565.7	15.5	4.0	29,145.5	11,677.2	15,936.2	27,613.3
Philippines	7,475.9	5.4	1.5	12,192.0	11.4	13.8	19,667.9	7,362.4	10,710.4	18,072.7
Viet Nam	4,392.1	3.2	1.3	3,865.6	3.6	75.3	8,257.7	4,333.9	2,204.6	6,538.4
Brunei Darussalam	1,337.1	1.0	11.2	49.1	0.1	-8.9	1,386.2	1,202.8	53.9	1,256.7
Myanmar	929.2	0.7	63.7	506.1	0.5	24.6	1,435.4	567.5	406.1	973.6
Cambodia	413.7	0.3	30.3	31.3	neg.	-0.5	445.1	317.5	31.5	349.0
Lao PDR	23.8	neg.	149.5	48.9	0.1	8,659.0	72.7	9.5	0.6	10.1

Compiled by Ministry of International Trade and Industry
Note: neg. - negligible

chemicals and chemical products (9.7 per cent growth to RM9.1 billion), machinery, appliances and parts (18.8 per cent growth to RM7.7 billion), manufactures of metals (4.2 per cent growth to RM4.2 billion), iron and steel products (18.7 per cent growth to RM3.2 billion), and transport equipment (5.7 per cent growth to RM2.9 billion).

In 2005, Malaysia's exports under the Common Effective Preferential Tariff (CEPT) Scheme grew by 28.4 per cent to RM11.1 billion. Major exports under this Scheme were plastic products (RM1.5 billion), E&E products (RM1.3 billion) and organic chemicals (RM1.1 billion). Thailand, Indonesia, the Philippines and Viet Nam were the major export destinations under this Scheme.

ASEAN was Malaysia's second largest regional source of imports, accounting for 24.6 per cent of Malaysia's global import. Imports from ASEAN grew by 11.6 per cent in 2005 to RM107 billion. The main sources of imports were Singapore, Thailand, Indonesia and the Philippines. Collectively, these countries accounted for 95.8 per cent of Malaysia's imports from ASEAN.

Major imports from ASEAN were E&E products, valued at RM41.9 billion or 39.2 per cent of Malaysia's imports from ASEAN. This was followed by refined petroleum (RM14.7 billion), chemicals and chemical products (RM9.5 billion), machinery, appliances and parts (RM5.6 billion), and manufactures of metals (RM3.8 billion).

In 2005, Malaysia's total import under the CEPT Scheme increased by 54.7 per cent to RM3.8 billion. As in 2004, Thailand was the largest source under the CEPT Scheme, with imports totalling RM2.7 billion.

The United States of America

For the USA, Malaysia was its 11th largest trading partner and its 10th largest source of imports in 2005. Among ASEAN countries, Malaysia is the top supplier to the USA, accounting for 2 per cent of its total import. For Malaysia, the USA continued to be its largest individual country trading partner, accounting for 16.6 per cent of Malaysia's global trade, that is, 19.7 per cent of total export and 12.9 per cent of total import. In 2005, exports to the USA surged by 16.5 per cent to RM105 billion. Imports, however, were lower by 3.4 per cent to RM55.9 billion.

The major contributors to Malaysia's export growth to the USA in 2005 were the expansion in its economy and higher demand for consumer E&E products. Consequential to this increase, convergence of computing functions with the digital media and greater utilisation of wireless applications, consumer demand for products such as cell phones, digital cameras and other hand-held gadgets continued to grow. As a result, exports of E&E products to the USA grew by 19.3 per cent to RM82 billion. Malaysia was the fourth largest source of E&E imports for the USA. Other major exports to the USA included wood products (increased by 9.1 per cent to RM3.3 billion), textiles and apparel (decreased by 0.3 per cent to RM2.9 billion), optical and scientific products (increased by 13.4 per cent to RM2.8 billion) and rubber products (increased by 9.6 per cent to RM2.1 billion).

As in 2004, the USA was Malaysia's second largest source of import by country, with a share of 12.9 per cent of Malaysia's total import for 2005. Imports from the USA consisted mainly of E&E products (decreased by 4.3 per cent to RM34.3 billion), machinery, appliances and parts (increased by 8.1 per cent to RM5.6 billion), chemicals and chemical products (increased by 2 per cent to RM3.1 billion) and optical and scientific equipment (decreased by 13.6 per cent to RM3 billion).

Japan

In 2005, Malaysia's trade with Japan increased marginally by 0.5 per cent to RM112.9 billion. Exports increased by 2.8 per cent to RM49.9 billion, while imports were lower by 1.2 per cent, with a value of RM63 billion. In 2005, Japan sustained its position as Malaysia's third largest trading partner and its third largest export destination. From Japan's perspective, Malaysia was its 11th largest source of imports.

E&E products remained the major export to Japan, accounting for 33.5 per cent of total export, valued at RM16.7 billion in 2005. Compared with 2004, E&E exports to Japan in 2005 were lower by 6.5 per cent, due mainly to Japan importing more from other sources, such as the People's Republic of China and Taiwan. Other major exports to Japan included LNG (increased by 28.4 per cent to RM13.1 billion), machinery, appliances and parts (increased by 17.7 per cent to RM1.1 billion), wood (declined by 3.6 per cent to RM3.6 billion), and chemicals and chemical products (declined by 2.8 per cent to RM2.4 billion)

Growing imports from lower cost producing countries, in particular, the People's Republic of China, for products such as E&E parts and components contributed partly to the 1.2 per cent decline in imports from Japan for the year. The top five imports from Japan included E&E products (decreased by 3.1 per cent to RM24.3 billion), machinery, appliances and parts (increased by 8.4 per cent to RM9.1 billion), transport equipment products (decreased by 2 per cent to RM6.5 billion), iron and steel products (decreased by 0.4 per cent to RM5.3 billion) and chemicals and chemical products (increased by 6.2 per cent to RM4.3 billion).

The People's Republic Of China

In 2005, the People's Republic of China remained Malaysia's fourth largest trading partner. Malaysia's total trade with the People's Republic of China expanded by 19.1 per cent to RM85.1 billion, compared with RM71.4 billion in 2004.

For Malaysia, the People's Republic of China was the fourth largest export destination in 2005, accounting for 6.6 per cent of Malaysia's global exports or RM35.2 billion. For the People's Republic of China, Malaysia was the seventh largest global source of imports and the leading supplier among ASEAN countries.

In 2005, Malaysia's exports to the People's Republic of China increased by 9.6 per cent to RM35.2 billion. More than 43.4 per cent of the exports to the People's Republic of China comprised E&E products, which expanded by 20.4 per cent in 2005 to reach RM15.3 billion. This was mainly due to strong demand in the information technology and telecommunications sector.

The People's Republic of China continued to be Malaysia's largest palm oil market in 2005. Total export of palm oil to the People's Republic of China in 2005, in value terms recorded a decline of 16 per cent, compared with RM4.4 billion in 2004. However, the export volume of palm oil to the People's Republic of China increased by 5.5 per cent in 2005 to three million tonnes. The lesser export value for palm oil was attributed mainly by the lower prices for the year. Other major exports to the People's Republic of China included chemicals and chemical products (declined by 0.5 per cent to RM3.9 billion), crude rubber (increased by 46.7 per cent to RM2 billion) and machinery, appliances and parts (increased by 20 per cent to RM1.3 billion).

In 2005, the People's Republic of China remained the fourth largest source of imports for Malaysia. Imports from the People's Republic of China increased by 27 per cent to RM49.9 billion. Major imports from the People's Republic of China comprised E&E products (increased by 30.1 per cent to RM30.7 billion), machinery, appliances and parts (increased by 39.9 per cent to RM3.5 billion), chemicals and chemical products (increased by 13.9 per cent to RM2.1 billion), iron and steel products (increased by 27.3 per cent to RM1.8 billion) and textiles and apparel (increased by 7.7 per cent to RM1.5 billion).

The European Union

Malaysia's total trade with the EU in 2005 amounted to RM113.1 billion, representing an increase of 4.4 per cent from RM108.4 billion in 2004. Exports grew by 3.7 per cent to RM62.6 billion, while imports increased by 5.2 per cent to RM50.5 billion.

Table 2.10:
Malaysia's Trade with the European Union

Country	2005							2004		
	Exports			Imports			Total Trade	Exports	Imports	Total Trade
	RM mil.	Share (%)	Change (%)	RM mil.	Share (%)	Change (%)	RM mil.	RM mil.	RM mil.	RM mil.
EU 25	**62,629.3**	**100.0**	**3.7**	**50,512.3**	**100.0**	**5.2**	**113,140.9**	**60,387.6**	**48,030.6**	**108,418.2**
Netherlands	17,451.6	27.9	10.7	3,350.8	6.6	-2.4	20,802.3	15,759.8	3,434.8	19,194.6
Germany	11,258.5	18.0	7.4	19,265.5	38.1	7.8	30,524.0	10,485.4	17,870.1	28,355.5
UK	9,470.1	15.1	-10.3	6,522.0	12.9	-1.8	15,992.1	10,556.3	6,639.4	17,195.7
France	6,912.6	11.0	-2.4	5,660.1	11.2	2.1	12,572.7	7,081.1	5,543.4	12,624.5
Italy	2,673.8	4.3	-8.3	4,694.2	9.3	29.8	7,368.0	2,914.5	3,615.7	6,530.2
Spain	2,209.6	3.5	-2.1	969.9	1.9	18.1	3,179.5	2,257.8	821.3	3,079.1
Belgium	2,039.4	3.3	-3.7	1,424.8	2.8	-7.3	3,464.1	2,118.5	1,537.3	3,655.8
Finland	1,891.8	3.0	78.0	825.3	1.6	19.4	2,717.1	1,063.1	691.4	1,754.5
Ireland	1,789.8	2.9	24.0	2,686.1	5.3	19.7	4,475.9	1,443.8	2,244.1	3,687.9
Hungary	1,425.5	2.3	-37.4	176.2	0.3	31.6	1,601.8	2,277.8	133.9	2,411.7
Austria	933.8	1.5	3.7	539.0	1.1	0.7	1,472.8	900.2	535.0	1,435.2
Sweden	815.9	1.3	9.7	2,456.2	4.9	-17.4	3,272.1	743.8	2,973.6	3,717.5
Czech Republic	730.5	1.2	26.7	227.1	0.4	8.5	957.6	576.7	209.4	786.2
Denmark	717.6	1.1	17.2	582.4	1.2	7.9	1,300.1	612.3	539.6	1,151.9
Portugal	682.8	1.1	121.4	435.8	0.9	-29.5	1,118.6	308.4	618.3	926.8
Poland	479.6	0.8	10.2	207.4	0.4	-27.8	687.0	435.3	287.3	722.6
Greece	342.8	0.6	-14.5	29.0	0.1	-4.2	371.9	401.0	30.3	431.3
Luxembourg	273.4	0.4	704.0	35.2	0.1	14.5	308.5	34.0	30.7	64.7
Slovakia	119.4	0.2	40.1	124.7	0.2	99.8	244.0	85.2	62.4	147.6
Estonia	113.3	0.2	61.9	13.6	neg.	63.5	126.8	69.9	8.3	78.2
Malta	92.5	0.2	9.9	185.9	0.4	46.0	278.5	84.2	127.3	211.5
Lithuania	60.6	0.1	38.8	37.8	0.1	23.6	98.3	43.6	30.5	74.2
Cyprus	56.4	0.1	3.7	14.0	neg.	-19.0	70.5	54.4	17.3	71.7
Latvia	44.2	0.1	6.9	19.7	neg.	1,212.2	63.9	41.4	1.5	42.9
Slovenia	43.8	0.1	12.3	29.7	0.1	8.6	73.5	39.0	27.3	66.4

Compiled by Ministry of International Trade and Industry
Note: neg. - negligible

In 2005, Malaysia was the 19th largest exporter to the EU, accounting for 1.3 per cent of its total import. Among ASEAN countries, Malaysia was ranked second as a source of imports.

The top five markets in the EU were the Netherlands, with exports valued at RM17.5 billion or 27.9 per cent of Malaysia's total export to the region. This was followed by Germany (RM11.3 billion or 18 per cent), the UK (RM9.5 billion or 15.1 per cent), France (RM6.9 billion or 11 per cent) and Italy (RM2.7 billion or 4.3 per cent).

A sharp decline of 10.3 per cent in exports was recorded for the UK, which can be attributed to the lower exports of E&E products. This decline in exports was offset by the increase of 10.7 per cent and 7.4 per cent in exports to the Netherlands and Germany, respectively.

Major products exported to the EU included E&E (increased by 5.8 per cent to RM37.3 billion), palm oil (increased by 2.4 per cent to RM4 billion), machinery, appliances and parts (increased by 16.7 per cent to RM2.2 billion), optical and scientific equipment (decreased by 0.1 per cent to RM1.9 billion), and textiles and apparel (increased by 4.5 per cent to RM1.8 billion). Collectively, these five products accounted for 75.5 per cent of Malaysia's total export to the region.

Exports of textiles and apparel to the EU increased by 4.4 per cent in 2005 to

RM1.8 billion, and expansion was registered in all markets in the EU, except for the UK.

Exports under the Generalised Scheme of Preferences (GSP) accounted for 21.9 per cent of Malaysia's total export to the EU. These exports were valued at RM13.7 billion, an increase of 28 per cent from RM10.7 billion in 2004. Major export destinations under this Scheme were the Netherlands (24.8 per cent), Germany (19 per cent), the UK (15.4 per cent), Spain (8.5 per cent) and Italy (7.2 per cent).

Total import from the EU recorded an increase of 5.2 per cent to RM50.5 billion, compared with RM48 billion in 2004. Major sources of imports were Germany, with a share of 38.1 per cent of Malaysia's total import from the EU, the UK (12.9 per cent), France (11.2 per cent), Italy (9.3 per cent), the Netherlands (6.6 per cent) and Ireland (5.3 per cent).

Major imports from the EU included E&E products (increased by 0.9 per cent to RM21.2 billion), machinery, appliances and parts (decreased by 2.9 per cent to RM6.8 billion), chemicals and chemical products (increased by 1.3 per cent to RM5 billion), transport equipment (increased by 79.4 per cent to RM3.7 billion), as well as iron and steel products (increased by 50.5 per cent to RM3.3 billion).

Fast Growing Potential Markets

In 2005, the fast growing markets, including developed country markets where Malaysia's exports were previously low, were South Africa, Turkey, Finland, the Russian Federation, Ireland, Egypt, Myanmar, Ukraine, Sudan, and Luxembourg. In the majority of these markets, Malaysia's exports recorded double-digit growth or more. The major contributors to export growth to these countries were E&E products, textiles and apparel, wood products, processed food, palm oil, as well as manufactures of plastics and metals.

TRADE PRACTICES AFFECTING MALAYSIA'S EXPORTS

In recent years, many countries continued to introduce new trade practices and regulations,

Table 2.11:
Fast Growing Potential Markets, 2005

Country	2005			2004	
	RM million	Share (%)	Change (%)	RM million	Share (%)
South Africa	2,164.0	0.4	19.1	1,816.7	0.4
Turkey	2,024.2	0.4	33.9	1,511.8	0.3
Finland	1,891.8	0.4	78.0	1,063.1	0.2
Russian Federation	1,803.9	0.3	16.7	1,545.7	0.3
Ireland	1,789.8	0.3	24.0	1,443.8	0.3
Egypt	1,730.1	0.3	24.6	1,388.6	0.3
Bangladesh	1,550.2	0.3	12.0	1,384.1	0.3
Brazil	1,413.3	0.3	16.5	1,213.0	0.3
Myanmar	929.2	0.2	63.7	567.5	0.1
Czech Republic	730.5	0.1	26.7	576.7	0.1
Denmark	717.6	0.1	17.2	612.3	0.1
Ukraine	559.5	0.1	95.3	286.5	0.1
Sudan	485.2	0.1	225.9	148.9	neg.
Cambodia	413.7	0.1	30.3	317.5	0.1
Argentina	389.1	0.1	53.9	252.9	0.1
Qatar	363.2	0.1	90.0	191.1	neg.
Papua New Guinea	290.3	0.1	86.0	156.0	neg.
Luxembourg	273.4	0.1	704.0	34.0	neg.
Kazakhstan	183.1	neg.	379.6	38.2	neg.

Compiled by Ministry of International Trade and Industry
Note: neg. - negligible

while retaining existing ones, that impact on the global trade environment. With an open economy having substantial trade interests, some of these trade practices and regulations may adversely affect Malaysia's export performance.

The People's Republic of China

Automatic Import Licensing Administration

On 1 January 2006, the People's Republic of China abolished tariff rate quota imposed on imports of vegetable oils, including palm oil. In order to monitor the demand for vegetable oil, the People's Republic of China subjected vegetable oils to Automatic Import Licensing Administration. The deadline for the application of the 2006 Automatic Import Licensing Administration for imports of vegetable oils was on 25 December 2005.

The Automatic Import Licensing Administration is made available to Chinese importers and manufacturers who are required to:

- register with the Administrative Department of Industry and Trade;
- possess a business licence (granted for trading specified goods) or production licence;
- pass the most recent annual inspection test by the Administrative Department of Industry and Trade, and the most recent annual inspection of foreign enterprises;
- comply with food safety and hygiene regulations; and
- have no record of criminal acts relating to imports with respect to Customs, foreign exchange, industry and commerce, taxation and quality inspection for the past three years.

The additional administrative procedures that have been implemented are cumbersome and create uncertainty. The implementation of this licensing requirement will be monitored, in particular, its impact on Malaysia's palm oil exports to the People's Republic of China. The introduction of this procedure has also elevated concern among the trading partners of the People's Republic of China and this has been raised in the WTO.

Apart from vegetable oils, there are also other products that are subject to Automatic Import Licensing Administration. Products that are of export interest to Malaysia and subject to Automatic Import Licensing Administration include mechanical and electrical products, polymers of ethylene, propylene, styrene and vinyl chloride in primary form, scrap ingots of iron and steel, copper and copper products, aluminum products, paperboard, synthetic filament yarn, insecticides, fungicides and herbicides, rubber tyres, crude petroleum and petroleum oil, flat rolled products of iron or iron alloy steel products (hot and cold rolled), including bars and rods.

Compulsory Product Certification System Mark Requirement

Compulsory Product Certification System (CCC mark) continues to draw the attention of exporters, as issues pertaining to the costly and time consuming process of obtaining the quality certification, remain unresolved. The process requires the dispatch of Chinese experts to the country of origin of the products to certify the factory and products and subsequently annual follow-up inspections are required. The high annual inspection costs and expenses are to be borne by the exporting companies in the country of origin. In practice, the implementing agencies in the People's Republic of China lack resources to dispatch staff to other countries. Goods that require certification and the CCC mark include electrical products, motor vehicles, tyres and safety parts, safety glasses, information and communication equipment and parts, condoms, medical devices, fire fighting products and detectors, as well as lighting apparatus.

In addition, the CCC mark requires registration of product labels in the Chinese language. The process of registering the label in Chinese normally takes at least three months. This affects the ability of exporters to respond quickly to orders. Further, even minor variations to the label, such as 'nett weight' per packaging require separate applications.

The application fee for the label is high, averaging US$240 per label. Under the procedure, verification of the labels of the imported products will be made when the goods are declared to the Customs authority of the People's Republic of China.

Standards Development Process

Even though there are already existing and well-established international standards, the People's Republic of China still pursues the setting of its own standards which are stringent in nature. These unique standards can pose as a technical barrier for products entering the Chinese market, due to the high compliance cost. Products where the People's Republic of China is setting its own national standards, include IT products, telecommunications equipment and audio and video products, of which Malaysia has export interest.

Australia

Restriction on the Use of Tropical Timber

The State Governments of New South Wales, Queensland and Victoria continue to maintain their policy requiring the use of timbers that comply with the 'Good Wood Guide', that is, timber grown in plantations as a renewable resource or recycled timber and not timber derived from tropical forest or native growth forest. Tender documents from these States discriminate against the use of tropical timber in building construction.

The Malaysian Timber Certification Council Scheme, though recognised by the International Tropical Timber Organisation, is not recognised by Australia. These practices effectively limit the use of Malaysian timber in Australian public projects.

Sanitary and Phytosanitary Standards, Health and Quarantine Measures

Imports of agriculture products continue to be subjected to stringent sanitary and phytosanitary standards (SPS), and health and quarantine measures. Some imports are allowed only if the products have been given clearance under the Import Risk Analysis carried out by the Australian Quarantine Inspection Service. There have been delays in getting Import Risk Analysis clearance and this has limited market access for Malaysian agriculture products.

These issues have been raised with the Australian authorities for several years. Malaysia and Australia reconvened the bilateral Agricultural Working Group in 2005 to address SPS issues. Although Australia has recognised Malaysian fumigation protocols on chrysanthemum, orchids and foliage, and in principle agreed to allow exports of fresh josapine pineapples, mangosteens and durians, subject to certain conditions, Malaysia's exports of agricultural products to Australia are still relatively low. Efforts will be intensified to enable more Malaysian companies to export a wider range of fruits and flowers to Australia.

Fumigation Treatment

Commencing 1 December 2005, the Australian Quarantine Inspection Service will only accept fumigation certificates from treatment providers that are listed under the Australian Accreditation Scheme. Containers that fail Australian Quarantine Inspection Service inspection on arrival in Australia will be refumigated with cost. Prior to this, Australian Quarantine Inspection Service had accepted all valid Malaysian treatment certificates, provided that the facility is not listed on Australian Quarantine Inspection Service's Offshore Treatment Providers List as 'Under Investigation', 'Unacceptable' or 'Suspended'.

To be recognised by Australian Quarantine Inspection Service as registered offshore fumigation companies, in addition to the necessary equipment to conduct fumigation treatments, Malaysian companies are required to have at least one Australian Fumigation Accreditation Scheme-trained fumigator present at the premises. The need to comply with these requirements has resulted in an increase of up to 400 per cent in compliance costs.

Approval for Therapeutic Goods

All therapeutic goods, namely medicines and medical devices, unless exempted, must be either 'registered' or 'listed' before they can be imported into Australia. The process of securing approval for therapeutic goods in Australia is time consuming and costly. To gain approval, exporters of these products are subject to inspection by experts from the Australian Therapeutic Goods Administration. The cost of bringing in these experts will have to be borne by the company in the country of origin.

Products subjected to therapeutic approval prior to importation are:

- prescription medicines, which normally require a doctor's prescription, such as contraceptives, vaccines and antibiotics;

- over-the-counter medicines, such as analgesics, cough remedies and sunscreens;

- complementary medicines, also known as 'traditional' or 'alternative' medicines, such as herbal, vitamin, mineral, aromatherapy and homeopathic products; and

- medical devices, such as medical gloves, bandages, syringes, condoms, pacemakers and dental products.

The United States of America

Reclassification of Palm Tocotrienol

The US Customs has reclassified palm tocotrienol, which is a palm oil-based Vitamin E, from 'vitamins' to 'food preparations'. This reclassification has resulted in palm tocotrienol being subject to an import duty of 6.4 per cent, compared with zero duty previously. The new import duty has resulted in higher prices for palm tocotrienol to consumers in the US market.

This request for reclassification as Vitamin E was filed by the exporter with the US Customs on several occasions. In addition, this issue was also raised at the Third Joint Council on Trade and Investment Meeting in Kuala Lumpur in October 2005. However, to date the issue has yet to be resolved.

Labelling Requirements for Natural Rubber Gloves

The USA continues to enforce labelling requirements for natural rubber gloves with the statement 'Caution: This product contains natural rubber latex, which may cause allergic reaction'. However, synthetic rubber gloves are not required to abide by this labelling requirement, although scientific studies, including by the USA, have shown that certain synthetic gloves can also cause health problems to users. For example, Japan has banned vinyl gloves containing 'di (2-ethylhexyl) phthalate' (DEHP) for use in food handling. DEHP is a highly toxic plasticiser which has shown to leach out from gloves when in contact with food. The adverse effect of DEHP is well documented and includes damage to the liver, kidney and the reproductive system.

This labelling requirement has unduly alarmed potential users in the US market and does not reflect progress made in minimising incidences of allergies by the industry.

Buy America Act

The USA continues to enforce the 'Buy America Act' in public procurement. This measure confines procurement of the US government agencies to goods manufactured in the USA. This reduces opportunities for foreign products in the public procurement exercise.

The European Union

Timber Certification Scheme

A number of EU Member States, such as Denmark, the UK and France, have implemented official public timber procurement policies to ensure that all timber used for government and public projects are from legal and/or sustainable sources, with legality being the minimum requirement. Although the policies apply only to government procurement, the private sector in Europe is also under pressure from non-governmental organisations and consumers to have similar requirement in the purchasing policies of the private sector. As a result, Malaysian timber exporters will increasingly need to bear higher costs to produce proof of legality or/and sustainability for the timber products they are exporting to the EU countries concerned.

In Europe, the current two main certification schemes are the Forest Stewardship Council Scheme and the Programme for Endorsement of Forest Certification. The Forest Stewardship Council Scheme is widely recognised by the EU general public, local councils and large retailers as proof of legally and sustainably sourced timber. The Programme for Endorsement of Forest Certification is also widely supported and promoted by forest owners in Europe. The Malaysian Timber Certification Council (MTCC) Scheme is presently the only timber certification scheme from a tropical timber country recognised by three EU countries (Denmark, the UK and France) in their official timber procurement policies as proof of legality progressing towards sustainability. Malaysia is currently working towards gaining full recognition for the MTCC Scheme by all the EU countries as proof of legality and sustainability in the near future.

Electrical and Electronic Waste Disposal and Recycling

The EU Member States are presently adopting or transposing their national legislation to comply with the Directive on Waste Electrical and Electronic Equipment and the Directive on Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment.

The Directive on Restriction of the Use of Certain Hazardous Substances restricts the use of lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyls or polybrominated diphenyl ethers in E&E equipment, effective 1 July 2006. The Directive on Waste Electrical and Electronic Equipment requires European distributors of new E&E products to provide services free of charge to collect and dispose used consumer E&E products. This measure would increase the cost of distribution within the EU, which in turn may be transferred to the consumers, the importers and the exporters from the source countries.

The implications of the adoption of the two Directives are far reaching as a large percentage of Malaysia's exports to the EU comprises E&E products. In 2005, E&E products represented 59.6 per cent of Malaysia's total export to the EU, valued at RM37.3 billion. Electrical machinery, apparatus and appliances constitutes the largest exports, valued at RM17.8 billion, followed by office and automatic data processing machines (RM11.5 billion) and telecommunications and sound equipment (RM8 billion).

Registration, Evaluation and Authorisation of Chemicals

The EU has reached initial political agreement on a legislative package for a new chemical policy called Registration, Evaluation and Authorisation of Chemicals (REACH). The law on REACH is expected to come into full effect from 2008.

Once adopted, the complicated REACH regulation will create a single registration system for more than 30,000 chemical substances. Under REACH, manufacturers, importers and down-stream users are required to ensure that they manufacture, place on the market or use chemical substances that do not adversely affect human health or the environment. This requirement covers all chemical substances produced or imported in volumes over one tonne per year. It involves three different processes, namely registration, evaluation and authorisation.

All manufacturers and importers are obliged to register data on chemical substances used or imported with the new European Chemicals Agency to be established in Finland to demonstrate the safe use of their substances. Failure to register will mean the substance cannot be manufactured or imported to the EU market.

Certain substances may be subject to 'evaluation' process on chemical safety or authorisation process before gaining access to the EU market. Notwithstanding the above processes, any chemical substance can be subject to 'restriction,' depending on its impact on public safety.

This regulation would impact exporters of chemical substances and add administrative burden and costs to them, as well as create uncertainty, particularly for processed goods containing chemicals.

Sanitary and Phytosanitary Regulations

The concern on food safety in the EU has created barriers to trade. The EU regulation on food monitors food safety from 'The Farm to the Table'. The EU sanitary and phytosanitary regulations are very stringent. The process of obtaining requirements, particularly testing, can be expensive and will burden exporters.

Exports of poultry and poultry products, and fish and fishery products are monitored through annually submitted plans and residues and micro-organisms that need to be provided by 'Competent Authorities' recognised by the EU. Tolerance level for residues and micro-organisms established by the EU are often more stringent than the internationally agreed Codex Rules. Some of the tolerance level imposed requires specialised and sophisticated equipment for testing. The procurement of such equipment is also expensive and testing organisations are often required to replace newly obtained equipment to keep abreast with the frequently changing EU rules on imports of food.

Even though the EU is a Customs Union and a single market, health authorities of member states have applied their own import rules. The EU Member States can choose to impose stricter requirements according to their national laws if the EU regulations are silent or less stringent on certain issues. For example, in the Netherlands, the Food and Drugs Act, contains a more extensive list of food products that are allowed to be irradiated for decontamination, compared with the list in the EU Legislation (Directive 1999/2/EC).

Japan

Requirements for Import Approvals

Import approval is required in Japan for selected agricultural products, such as fruits, vegetables, seeds, plants and cut flowers. Obtaining an import approval is a difficult and lengthy process. They are also subject to the Plant Quarantine as well as Food and Sanitation Laws, involving approval procedures by the Ministry of Agriculture, Forestry and Fisheries and the Ministry of Health, Labour and Welfare.

Imports of pharmaceutical and cosmetic products also require import approvals. Approvals for pharmaceutical products can take 10 months to a year.

Green Purchasing Law

Malaysian companies exporting to Japan consumer goods, such as stationery and consumer E&E appliances to Japan, are required to abide with the Green Purchasing Law, which was enforced on 1 April 2001. The law only allows products that meet a certain set of eco-friendly 'evaluation criteria' and their procurement also takes into consideration factors that would facilitate recycling and reuse, as well as minimal impact on the environment upon disposal.

Quality Marks

The existing quality marks in Japan are Japanese Industrial Standards, Japanese Agricultural Standards, SG mark (a quality guarantee market for the furniture, household and sporting goods), G mark (known as the 'good design' mark) and BL mark (affixed to high quality households goods). To gain consumer acceptance in the Japanese market, it is deemed necessary for a product to obtain the quality mark. Japanese consumers prefer products carrying Japanese Agricultural Standards Mark, as the mark is considered to have met the set standards, and the products are regarded as of high quality and safe. However, exporters find it difficult to obtain the marks by themselves, as the application forms are required to be submitted in the Japanese language and involve factory inspection by the Japanese authorities. Further, the relevant Japanese authorities take at least three months to process an application.

The Republic of Korea

Adjustment Tariff and Tariff Quota System on Selected Goods

The Republic of Korea imposes an adjustment tariff and tariff quota system on specific imported products that are deemed to be a threat to its local industry. In 2005, the Republic of Korea announced a list of 18 products that are subject to adjustment tariffs and 89 products that are imposed with quota tariffs. The products that are subject to adjustment tariff are mostly agro-marine products. Since the adjustment tariff system is an elastic system, tariffs imposed on designated products may be subjected to variations annually.

Tariffs and quotas in both the adjustment tariff and tariff quota systems are imposed on an annual basis. This means that for those products listed in December 2005, the effective date is from 1 January 2006 to 31 December 2006. Products of export interest to Malaysia that are affected by adjustment tariffs, include fishery products, fruit juices and plywood, while products subject to quota tariffs are anhydrous ammonia, ethylene glycol and cotton yarn.

Approval for Ingredients and Additives for Food and Cosmetics

Importers of food and cosmetics are required to submit supporting documents on ingredients and additives used to ensure the safety of the product or to justify the use of the ingredients and additives. Only products that contain ingredients or additives listed under the Korean Food Additives Code or Korean Cosmetics Ingredient Dictionary will be allowed to be sold in the Korean market. Products that contain ingredients or additives other than that which is listed will not be allowed into the Korean market although they may have been allowed into other foreign markets. This requirement affects Malaysian exporters as certain ingredients and additives used are not contained in the Korean lists.

Thailand

Differences in Interpretation of the ASEAN Harmonised Tariff Nomenclature Tariff Code

Differences in some product classifications continue to pose a problem for Malaysia's exports to Thailand. There have been cases where Thailand does not agree with the ASEAN Harmonised Tariff Nomenclature Tariff Code used by Malaysian exporters and requires the exporters to follow Thai Customs classification. Although in ASEAN, there is an agreement that the Customs Authority of the importing country is required to clear the goods by imposing the CEPT rate of the Code suggested by the importing authority, the Thai Customs Authority, however, requires the importer to pay the MFN rate, and also imposes additional penalty charges. This has caused unnecessary delay in clearance of goods, including the importer having to incur extra costs for storage at the port.

Thailand continues to deny market access for palm oil, although the product is in the CEPT Scheme of both countries. According to the commitment under AFTA, Thai imports of the products from Malaysia should be subject to only 5 per cent import duty. However, imports of palm oil are subject to import licence, which is not freely issued. These measures are inconsistent with the rules of the CEPT Scheme and have prevented Malaysian companies from exporting to Thailand.

Saudi Arabia

Protection of Local Businesses

Foreigners in Saudi Arabia are not permitted to engage in trading activities within the Kingdom or become a commercial agent, as they are only open to Saudi nationals and wholly Saudi-owned companies. This requirement creates a problem for companies wishing to export and distribute their products in this market, as they have to seek out business partners in the market prior to exporting.

OUTLOOK

The World Bank has forecast that global trade for 2006 would grow at 7 per cent, compared with 6.2 per cent in 2005. A similar positive outlook for international trade was made by the International Monetary Fund, which forecasted that export growth for advanced countries, as well as for developing and emerging economies will reach 6.3 per cent and 10.3 per cent, respectively, in 2006. The import growth for advanced countries is projected to reach 5.8 per cent, while that for developing and emerging economies is 11.9 per cent.

Based on the projected positive outlook for the global economy and trade, as well as the expected expansion of domestic manufacturing, Malaysia's exports in 2006 are set to remain robust. Continued growth is expected for most product sectors in all major markets.

Manufactured exports is expected to continue its lead in export expansion, with mining exports in the second place, due to sustained high prices of crude oil. Exports of E&E products, the major contributor to Malaysia's total export, is expected to strengthen, due to heightened demand for wireless applications and consumer electronics, particularly in major markets, such as the USA, the People's Republic of China, the Republic of Korea, Taiwan and Japan. Other sub-sectors that are expected to register expansion in exports include machinery, appliances and parts, chemicals and chemical products, manufactures of metals and manufactures of plastics.

It is expected that ASEAN will continue to be a predominant partner to drive Malaysia's trade. Malaysia will also remain a major contributor to the expansion of intra-ASEAN trade, as it already accounts for about 26 per cent of total intra-ASEAN trade. This will be complemented by further tariff reduction by ASEAN countries under the ASEAN Free Trade Area arrangement. The upward trend of exports to fast-growing markets in West Asia, South Asia and Africa will be sustained.

Reinstatement of the preferential tariff for four Malaysian product groups under the EU-GSP Scheme, from January 2006, will help to further boost Malaysia's exports to the EU. With the inclusion of the additional product groups, about 81 per cent of Malaysia's exports to the EU will be eligible for preferential treatment, compared with 16 per cent previously. The product groups that will be reinstated for Malaysia are consumer electronics, plastics, rubber and wood. Only one product group, namely palm oil and fats, remain graduated from the EU-GSP Scheme.

Bilaterally, Malaysia will be implementing the FTA agreement with Japan in mid-2006, which provides for tariff elimination for goods traded between the two countries within 10 years. Other FTA arrangements expected to be completed in 2006, involves Pakistan, Australia and New Zealand. At the regional level, the goods agreement under the ASEAN-China FTA has been implemented since July 2005 and ASEAN-Korea FTA will be implemented in July 2006.

With more emphasis being given towards addressing impediments to trade through bilateral, as well as regional arrangements, it is expected that Malaysia's exports to the partner countries will expand. In addition, mutual recognition arrangements on testing and conformity assessment procedures, being pursued with major trading partners, will further improve market access and reduce costs.

Box 2.1: Malaysia And Free Trade Area Agreements

Malaysia has been engaged in discussions with developed and developing countries towards establishment of free trade area (FTA) arrangements. These arrangements, pursued through bilateral and ASEAN-wide initiatives, build upon the commitments under the World Trade Organisation (WTO). In addition, these arrangements also allow Malaysia to focus on specific areas of interest to undertake further liberalisation and explore cooperation activities to promote and facilitate trade and investment flows.

Malaysia's objectives in engaging in FTA negotiations are to:

- seek better market access for goods and services;
- facilitate and promote trade, investment and economic development;
- enhance the competitiveness of Malaysian exporters; and
- build capacity in specific areas, through technical cooperation and collaboration.

The FTA arrangements completed and being negotiated is comprehensive and encompass:

- tariff reduction/elimination in the goods sector;
- liberalisation of the services sector;
- investment liberalisation and protection;
- trade and investment promotion and facilitation activities; and
- economic and technical cooperation programmes to enhance domestic capacity building in specific areas.

Bilateral Free Trade Area Arrangements

Malaysia concluded the first bilateral FTA with the signing of the Japan-Malaysia Economic Partnership Agreement (JMEPA) in Kuala Lumpur on 13 December 2005. The Agreement is scheduled to enter into force in mid-2006, after the completion of domestic procedures by both countries.

JMEPA encompasses trade in goods, services and investment and a wide range of cooperation activities, covering intellectual property capacity building and enhancement of business environment. Japan is Malaysia's third largest trading partner and export destination. In 2005, total trade with Japan was valued at RM112.9 billion and exports accounted for RM49.9 billion. Japan is one of the largest investors in the manufacturing sector in Malaysia, with total investment of RM38.2 billion in 3,159 projects between 1980 and 2005. In 2005, total investment from Japan was RM3.7 billion, involving a total of 84 projects. Implementation of the JMEPA will further enhance existing bilateral trade and investment relations and contribute towards strengthening long-term relations between the two countries.

Under trade in goods, both countries will eliminate import duties on textiles and clothing, agriculture and wood products upon entry into force of the agreement. Tariffs on the remaining products will be progressively reduced over a 10-year period.

Under the agreement, Malaysia will:

- eliminate import duties on rubber products, food products, plastics, paper and downstream iron products over six to eight years; and
- reduce or eliminate import duties on chemicals and petrochemicals, iron and steel, paper products and automotive, and automotive parts and components over 10 years.

Continued...

Japan will be required to:

- Maintain duty free treatment on 6,613 industrial products, tropical fruits and forestry products; and

- Reduce and eliminate duties on fishery products, rubber and leather footwear and cocoa products over eight years.

In the area of services, both countries will accord improved market access in selected sectors compared with commitments made under the WTO in those sectors. The sub-sectors are business and professional services, computer and related services, communication services, education services, tourism and related services, and health-related services. In addition, the agreement provides for both countries to review their offers within five years, with a view to further improving market access commitments.

Under investment, the agreement provides for national and most favoured nation treatment in relation to the establishment, acquisition, expansion and management of investments. Investors and their investments from both Malaysia and Japan will receive treatment in Malaysia and Japan similar to that granted to domestic investors and investors from other countries, except in areas that have been specifically exempted in the schedules of both countries. These areas include subsidies, grants and sensitive sectors, such as automotive and petroleum refining.

The investment agreement also provides certainties to investors with respect to:

- transfer or repatriation of initial capital and additional investments, including profits, earnings and other payments;

- compensation in the event of expropriation of investments; and

- investment disputes which can be referred to domestic courts or international arbitration.

JMEPA also includes cooperation programmes to further enhance Malaysia's capacity in selected sectors. For example, in the automotive sector, Japan will assist Malaysia in developing the automotive sector, including the automotive parts industry. Cooperation projects in the automotive sector will be in the areas of technical and expertise assistance, training, development of mould and die centre, and promotion of investments and exports.

Cooperation projects in other areas include:

- development of mutual recognition arrangements (MRAs) on testing and conformity assessment procedures for products of export interest. The MRAs will reduce costs and improve market access for Malaysia's products into Japan, particularly those products that are subject to Japanese standards;

- cooperation, technical assistance and exchange of information on sanitary and phytosanitary measures imposed on agricultural products;

- education and human resource development; and

- development of small and medium industries.

To facilitate and promote involvement of the business communities from both countries, a committee comprising representatives from both the public and private sectors will be established in Kuala Lumpur and Tokyo, respectively. This committee will provide the forum to discuss and elevate to the respective Governments on issues faced by the business community.

In the case of FTA with Pakistan, while the negotiations are on-going, both countries have implemented the Early Harvest Programme (EHP) beginning 1 January 2006. The EHP covers a total of 114 products from Pakistan (covering yarn, clothing and textile products and jewellery) and 125 products from Malaysia (covering electrical appliances and machinery, plastics products, chemical products, and rubber and timber products). Products offered under the EHP, with tariffs of 5 per cent and below, have been eliminated, and those above 5 per cent and below 10 per cent are accorded a margin of preference of 50 per cent.

Based on bilateral trade trends in 2005, Malaysia's offer is valued at RM23.1 million (11 per cent of total import from Pakistan) and Pakistan's offer valued at RM104 million (3.7 per cent of total import from Malaysia).

The FTA negotiations with Pakistan is expected to be finalised in 2006 and implemented in early 2007.

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Other FTA initiatives by Malaysia are:

- commencement of negotiations with Australia and New Zealand on a bilateral FTA. Both negotiations are scheduled for completion in 2006. In 2005, Malaysia's trade with Australia was valued at RM26.2 billion, accounting for 2.7 per cent of Malaysia's global trade, while trade with New Zealand in 2005 was valued at RM3.3 billion (0.3 per cent of global trade);

- announcement by Malaysia and the United State of America (USA) on 8 March 2006, on both countries' preparedness to commence negotiations on a Malaysia-USA FTA. This is subject to the USA obtaining the necessary domestic approvals. The USA was Malaysia's largest trading partner in 2005, with total trade valued at RM161 billion, and accounted for 16.6 per cent of Malaysia's global trade. The US market accounted for 19.7 per cent of Malaysia's global exports and 12.9 per cent of global imports;

- establishment of a Joint Study Group on the feasibility of a Malaysia-India Comprehensive Economic Cooperation Agreement. The Joint Study Group is currently finalising the recommendations for the consideration of both Governments in 2006. Malaysia's trade with India in 2005 was RM19.1 billion, with exports valued at RM15 billion and imports at RM4.2 billion. Trade with India accounted for 2 per cent of Malaysia's global trade; and

- establishment of a Joint Study Group to undertake a feasibility study on a Malaysia-Chile FTA. The report is scheduled to be finalised by end-2006. Malaysia's trade with Chile in 2005 was RM893.5 million, with exports valued at RM328.9 million and imports at RM564.6 million. Chile is Malaysia's fifth largest trading partner among the Latin American countries, after Brazil, Mexico, Argentina and Costa Rica.

Regional FTAs

Malaysia participates in a number of regional negotiations by ASEAN with its dialogue partners to conclude Comprehensive Economic Partnership Agreements. The countries are the People's Republic of China, the Republic of Korea, India, Japan, Australia and New Zealand. The agreements with these countries are comprehensive and covers liberalisation of trade in goods, services, investment and cooperation activities to promote and facilitate trade and investments.

The ASEAN-China Free Trade Area agreement on goods signed in November 2004 provides for tariff reduction/elimination in four tranches, beginning 2005 and to be concluded by 2010 between the People's Republic of China and ASEAN 6 (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand), and by 2015 for Cambodia, Myanmar, Lao PDR and Viet Nam. The first tranche of tariff reduction/elimination for the ASEAN 6 and the People's Republic of China took effect on 20 July 2005. The remaining three tranches are scheduled to take effect in 2007, 2009 and 2010. The agreements on services and investment are being negotiated for finalisation in 2006.

The People's Republic of China is ASEAN's third largest trading partner, with total trade valued at US$47.6 billion for the period January-June 2005. ASEAN's exports to the People's Republic of China for this period were valued at US$21.9 billion and imports at US$25.7 billion.

In the case of the ASEAN-Korea FTA, the agreement concluded in December 2005, provides for the realisation of the ASEAN-Korea FTA in goods by 2012 for the ASEAN 6, 2018 for Viet Nam and 2020 for Cambodia, Lao PDR and Myanmar. Negotiations on services and investment are scheduled to be completed in 2006.

Trade with the Republic of Korea accounted for 3.8 per cent of ASEAN's global trade. For the period January-June 2005, trade with the Republic of Korea was US$18.9 billion, with exports valued at US$9.1 billion and imports at US$9.8 billion.

Progress made in other ASEAN-wide FTA negotiations:

- **ASEAN-India**
  Negotiations on FTA in goods resumed in 2005, and are scheduled for finalisation in 2006.

- **ASEAN-Australia-New Zealand**
  Negotiations commenced in 2005 and are scheduled for completion by end-2006.

- **ASEAN-Japan**
  ASEAN and Japan are continuing discussions on the elements in the Framework for Comprehensive Economic Partnership (CEP), including the linkage with bilateral FTAs. The CEP provides for liberalisation of trade in goods, services and investment by 2012.

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In addition, ASEAN and the EU are exploring broader economic cooperation through a potential ASEAN-EU FTA.

Other FTAs

Malaysia is also engaged in the negotiations towards establishment of a Trade Preferential System among the Member States of the Organisation of the Islamic Conference (TPS-OIC) and the Preferential Trade Agreement among the D-8 Member States (D8-PTA).

The Protocol on the Preferential Tariff Scheme for the TPS-OIC (Protocol), which involves 16 participating OIC countries, namely Malaysia, Bangladesh, Cameroon, Egypt, Guinea, Jordan, Lebanon, Libya, Pakistan, Senegal, Syria, Tunisia, Turkey, Uganda, United Arab Emirates and Iran, was adopted on 23 November 2005. It covers 7 per cent of total tariff lines with tariffs of above 10 per cent. The modality agreed for tariff reduction for products:

- tariffs of above 25 per cent to be reduced to 25 per cent;
- tariffs between 15 to 25 per cent to be reduced to 15 per cent; and
- tariffs between 10 to 15 per cent to be reduced to 10 per cent.

Developing countries participating in the Protocol will reduce their tariffs in four annual installments, while the least developed countries in six installments. The Protocol includes a Voluntary Fast Track Tariff Reduction schedule. The TPS-OIC will be implemented once the Protocol is signed and ratified by at least 10 of the participating countries. As at 31 March 2006, five participating countries, namely Malaysia, Egypt, Jordan, Tunisia and Turkey, have signed the Protocol.

At the D-8 Summit held in Tehran, Iran, from 14-15 February 2004, it was agreed that a Preferential Trading Arrangement (PTA) be implemented among the D-8 countries. The D-8 comprises Malaysia, Bangladesh, Indonesia, Iran, Egypt, Nigeria, Pakistan and Turkey. As at 31 March 2006, five High Level Officials Meetings have been held to negotiate the D8-PTA Framework Agreement and implementation modality. The D-8 PTA was finalised at the Sixth High Level Trade Officials Meeting on 3-4 April 2006 in Bali, Indonesia. The Agreement was signed during the Fifth D-8 Summit in Bali on 13 May 2006. The D-8 PTA will be implemented once it is ratified by at least four member countries.

Domestic Consultations

MITI has been and will continue to undertake domestic consultations with various ministries, agencies and the private sector on issues of concern to Malaysia in the FTA negotiations. While FTA negotiations are led by MITI, the various working groups have been chaired by the respective ministries and agencies.

To facilitate these negotiations, MITI has been consulting the private sector through the various trade and industry associations. Feedback, suggestions and views from the private sector are vital to ensure that their concerns and interests can be advanced and addressed in these FTA negotiations.

Details of the respective FTAs and progress, including the officers responsible for the negotiations are contained in MITI's website, www.miti.gov.my

Chapter 3

Policy Initiatives And Measures In Manufacturing And Manufacturing-Related Services

OVERVIEW

In 2005, additional policy initiatives and measures were undertaken to facilitate the development and growth of the manufacturing sector and the related services. Apart from the incentives outlined in the Budget to promote domestic and foreign investments, various promotional programmes and certification initiatives were undertaken, aimed at enhancing Malaysia's competitiveness in the manufacturing and manufacturing-related services sectors.

As part of the strategy to promote development and attract investments in potential growth areas and promote industries in products and services, especially in biotechnology, various policy initiatives, institutional support and funding mechanisms continued to be developed.

There was greater focus on accelerating the development of small and medium enterprises (SMEs) and enhancing their competitiveness, in line with the National Blueprint for SMEs.

Various trade facilitating programmes and initiatives were undertaken at the domestic and regional levels, including the existing electronic data interchange and new mechanisms, for example, the ASEAN Single Window initiative. Training and outreach initiatives were specifically targeted towards encouraging a greater use of information and communication technology (ICT) applications in manufacturing processes.

Efforts to encourage greater compliance of the domestic manufacturing sector with Malaysian and international standards continued to be given emphasis. To encourage innovation, the Government also expanded its funding initiatives for research and development (R&D), especially in potential growth areas, such as advanced manufacturing, advanced materials, nanotechnology and biotechnology.

Against a backdrop of high oil prices, the Government is also encouraging the domestic industry to improve energy efficiency and develop more environment friendly sources of fuel.

The Government further intensified efforts to promote the recognition of Malaysian *Halal* Standard abroad, as the contribution of the *halal* industry to Malaysia's economic development and growth is expected to be high.

Greater attention is being given to the promotion and adoption of domestic and international standards, as they remain an important means of enhancing the competitiveness of domestic industries, as well as ensuring global acceptance of Malaysia's products and services.

Malaysia is also engaged in negotiating for free trade agreements (FTAs) at the ASEAN and bilateral levels to secure better market access for the export of manufactured products and services, as well as expand opportunities for outward investments.

INITIATIVES FOR ENHANCING INVESTMENTS

In 2005, Malaysia continued its efforts to attract foreign direct investments (FDIs), as well as expand domestic investments in the manufacturing and manufacturing-related services sectors, through the liberalisation of investment policies and improvements in the delivery system. Policies which were continued in 2005 included:

- full liberalisation of the equity policy in the manufacturing sector since 2003;

- liberalisation of the expatriate employment policy in the manufacturing and manufacturing-related services sectors;

- fine-tuning of tax incentives;

- a fast track mechanism to expedite approval of applications for manufacturing licences;

- the establishment of a single, integrated committee to further facilitate import duty exemption on raw materials and components; and

- hand-holding mechanism to assist investors in obtaining all necessary approvals at the local, state and federal levels until the projects are in operation.

To further promote investments, reduce costs of doing business and enhance the business environment, several new measures were introduced:

- group relief to all locally incorporated resident companies under the Income Tax Act 1967, including new companies undertaking activities in approved food production, forest plantation, biotechnology, nanotechnology, optics and photonics;

- accumulated losses and unabsorbed capital allowances incurred by companies during the pioneer period were allowed to be carried forward and deducted from the post-pioneer income of a business;

- application period for incentives for promoted areas was extended for another five years, until 31 December 2010;

- eligible companies undertaking ICT, multimedia or shared services activities outside the 'Cybercities' (Cyberjaya, Kuala Lumpur City Centre, Technology Park Malaysia, Bayan Lepas and Kulim Hi-Tech Park) will be considered for:

  (i) Pioneer Status with tax exemption of 50 per cent of statutory income for a period of five years; or

  (ii) Investment Tax Allowance of 50 per cent of qualifying capital expenditure incurred within a period of five years to be set-off against 50 per cent of statutory income for each year of assessment.

- the scope of incentives made available to private higher education institutions were expanded from technical and vocational training to include qualifying science courses, and to similar institutions which undertake the upgrading of equipment or expansion of capacity in the field of science;

- enhancement of incentives for companies generating energy from renewable sources, such as biomass, hydro-power (not exceeding 10 megawatts) and solar power:

  (i) Pioneer Status with tax exemption of 70 per cent is increased to 100 per cent of statutory income and the incentive period is extended from five years to 10 years; or

  (ii) Investment Tax Allowance of 60 per cent is increased to 100 per cent on the qualifying capital expenditure incurred within a period of five years, with the allowance to be set-off against 100 per cent (previously 70 per cent) of statutory income for each year of assessment; and

  (iii) The incentive package of Pioneer Status, Investment Tax Allowance, import duty and sales tax exemption extended from 1 January 2006 until 31 December 2010.

- the application period for Pioneer Status, Investment Tax Allowance, import duty and sales tax exemption incentives for companies providing energy conservation services was extended for another five years until 31 December 2010.

- reduction in import duty from 25 per cent to 20 per cent on certain paper products, refractory bricks, blocks, tiles and similar refractory ceramic constructional goods, glass fibres and articles thereof.

Review of the Promotion of Investments Act, 1986

In 2005, the Government continued with its review of the Promotion of Investments Act, 1986. The review is to consider:

- the feasibility of a sectoral approach to the provision of incentives;

- incentives for new investments and reinvestments in all sectors;

- continuation of Pioneer Status and Investment Tax Allowance; and

- abolition of redundant incentives.

DEVELOPING MALAYSIA AS A REGIONAL HUB FOR *HALAL* PRODUCTS AND SERVICES

In 2005, the Government further intensified efforts to promote the development of *halal* products and services as one of the key areas for economic growth and development.

Strategies for Promoting the *Halal* Industry

Strategies outlined for making Malaysia the hub for *halal* products and services include:

- enhancing awareness of the Malaysian *Halal* Standard;

- promoting international cooperation for the promotion of the Malaysian *Halal* Standard;

- promoting compliance with the international standard;

- enhancing investment and trade promotion of *halal* products and services;

- building a comprehensive database of *halal* manufacturers, exporters and service providers; and

- developing competitive manufacturing, testing and services facilities for the *halal* industry.

Promotion of Malaysian *Halal* Standard MS 1500:2004

To promote the Malaysian *Halal* Standard MS 1500:2004 as a benchmark for international level certification, efforts were undertaken towards acceptance of the standard internationally. The Organisation of Islamic Conference (OIC) Senior Officials' Meeting held in Jeddah in April 2005 had in principle accepted the MS 1500:2004.

Promotion of the MS 1500:2004 was also undertaken through international events and exhibitions, such as Euro *Halal*, the Malaysia International *Halal* Showcase (MIHAS) and during marketing missions overseas.

Incentives

Various incentives were also made available to industries involved in the development of *halal* products:

- a special grant amounting to RM10 million for the development and promotion of *halal* products;

- provision of Investment Tax Allowance of 100 per cent on qualifying capital expenditure for five years for companies which produce *halal* food; and

- double tax deduction on expenditure for obtaining *halal* certification and accreditation.

Provisions under other incentives can also be applied to companies engaged in *halal*-related activities. The incentives include:

- Grant for Business Planning and Development;
- Grant for Product and Process Improvement;
- Grant for Productivity and Quality Improvement and Certification;
- Market Development Grant; and
- Brand Promotion Grant.

Permodalan Usahawan Nasional Berhad, an agency under the Ministry of Entrepreneurial and Cooperative Development, provides financial assistance for the development of businesses in *halal* products and services. This includes:

- Business Joint-Venture Package of up to RM1 million by equity financing (up to 30 per cent of the total project cost) or debt financing (where another 60 per cent of the project cost) is financed by a loan given by an appointed financial institution and fully guaranteed by Credit Guarantee Corporation Malaysia Berhad; and
- Loan and Services Package of up to RM200,000.

Status of *Halal* Certification

In 2005, *Jabatan Kemajuan Islam* Malaysia (JAKIM) issued 2,593 certificates based on the category of products, premises and abattoirs.

Table 3.1:
***Halal* Certifications Awarded to Companies, 2005**

Category	Number of Certificates
Total	**2,593**
Products	2,276
Premises	279
Abattoirs	38

Source: Jabatan Kemajuan Islam Malaysia (JAKIM)

Programmes and Activities

Among the promotional programmes and activities undertaken by relevant ministries/ agencies in 2005 were:

- Training Programme on *Halal* Standard, which covers:
  - standard and quality assurance infrastructure;
  - Malaysian *Halal* Standard (MS 1500:2004);
  - *Syariah* perspective and requirements of *halal* certification; and
  - *halal* certification process and supporting programmes, especially for SMEs.
- Specialised Marketing Mission on *Halal* Products to the People's Republic of China from 29 June-10 July 2005 in collaboration with China Islamic Association;
- Participation in Euro *Halal* Exhibition in Paris from 6-8 June 2005;
- Organising MIHAS 2005 from 28-31 July 2005 which attracted the participation of 332 companies from 18 countries, of which sales generated was valued at RM217.1 million; and
- Incoming Buying Mission, organised in conjunction with MIHAS 2005.

International Cooperation

The ongoing bilateral FTA negotiations with New Zealand and Australia served as a platform for Malaysia to clarify and further discuss issues of common interest to the FTA partners on *halal* matters, including information sharing and incorporation of a mechanism to facilitate cooperation to better facilitate trade in *halal* products and services.

DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES

In 2005, the National Small and Medium Enterprise Development Council, chaired by the Prime Minister, endorsed:

- the National SME Development Blueprint 2006, which includes 245 programmes for implementation in 2006 to accelerate the development of SMEs. The Government has allocated RM3.8 billion for SME programmes in various sectors, including agriculture, agro-based and knowledge-based industries. These programmes were aimed at:

    - strengthening the enabling infrastructure to support SME development;

    - building capacity and capability of SMEs; and

    - further enhancing access to financing by SMEs.

- the introduction of the Multi Currency Trade Finance Facility and Indirect Export Financing Scheme to encourage the export of goods and services of SMEs to non-traditional markets, especially OIC member countries;

- the Human Resource Development Portal, which would enable employers and training providers to interact online as one training community;

- the launching of the SME Info Portal as a one-stop online information gateway for comprehensive information on financing and training, as well as Government support and development programmes for SMEs;

- the publication of an annual report on SME development, which provides a comprehensive assessment of Government-assisted programmes and the performance of SMEs in all sectors; and

- the adoption of a new policy formulation and evaluation framework, involving the identification of broad strategic priorities and targets for SME development and establishment of comprehensive key performance indicators to evaluate the effectiveness of all Government programmes on SMEs.

Establishment of SME Bank

The SME Bank, which launched its operations on 3 October 2005, will:

- provide financial facilities and advisory services to SMEs;

- be a one-stop financial centre for providing funds for the business needs of Malaysian SMEs;

- complement existing products and services offered by commercial banks;

- set up a venture capital fund of RM1 billion to finance SMEs that are capable of undertaking business expansion; and

- provide special financing for micro-businesses.

TECHNOLOGY

To further strengthen and diversify the sources of economic growth, the Government continued to intensify its efforts to encourage investments in new areas with high growth potential and competitive edge. These include biotechnology and nanotechnology, as well as manufacturing employing advanced technology.

In the development of the biotechnology industry, the Government will be guided by the National Biotechnology Policy, launched in April 2005. The policy outlines strategies and initiatives for development, particularly in the areas of agricultural biotechnology, health biotechnology and industrial biotechnology.

Multimedia Super Corridor

The Multimedia Super Corridor of Malaysia (MSC Malaysia) continued to be the catalyst for the growth and development of a vibrant and sustainable domestic ICT industry. By the end of 2005, a total of 1,421 companies were awarded MSC-status.

Efforts are being pursued towards positioning Malaysia as a shared services hub and promoting it as a choice location. In 2005, Malaysia maintained its rank as the third most attractive destination for shared services and outsourcing activities, after India and the People's Republic of China.

International companies that have located their shared services centres in Malaysia, include Group Data Centre, Communication and Network Support Centre, Group Services Centre and IT Services Centre. As at end 2005, more than 40 shared services and outsourcing companies were established in the MSC Malaysia.

Information and Communication Technology Services

ICT has evolved from being an operational tool for supporting businesses in areas, such as R&D, marketing and sales, to become a strategic tool for improving the supply chain management. The use of ICT in various industries will continue to be promoted to enhance competitiveness and efficiency, as Malaysia moves towards a knowledge-based economy.

Initiatives to Promote Information and Communication Technology

Programmes to raise awareness and enhance training on ICT and other technologies continued to be implemented in 2005 by both the Government and the private sector. Agencies under the Ministry of International Trade and Industry (MITI) had conducted nine seminars and workshops and two ICT-related trade missions during the year.

The RosettaNet is a series of e-business standards which can be used to streamline a company's supply chain by enabling greater collaboration and improved communication between trading partners, domestically and internationally. The RosettaNet grant, which was earlier introduced for the electrical and electronics (E&E) sector, has been expanded to other sectors with effect from 2005. As at 2005, a total of RM2.5 million had been approved for 51 companies. A total of 333 companies have adopted the RosettaNet standard with 3,482 electronic business process connections transacted. This reflects an increasing confidence among companies on the Standard, while enjoying the benefits of lower inventory and transaction costs, as well as reduced time to market.

The Small and Medium Industries Development Corporation (SMIDEC) and RosettaNet (M) Berhad conducted a series of seminars and workshops nationwide to enhance the awareness of the RosettaNet standard, as well as promote its benefits to business-to-business supply chain trading partners.

The National Productivity Corporation (NPC) conducted two seminars on enhancing the productivity of SMEs through the use of ICT in Petaling Jaya and Johor Bahru. The purpose of the seminars was to introduce relevant ICT business solutions for improving productivity, with emphasis on the application of ICT as a means of sustaining competitiveness.

The NPC also undertook a Study on the Application of ICT in the Manufacturing Sector for 2005 to determine the extent and intensity of IT usage in the manufacturing value chain and study the types of IT-based tools used. The study covered Malaysian manufacturing companies registered with the Federation of Malaysian Manufacturers.

The Malaysia External Trade Development Corporation (MATRADE), together with the Multimedia Development Corporation (MDC) and the Association of the Computer and Multimedia Industry, Malaysia (PIKOM), jointly organised a specialised ICT Marketing

Mission to Shanghai and Beijing. The marketing mission was intended to enhance cooperation and widen business networking with ICT providers in the People's Republic of China.

MATRADE also organised the participation of Malaysian companies in CeBIT, the world's largest trade fair for the ICT industry, held in Hanover, Germany. The participation was aimed at further promoting Malaysian ICT products and services and to showcase Malaysia's capability in the ICT sector abroad.

Malaysian Information, Communication and Multimedia Services 886

The Malaysian Information, Communication and Multimedia Services 886 (MyICMS886) was launched on 20 December 2005 to further develop the ICT industry in Malaysia. The MyICMS886 strategy incorporates eight service areas targeted at enhancing the delivery of advanced information, communication and multimedia services which would contribute towards enhancing Malaysia's global competitiveness and help improve the quality of life of Malaysians.

TRADE FACILITATION

Financial Process Exchange

The Financial Process Exchange, a national multi-bank Internet payment system, was launched to facilitate online payments, including trade transactions. Thus far, five banks have participated in this initiative, namely Bank Islam Malaysia Bhd., Bumiputra-Commerce Bank Bhd., Public Bank Bhd., Deutsche Bank Malaysia Bhd. and Citibank Bhd. Four more banks, HSBC Bank Malaysia Bhd., RHB Bank Bhd., OCBC Bank (Malaysia) Bhd. and Maybank Bhd. are expected to join the Financial Process Exchange by June 2006 at the latest. Bank Negara Malaysia will be incorporating Customs duty payment in the Financial Process Exchange project.

Electronic Data Interchange Services

DagangNet Technologies Sdn. Bhd. (DagangNet) continued to provide network and application services for the electronic submission of import/export permits, Customs declarations and payment of duties.

The performance of DagangNet is being monitored through key performance indicators targeted at the quality of service provided, response time and the availability of technical support.

ASEAN Single Window and National Single Window

To further facilitate trade among ASEAN members, an Agreement to Establish and Implement the ASEAN Single Window was signed by ASEAN Economic Ministers on 9 December 2005. The ASEAN Single Window is premised on a set of standardised information parameters, procedures, formalities and international best practices for the clearance and release of cargoes at entry points of ASEAN by integrating processing and decision-making by Customs authorities and relevant ministries. It is aimed at accelerating the release of cargoes being shipped to and from ASEAN in order to reduce transaction costs and time required for Customs clearance.

As a follow-up, ASEAN member countries will establish their respective national single windows, which will gradually integrate electronically within the ASEAN network. Malaysia, Singapore, Brunei Darussalam, the Philippines, Thailand and Indonesia are envisaged to establish their national single windows by 2008, while Cambodia, Myanmar, Lao PDR and Viet Nam are expected to operationalise their national single windows not later than 2012.

DEVELOPMENT OF MANUFACTURING-RELATED SERVICES

In 2005, efforts for the development and promotion of manufacturing-related services were continued, particularly in the areas of regional establishments, support services, branding and marketing.

Tax incentives, in the form of full income tax exemption, are granted to Operational Headquarters (OHQs), Regional Distribution Centres (RDCs) and International Procurement Centres (IPCs). Tax incentives, in the form of Pioneer Status or Investment Tax Allowance and exemption of import duty on sales tax for equipment, are also given to service providers that undertake integrated logistics services, market support services and central utility facilities.

Branding and Marketing

To further foster brand creation and intensify marketing promotion activities, support programmes made available to companies in 2005 were:

- Double deduction for the promotion of Malaysian brands;
- Double deduction for the promotion of exports;
- Market Development Grant; and
- Brand Promotion Grant.

As at 2005, under the Brand Promotion Grant, a total of RM49.1 million grants were approved to companies involved in products and services such as food, E&E, ICT services, pharmaceuticals, healthcare, jewellery, giftware items, rubber gloves, automotive (leather seats), furniture, engineered hardwood flooring, footwear and franchise (food).

The scope of the Market Development Grant was expanded to assist SMEs in defraying part of their costs for promotional activities undertaken to develop export markets.

As at 1 March 2005, additional export promotion activities were made eligible under the Market Development Grant. The activities include participation in:

- industry-related international conferences;
- international trade fairs and trade missions by women entrepreneurs;
- showcasing samples of products and services at Malaysia's Trade Centres in Kuala Lumpur, Dubai and Johannesburg; and
- local training seminars on export.

In June 2005, product packaging improvements and labelling were incorporated into the Grant for Enhancing Product Packaging, Design and Labelling Capabilities for SMEs. A total of nine seminars were conducted nationwide to create awareness among SMEs on the need to enhance capacity building, as well as the need to comply with labelling requirements.

DEVELOPMENT OF STANDARDS

Out of 372 new standards adopted in 2005, a total of 294 or 79 per cent were aligned with international standards. As at December 2005, a total of 4,085 Malaysian Standards were developed. Of this total, 2,111 (51.7 per cent) were aligned with international standards and 122 standards have been made mandatory.

MITI is a member of the National Standards and Accreditation Council. MITI is also represented in a number of other standards and accreditation committees:

- National Medical Testing and Accreditation Committee;
- Malaysian National Standards Committee;
- Malaysian Electrotechnical National Committee;
- National Accreditation Committee; and
- 21 Industry Standards Committees.

Table 3.2:
Malaysian Standards, as at December 2005

Sector	Number of Standards	Number of Mandatory Standards	Number of Standards Aligned Internationally
Total	**4,085**	**122**	**2,111**
Electrotechnical	608	57	489
Information technology, communication and multimedia	544	nil	493
Chemicals	533	4	241
Food and agriculture	520	2	92
Plastics and plastic materials	309	nil	166
Civil engineering and construction	218	39	30
Textiles	202	nil	nil
Mechanical engineering	199	4	87
Petroleum and gas	167	3	59
Rubber and rubber products	152	nil	90
Road vehicles	123	3	45
Quality management and quality assurance	100	nil	96
Occupational health and safety	90	nil	79
Packaging and distribution	79	nil	40
Iron and steel	76	2	39
Fire safety and fire protection	69	8	19
Consumer products and safety	64	nil	22
Environment management	19	nil	15
Medical devices	9	nil	9
Halal Standards	4	nil	nil

Source: Department of Standards, Malaysia

The Industry Standards Committees are responsible for overseeing the effective development of standards and international standardisation in specific sectors, as well as giving final approval for the technical content of draft standards. Depending on the need of each sector, each Industry Standards Committee will establish its own set(s) of Technical Committees and Working Groups. Each Industry Standards Committee has the responsibility to coordinate all standards work undertaken by the appointed Technical Committees and Working Groups.

MITI has also participated in preparatory work in social responsibility issues at the domestic and international levels. MITI is currently a member of the National Mirror Committee on Social Responsibility (chaired by the Department of Standards, Malaysia), which comprises representatives from the Government and industry, and coordinates Malaysia's approach and position in social responsibility-related issues in international negotiations.

RESEARCH AND DEVELOPMENT

Industrial development, as envisioned in Malaysia's development plans, depends heavily on R&D-driven productivity and innovation. With the emphasis on the potential growth areas, the Government has provided an allocation of RM868 million in grants during the Eighth Malaysia Plan to ensure continued support for R&D activities.

The R&D Grant Scheme focused on biotechnology, advanced manufacturing, advanced materials, ICT, nanotechnology and alternative sources of energy, including solar, to encourage innovation among local companies and the development of new products.

ENVIRONMENT

With oil prices escalating, the Government has embarked on a programme to encourage energy efficiency and promote the use of alternative fuels that are environmental friendly.

A policy to encourage the production and use of biofuel is being formulated to ensure the orderly development of the biofuel industry.

The National Biofuel Policy will encompass the formulation of national industrial biofuel legislation, as well as the provision of various incentives to encourage private sector involvement. The Biofuel Act is expected to be tabled in Parliament in 2006.

MITI collaborated with other ministries and Government agencies in various initiatives and programmes on the environment, including:

- National Study on Waste Minimisation in Malaysia - Ministry of Housing and Local Government and Japan International Cooperation Agency;

- Renewable Energy and Energy Efficiency Cooperation - Ministry of Water, Energy and Communication; and Economic Planning Unit and Danish International Development Assistance;

- National Steering Committee on Clean Development Mechanism - Ministry of Natural Resources and Environment and Malaysia Energy Centre;

- National Steering Committee on Broga Project for the Solid Waste Thermal Treatment Plant - Ministry of Housing and Local Government;

- National Committee on the Convention on International Trade in Endangered Species of Wild Fauna and Flora - Ministry of Natural Resources and Environment;

- National Committee on the Review of the Environment Quality Act, 1974 - Department of Environment; and

- The Environmental Quality Council, which functions as an advisory committee to the Minister of Natural Resources and Environment, and provides policy guidance in the formulation of policies and strategies towards a more comprehensive approach to environmental management.

HUMAN RESOURCE AND SKILLS DEVELOPMENT

Academia-Industry Consultative Council

In May 2005, an Academia-Industry Consultative Council was established, with MITI as the coordinator for the forum. The Council brings together industry and academia in contributing towards the formulation of strategies for capacity building in trade and industry.

The objectives of the Council are to:

- narrow the gap and mismatch between skills supply and demand;

- facilitate the collaboration of market-driven research and skills development programmes; and

- maximise the utilisation of resources in both academia and industry.

Skills Enhancement Programmes

In 2005, a total of 18,462 school leavers were awarded Malaysian Skills Certificates (*Sijil Kemahiran Malaysia*) through 683 accredited skills training centres. As at December 2005, the centres conducted 1,096 skills enhancement programmes.

National Dual Training System

The latest initiative in enhancing Malaysia's skills delivery system is the implementation of the National Dual Training System (*Skim Latihan Dual Nasional*). Trainees selected by participating employers will undergo both theoretical study in training institutions, and practical training at the workplace itself.

OUTLOOK

Against a backdrop of intense competition for FDIs, the Government working in tandem with the private sector, will endeavour to fine-tune the strategies, policies and initiatives to ensure Malaysia remains competitive. The Government will continue to improve the public sector services delivery system and foster a conducive environment for business, including further reducing the costs of doing business and leveraging on outsourcing to enhance competitiveness.

The launching of the Ninth Malaysia Plan and the Third Industrial Master Plan in the first half of 2006 are key milestones, aimed at reinforcing the contribution of manufacturing and services in enhancing Malaysia's economic growth in the medium and long term.

Efforts will be intensified to accelerate the development and growth of the SMEs. More targeted initiatives towards nurturing potential areas of growth, such as biotechnology and other high technology industries, are envisaged in the Ninth Malaysia Plan and the Third Industrial Master Plan. Improving trade facilitation nationally and encouraging domestic industries to adopt new technologies, including ICT-based tools, are important priorities.

The promotion of standards, including Malaysian *Halal* Standard, as well as closer international cooperation, through mutual recognition agreements, are envisaged to be given greater focus.

Chapter 4

Investments In The Manufacturing Sector

OVERVIEW

In 2005, Malaysia continued to attract significant levels of investments in the manufacturing sector. A total of 1,026 projects were approved, involving investments of RM31 billion, compared with 1,101 projects with investments amounting to RM28.7 billion in 2004. Of the total, foreign investments amounted to RM17.9 billion or 57.7 per cent, while domestic investments totalled RM13.1 billion (42.3 per cent).

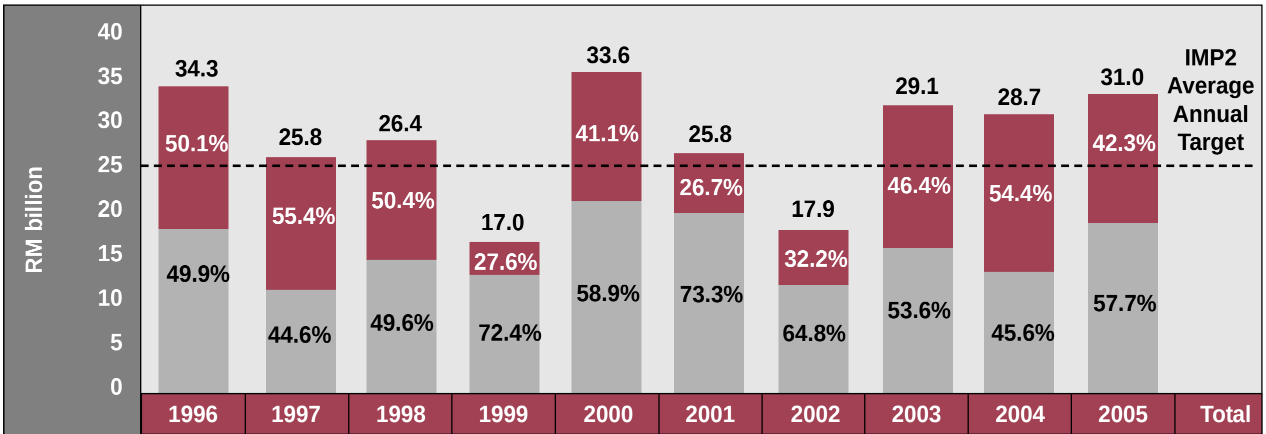
Investments approved in 2005 were the highest recorded since 1996, except for the year 2000 when the amount registered was RM33.6 billion. Investments approved in 2005 exceeded the average annual investment target of RM25 billion set during the Second Industrial Master Plan (IMP2), by 24 per cent. The total investment approved during the IMP2 period (1996-2005), which amounted to RM269.7 billion, exceeded the IMP2 target by RM19.7 billion.

New Projects

Of the 1,026 projects approved in 2005, a total of 572 (56 per cent) were new projects with investments of RM13.8 billion, accounting for 44.5 per cent of total investment. In comparison, a total of 602 new projects with investments of RM18.6 billion were approved in 2004. Investments in new projects in 2005 were concentrated in five industries, namely electrical and electronics (E&E) totalling RM2.7 billion, basic metal products (RM2.2 billion), scientific and measuring equipment (RM1.3 billion), transport equipment (RM1.1 billion) and chemicals and chemical products (RM954.5 million).

In 2005, a total of 365 new projects or 64 per cent of all new projects approved involved investments of less than RM10 million each.

Chart 4.1:
Investments in Projects Approved, 1996-2005



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Total
Total (RM billion)	**34.3**	**25.8**	**26.4**	**17.0**	**33.6**	**25.8**	**17.9**	**29.1**	**28.7**	**31.0**	**269.7**
DI	17.2	14.3	13.3	4.7	13.8	6.9	6.3	13.5	15.6	13.1	**118.8**
FDI	17.1	11.5	13.1	12.3	19.8	18.9	11.6	15.6	13.1	17.9	**150.9**

Source: Malaysian Industrial Development Authority
Note: DI – Domestic Investments
FDI – Foreign Direct Investments

Table 4.1:
Approved Manufacturing Projects

	Total		New		Expansion/Diversification	
	2005	2004	2005	2004	2005	2004
Number of projects	1,026	1,101	572	602	454	499
Potential employment	114,956	88,634	49,773	51,895	65,183	36,739
	RM million					
Proposed called-up capital	3,693.0	4,449.6	2,712.4	3,342.9	980.6	1,106.7
Malaysian equity	1,624.8	2,706.2	1,438.3	1,976.6	186.5	729.6
- Bumiputera	542.2	1,168.3	522.0	931.9	20.2	236.4
- Public Corporation	5.6	nil	3.8	nil	1.8	nil
- Non-Bumiputera	1,077.0	1,537.9	912.6	1,044.7	164.4	493.2
Foreign equity	2,068.3	1,743.4	1,274.1	1,366.3	794.2	377.1
Loan	9,879.4	14,590.9	6,660.3	10,144.5	3,219.1	4,446.4
Other sources[1]	17,484.0	9,733.1	4,470.4	5,163.0	13,013.6	4,570.1
Total Proposed Capital Investment	**31,056.6**	**28,773.5**	**13,843.2**	**18,650.3**	**17,213.4**	**10,123.2**
- Local	13,173.7	15,629.5	9,156.5	9,554.3	4,017.2	6,075.2
- Foreign	17,882.9	13,144.0	4,686.7	9,096.0	13,196.2	4,048.0

Source: Malaysian Industrial Development Authority
Note: [1] Includes retained earnings and other sources of financing not yet determined at the time of approval.

However, total investment in these projects were relatively small amounting to RM1.5 billion or 10.8 per cent of the total investment approved for new projects. These projects were largely in fabricated metal products (61 projects/RM192.2 million) E&E (49 projects/RM167.1 million), machinery manufacturing (47 projects/RM202.8 million), plastic products (28 projects/RM163.3 million), food manufacturing (27 projects/RM127.8 million), furniture and fixtures (27 projects/RM101.6 million), chemicals and chemical products (23 projects/RM101.6 million) and transport equipment (20 projects/RM89 million) industries. Projects approved include high value-added, high technology products, as well as high-end parts and components and supporting services for multinational corporations (MNCs).

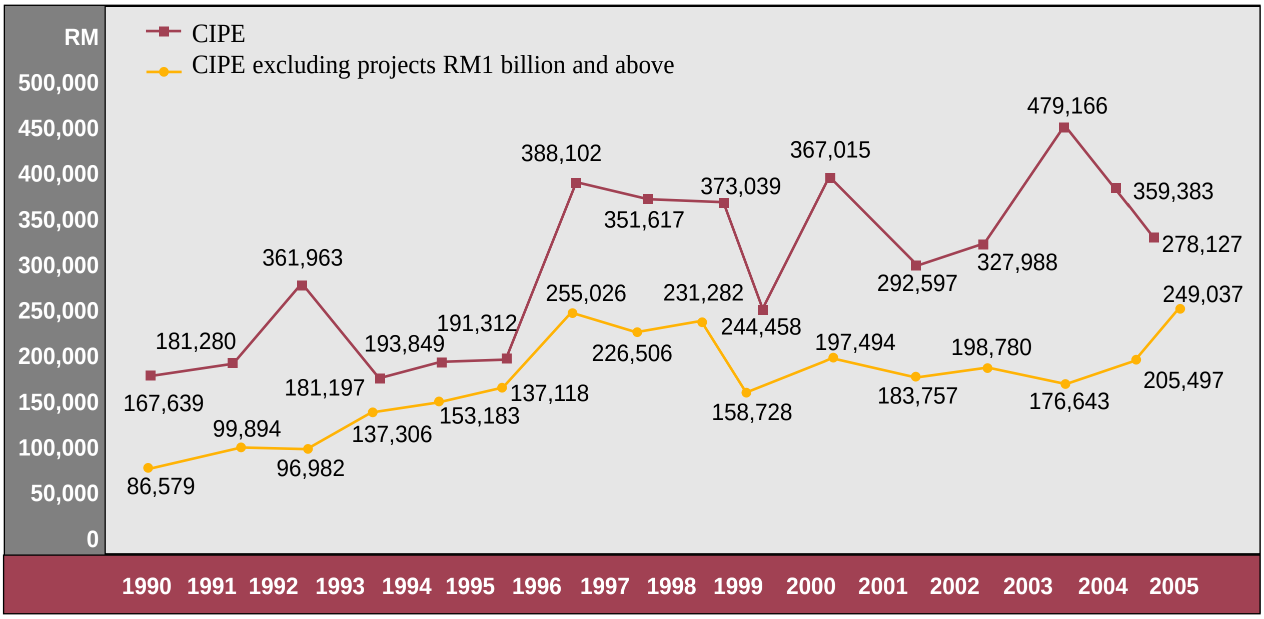
Expansion/Diversification Projects

The strong trend of expansion/diversification of projects by existing manufacturing companies continued in 2005. Of the projects approved, 454 projects (44 per cent) were for expansion/diversification, involving investments of RM17.2 billion and accounting for 55.5 per cent of total investment. In 2004, there were 499 expansion/diversification projects with investments of RM10.1 billion. Investments in expansion/diversification projects in 2005 were mainly in E&E, valued at RM11.1 billion, basic metal products (RM1.1 billion), chemicals and chemical products (RM766.5 million), non-metallic mineral products (RM755 million), plastic products (RM660 million), food manufacturing (RM593.6 million) and rubber products (RM438.6 million) industries.

Capital-Intensive Projects

Capital-intensity (as measured by the capital investment per employee or CIPE ratio) of new projects approved in 2005 was RM278,127 compared with RM359,383 in 2004. The higher CIPE ratio in 2004 was attributable to a number of projects approved with investments exceeding RM1 billion. If projects with investments of RM1 billion and above were discounted to remove the effects of unusually large projects, the CIPE ratio in 2005 would be RM249,037, which was higher than the 2004 figure of RM205,497. The CIPE ratio of manufacturing projects registered an

Chart 4.2:
Approved New Projects by CIPE Ratio, 1990-2005



Source: Malaysian Industrial Development Authority

increasing trend since 1990 (RM167,639). This trend reflects the movement towards more capital-intensive, high value-added and high technology projects.

A total of 58 projects with investments of RM100 million or more each were approved in 2005, of which four had investments exceeding RM1 billion. Investments in these 58 projects amounted to RM19.7 billion or 63.5 per cent of the total investment approved. Capital-intensive projects were mainly in E&E, with a total of 30 projects valued at RM11.1 billion, basic metal products (5 projects/RM2.4 billion), chemicals and chemical products (4 projects/ RM745.3 million), scientific and measuring equipment (3 projects/RM1.3 billion), transport equipment (3 projects/RM605 million) and rubber products (3 projects/RM516.4 million) industries. These projects would have substantial multiplier effects on the manufacturing sector and the economy through their contribution towards forward and backward linkages, transfer of technology, local sourcing and skills development.

Projects Approved by Industry

The E&E industry remained the leading industry in 2005, in terms of investments (RM13.8 billion), as well as the number of projects approved (226). This was followed by basic metal products (RM3.2 billion), chemicals and chemical products (RM1.7 billion), food manufacturing (RM1.5 billion), scientific and measuring equipment (RM1.4 billion) and transport equipment (RM1.4 billion) industries. These six industries accounted for RM23 billion or 74.2 per cent of total investment approved. All these industries, except chemicals and chemical products, registered significantly higher levels of investments in 2005, compared with 2004.

Export-Oriented Projects

Of the 1,026 projects approved in 2005, a total of 363 (35.4 per cent) projects with investments of RM17.9 billion would be exporting at least 80 per cent of their output. Domestic investments in these export-oriented projects amounted to RM4 billion, while foreign investments totalled RM13.9 billion. In comparison, 347 export-oriented projects were approved in 2004, with investments totalling RM7.4 billion. Export-oriented projects approved in 2005 were mainly in the E&E (121 projects/RM12.1 billion), furniture and fixtures (31 projects/RM321.3 million), machinery manufacturing (27 projects/ RM241.7 million), fabricated metal products

Table 4.2:

Approved Manufacturing Projects by Industry, 2005

Industry	2005					2004				
	Total Capital Investment (RM million)	Foreign Investment (RM million)	Domestic Investment (RM million)	Number of Projects	Employment (Persons)	Total Capital Investment (RM million)	Foreign Investment (RM million	Domestic Investment (RM million)	Number of Projects	Employment (Persons)
Total	**31,056.6**	**17,882.9**	**13,173.7**	**1,026**	**114,956**	**28,773.5**	**13,143.9**	**15,629.5**	**1,101**	**88,634**
Electronics and electrical products	13,793.8	11,318.9	2,474.8	226	47,317	8,626.9	6,826.0	1,800.9	195	24,530
Basic metal products	3,205.0	430.5	2,774.5	47	3,034	1,924.7	264.7	1,660.0	32	2,632
Chemicals and chemical products	1,721.0	869.5	851.6	64	2,762	3,009.3	556.3	2,453.1	68	3,093
Food manufacturing	1,457.5	531.9	925.6	75	4,260	1,116.1	384.8	731.4	74	3,465
Scientific and measuring equipment	1,427.0	1,364.5	62.5	15	3,276	82.2	49.5	32.7	16	751
Transport equipment	1,416.1	503.8	912.3	62	5,623	1,324.0	254.6	1,069.4	108	6,669
Plastic products	1,180.0	594.8	585.3	81	6,242	683.0	274.6	408.5	87	5,096
Machinery manufacturing	1,027.4	570.0	457.4	85	4,742	406.6	116.1	290.5	80	2,852
Paper, printing and publishing	953.5	123.8	829.7	23	1,295	4,723.1	1,361.8	3,361.4	36	3,063
Non-metallic mineral products	921.5	596.1	325.4	30	1,480	774.9	380.7	394.2	42	3,187
Rubber products	773.0	215.2	557.8	27	2,049	385.2	109.8	275.4	29	3,306
Fabricated metal products	758.8	250.6	508.2	115	8,467	1,195.0	736.3	458.7	140	8,568
Petroleum products (incl. petrochemicals)	734.7	133.0	601.7	15	276	1,902.5	812.4	1,090.1	16	387
Furniture and fixtures	511.7	63.5	448.2	55	6,587	344.0	102.0	241.9	56	6,179
Textiles and textile products	373.9	146.2	227.8	35	12,800	823.9	368.5	455.4	36	5,865
Wood and wood products	360.5	77.2	283.3	36	3,288	897.5	236.1	661.4	44	6,439
Beverages and tobacco	94.4	77.6	16.8	9	393	377.4	282.5	94.9	9	803
Leather and leather products	9.0	3.6	5.4	1	150	18.5	5.4	13.1	5	156

Source: Malaysian Industrial Development Authority

(25 projects/RM160.2 million) and food manufacturing (24 projects/RM722.7 million) industries.

Employment Opportunities

Projects approved in 2005 will generate a total of 114,956 employment opportunities, of which 77,235 or 67 per cent will be in the managerial, technical, supervisory and skilled workforce categories. Industries that created the most employment opportunities in these categories were E&E (36,874), textiles and textile products (8,273), fabricated metal products (5,534), furniture and fixtures (3,533), machinery manufacturing (3,442), transport equipment (3,235) and scientific and measuring equipment (3,138).

Expatriate Posts

To facilitate technology transfer and supplement the local pool of managerial and technical skills, the Government continued to grant approvals for expatriate posts, particularly managerial and technical posts, to Malaysian as well as foreign-owned companies. Malaysian-owned companies were generally given approval for technical expatriate posts, mainly in the engineering supporting industries, such as moulds, tools and dies, and machining. In 2005, a total of 1,980 expatriate posts were approved, of which 323 were key posts that could be filled permanently by foreigners. The remaining 1,657 were term posts, generally granted for three to five years, during which Malaysians are trained to eventually take over the posts.

APPROVED PROJECTS BY OWNERSHIP

Domestic Investments

Domestic investments in projects approved in 2005 amounted to RM13.1 billion or 42.3 per cent of total investment, indicating a sustained level of interest among domestic investors in the manufacturing sector. In comparison, domestic investments of RM15.6 billion were approved in 2004. The major portion of the investments approved in 2005, amounting to RM9.1 billion, was in new projects, while RM4 billion was in expansion/diversification projects.

Of the 1,026 projects approved, 656 projects or about 64 per cent were Malaysian-owned, involving investments of RM13.4 billion (2004: 699 projects/RM16.5 billion). The majority (443) of the Malaysian-owned projects were new projects, with investments of RM9.5 billion or 70.8 per cent of total investment in Malaysian-owned projects. A total of 213 projects were expansion/diversification projects, involving investments of RM3.9 billion.

Investments in new Malaysian-owned projects were concentrated in the basic metal products (RM2 billion), E&E (RM1.7 billion), paper, printing and publishing (RM861 million), transport equipment (RM853.3 million), chemicals and chemical products (RM630.8 million), food manufacturing (RM494.5 million), petroleum products, including petrochemicals (RM442.2 million) and plastic products (RM433.1 million) industries.

About 65 per cent (287 projects) of the new Malaysian-owned projects involved investments of less than RM10 million each. Most of these projects were in the fabricated metal products (52 projects), E&E (35), machinery manufacturing (30), furniture and fixtures (26), food manufacturing (21) and chemicals and chemical products (20) industries.

Malaysian-owned projects undertaking expansion/diversification were mainly in the E&E (RM939.5 million), basic metal products (RM813.2 million) and food manufacturing (RM442.1 million) industries. Reinvestments were also concentrated in textiles and textile products (RM195 million), transport equipment (RM191.8 million) and furniture and fixtures (RM190.4 million) industries.

A total of 16 Malaysian-owned projects with investments of RM100 million or more each were approved in 2005. Investments in these 16 projects amounted to RM5.9 billion. These capital-intensive projects were mainly in the basic metal products (4 projects/RM2.2 billion), E&E (4 projects/RM1.4 billion), paper, printing and publishing

Table 4.3:

Approved Manufacturing Projects with Malaysian Majority[1] Ownership by Industry

Industry	2005						2004					
	Total		New		Expansion/Diversification		Total		New		Expansion/Diversification	
	Capital Investment (RM million)	Number of Projects	Total Capital Investment (RM million)	Number of Projects	Total Capital Investment (RM million)	Number of Projects	Capital Investment (RM million)	Number of Projects	Total Capital Investment (RM million)	Number of Projects	Total Capital Investment (RM million)	Number of Projects
Total	**13,402.1**	**656**	**9,459.5**	**443**	**3,942.5**	**213**	**16,501.2**	**699**	**10,670.5**	**449**	**5,830.7**	**250**
Basic metal products	2,858.2	35	2,045.0	21	813.2	14	1,662.7	26	1,436.6	17	226.2	9
Electronics and electrical products	2,619.4	99	1,680.0	64	939.5	35	1,795.4	73	465.7	45	1,329.7	28
Transport equipment	1,045.6	44	853.8	27	191.8	17	1,010.8	87	491.8	52	519.0	35
Food manufacturing	936.6	56	494.5	35	442.1	21	718.3	56	314.1	36	404.2	20
Paper, printing and publishing	869.1	10	861.0	7	8.0	3	4,623.1	28	4,398.4	19	224.7	9
Chemicals and chemical products	808.9	43	630.8	36	178.1	7	2,628.1	50	1,333.8	32	1,294.3	18
Plastic products	607.9	51	433.1	33	174.8	18	417.0	48	354.2	34	62.8	14
Fabricated metal products	534.4	81	385.1	63	149.3	18	418.6	82	342.8	58	75.8	24
Petroleum products (incl. petrochemicals)	510.4	10	442.2	4	68.3	6	691.4	10	6.9	4	684.5	6
Machinery manufacturing	457.7	56	338.1	43	119.7	13	303.5	58	263.9	43	39.6	15
Furniture and fixtures	449.8	47	259.4	35	190.4	12	255.6	42	146.7	25	108.9	17
Rubber products	444.9	18	320.1	13	124.8	5	214.4	19	36.0	9	178.5	10
Non-metallic mineral products	322.6	20	149.1	9	173.5	11	349.6	26	235.1	14	114.5	12
Wood and wood products	294.0	28	186.4	20	107.6	8	557.7	29	93.3	14	464.4	15
Textiles and textile products	213.0	22	18.1	4	195.0	18	568.9	27	478.8	15	90.2	12
Scientific and measuring equipment	71.9	8	24.3	5	47.5	3	33.9	8	31.9	7	2.0	1
Beverages and tobacco	17.1	6	17.1	5	0.0[2]	1	100.9	4	100.9	4	nil	nil
Leather and leather products	9.0	1	9.0	1	nil	nil	13.1	3	4.0	1	9.1	2

Source: Malaysian Industrial Development Authority

Note: [1] *Projects with Malaysian equity ownership of more than 50 per cent*

[2] *Expansion project with no additional capital*

(2 projects/RM828.5 million), transport equipment (2 projects/RM455 million) and petroleum products, including petrochemicals (1 project/RM420.6 million) industries.

Of the 656 Malaysian-owned projects approved in 2005, a total of 173 projects (26.4 per cent) with investments amounting to RM4 billion would be exporting at least 80 per cent of their output. Most of these projects were in E&E (35 projects/RM1.7 billion), furniture and fixtures (24 projects/RM268.6 million), food manufacturing (16 projects/ RM411.1 million), wood and wood products (16 projects/RM227.7 million) and rubber products (14 projects/RM424.6 million) industries.

Malaysian-owned projects will generate a total of 53,795 employment opportunities or 46.8 per cent of total employment in approved projects. In 2004, proposed employment in Malaysian-owned projects totalled 51,521 persons.

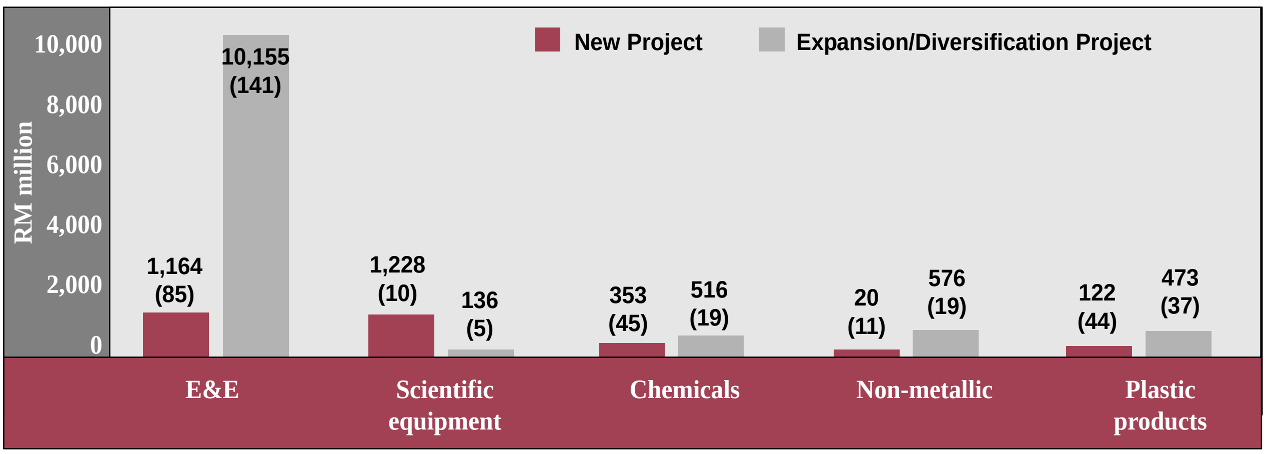
Foreign Investments

Malaysia continued to remain an attractive investment location in the region, as reflected in the increase in foreign investments in 2005. A total of 562 projects, involving foreign investments were approved in 2005. Total foreign investment in these projects increased by 36.6 per cent to RM17.9 billion or 57.7 per cent of the total investment approved, compared with RM13.1 billion in 2004.

Foreign investments in the E&E industry amounted to RM11.3 billion or 63 per cent of the total foreign investment approved in 2005. Investments were also concentrated in scientific and measuring equipment (RM1.4 billion), chemicals and chemical products (RM869.5 million), non-metallic mineral products (RM596.1 million), plastic products (RM594.8 million), machinery manufacturing (RM570 million), food manufacturing (RM531.9 million) and transport equipment (RM503.8 million) industries. Compared with 2004, foreign investments had increased substantially in the E&E, scientific and measuring equipment, machinery manufacturing, plastic products and chemicals and chemical products industries.

Foreign investments in new projects amounted to RM4.7 billion in 2005, compared with RM9.1 billion in 2004. Investments were mainly in the scientific and measuring equipment (RM1.2 billion), E&E (RM1.1 billion), machinery manufacturing (RM443.4 million), food manufacturing (RM371.1 million), chemicals and chemical products (RM353.3 million), petroleum products, including petrochemicals (RM126.9 million), plastic products (RM122.1 million) and basic metal products (RM121.1 million) industries.

Chart 4.3:
Approved Projects with Foreign Participation by Major Industry, 2005



Source: Malaysian Industrial Development Authority
Note: Figures in parentheses refer to number of projects approved

Existing foreign investors continued to reinvest, consolidate, expand and diversify into higher value-added products and activities to enhance the competitiveness of their operations in the country. This was reflected in the high levels of investments in expansion/diversification projects approved in 2005. Foreign companies also relocated critical manufacturing support activities, such as research and development (R&D), and engineering and product design centres, from their home countries to Malaysia.

Foreign investments in expansion/ diversification projects totalled RM13.2 billion in 2005, compared with RM4 billion in 2004. As in previous years, foreign investments were mainly in the E&E industry (RM10.1 billion), followed by the non-metallic mineral products (RM576 million), chemicals and chemical products (RM516.1 million), plastic products (RM472.6 million), basic metal products (RM309.4 million) and rubber products (RM203.7 million) industries.

A total of 52 projects with foreign investments of RM100 million or more each, were approved in 2005 (2004: 29 projects). These capital-intensive projects involved foreign investments of RM13.9 billion or 77.6 per cent of total foreign investment approved. Of the 52 capital-intensive projects approved, three were projects with investments exceeding RM1 billion each. Foreign investments in these three projects amounted to RM3.4 billion or 19 per cent of the total foreign investment approved in 2005.

These capital-intensive projects were in a wide range of industries, including E&E (29 projects/RM10.3 billion), scientific and measuring equipment (3 projects/RM1.3 billion), paper, printing and publishing (2 projects/RM828.5 million), basic metal products (4 projects/RM735.9 million), chemicals and chemical products (3 projects/ RM614.3 million) and transport equipment (3 projects/RM605 million).

Foreign investments of less than RM10 million each were also in 137 projects. Foreign investments in these projects amounted to RM418.7 million and were mainly in the machinery manufacturing, E&E, plastic products, fabricated metal products, food manufacturing and transport equipment industries. These projects involved the production of higher value-added products, technology and skill-intensive operations, as well as support services for the E&E, transport and machinery manufacturing industries.

Major Sources of Foreign Investments

By region, Asia accounted for the highest amount of investments in Malaysia with RM8.6 billion, followed by North America (RM5.2 billion) and Europe (RM3.2 billion). The top five sources of foreign investments were the USA (RM5.2 billion), Japan (RM3.7 billion), Singapore (RM2.9 billion), the Netherlands (RM1.7 billion) and the Republic of Korea (RM673.6 million). These five countries together accounted for 77.5 per cent of total foreign investment in approved projects.

The United States of America

In 2005, investments from the USA amounted to RM5.2 billion, representing the highest investment level recorded over the last five years. The USA also emerged as the largest source of foreign investments in 2005, primarily due to major expansion/ diversification projects undertaken by existing companies.

In 2005, a total of 42 projects were approved with investments of RM5.2 billion, compared with 27 projects with investments of RM1.1 billion in 2004. Of the 42 projects approved, 12 were new projects with investments of RM247.7 million, while 30 projects were for expansion/diversification involving investments of RM4.9 billion.

Investments from the USA in new projects were concentrated in the E&E (3 projects/ RM107.8 million) and transport equipment

Table 4.4:
Approved Projects with Foreign Participation

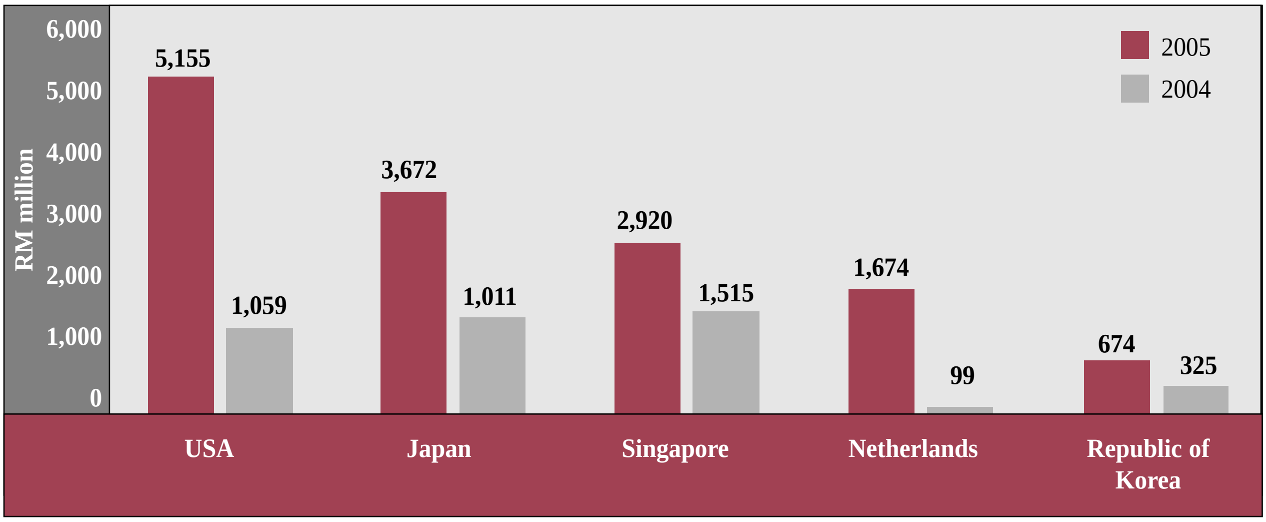
Country	2005		2004	
	Foreign Investment (RM million)	Number of Projects	Foreign Investment (RM million)	Number of Projects
USA	5,155.0	42	1,058.8	27
Japan	3,671.7	84	1,010.7	85
Singapore	2,919.9	130	1,515.5	161
Netherlands	1,674.0	26	99.2	9
Republic of Korea	673.6	24	324.6	25
Switzerland	563.2	6	121.1	3
India	558.9	8	291.7	7
Taiwan	430.7	71	414.5	78
Germany	387.7	11	4,723.7	14
Norway	303.2	5	nil	nil
Panama	174.9	1	nil	nil
Australia	155.9	12	116.5	12
Cayman Islands	154.1	2	57.3	3
Thailand	142.3	5	36.9	3
Hong Kong	105.4	17	49.9	9
United Kingdom	99.2	11	151.0	11
Canada	70.8	5	216.3	7
Indonesia	52.5	3	86.7	2
Italy	41.3	2	30.9	4
People's Republic of China	39.6	11	187.1	19
Sweden	35.9	2	28.7	4
France	35.3	5	137.4	10
Denmark	30.6	3	180.0	1
Brazil	24.5	1	nil	nil
Luxembourg	24.1	1	nil	nil
British Virgin Islands	13.4	3	114.6	6
Austria	12.4	2	nil	nil
Spain	9.8	1	9.7	1
Bangladesh	9.2	3	nil	nil
Russian Federation	7.3	2	nil	nil
Peru	6.1	1	nil	nil
Nigeria	4.9	1	nil	nil
Bermuda	2.9	2	nil	nil
Pakistan	2.2	1	0.9	3
Finland	1.5	1	30.0	1
New Zealand	0.3	1	53.5	3
Turkey	0.0[1]	1	nil	nil
Philippines	nil	nil	215.4	1
Armenia	nil	nil	21.0	1
Iran	nil	nil	4.4	2
Tunisia	nil	nil	1.2	1
Vanuatu	nil	nil	0.0[1]	2

Source: Malaysian Industrial Development Authority
Note: [1] Expansion of capacities or manufacture of additional products not involving additional capital.

(3 projects/RM85.4 million) industries. Among the major new projects approved in the E&E industry were for the manufacture of flexible copper-clad laminates (RM97 million) and the development and production of lithium-ion batteries (RM9.9 million). Investments in the transport equipment industry were mainly in a project to undertake re-manufacture of aircraft landing gears and component parts with investments of RM76 million.

Existing US companies in Malaysia continued to undertake major expansion/diversification projects, particularly in the E&E industry. Of the 30 projects approved for reinvestments, 22 (RM4.8 billion) were in the E&E industry.

Chart 4.4:
Foreign Investments in Approved Projects by Major Country



Source: Malaysian Industrial Development Authority

A major expansion project (RM870 million) by a US company involved the assembly and test of chipsets, processors, networking and communication devices and R&D services over the next five years. Another major expansion project (RM1.1 billion) was for the production of thin film magnetic disks, textured disks, plated polished substrates, plated substrates, aluminium substrates and metalised glass disks. Other major projects were for the production of hard disk drives (RM778 million) and integrated circuits (RM392.8 million).

Japan

Investments from Japan totalled RM3.7 billion in 2005, the highest level registered over the last five years. This was due to a sharp increase in investments in both new and expansion/diversification projects.

Japan was the second largest source of foreign investments in 2005, with investments of RM3.7 billion in 84 projects, compared with RM1 billion in 85 projects in 2004. Of the investments approved in 2005, a total of RM1.4 billion or 36.2 per cent was in 20 new projects, while RM2.3 billion or 63.8 per cent was in 64 expansion/diversification projects.

Investments in new projects were mainly in the scientific and measuring equipment (RM663 million), E&E (RM383.8 million), transport equipment (RM211.9 million), chemicals and chemical products (RM32.7 million) and machinery manufacturing (RM29.2 million) industries. A major new project (RM380 million) approved was for the manufacture of interconnection devices, including the establishment of an R&D centre in Malaysia. Another project (RM150 million) was for the production of automotive body panels and assembly of bumper and instrument modules as well as door trims.

Investments from Japan in expansion/ diversification projects were mainly in the E&E (RM1.3 billion), non-metallic mineral products (RM522 million) and plastic products (RM357.7 million) industries. Together, these three industries constituted about 94 per cent of total investment from Japan in expansion/diversification projects. One large expansion/diversification project in the E&E industry, involving an investment of RM826.7 million, was for the manufacture of code division multiple access mobile phones (3rd Generation and above) for the export market. Another major expansion project was for the production of multilayer ceramic chip capacitors and elements, involving investments of RM157.7 million. Other major expansion/diversification projects were for the production of silicone elastomer switches for E&E instruments/appliances, liquid crystal display television sets, electrical power tools, circuit breakers and adapters.

A major expansion/diversification project (RM522 million) in the non-metallic mineral products industry was for the production of panels and funnels for cathode ray tubes. In the plastic products industry, one major expansion project (RM345 million) was for the manufacture of polyethylene terepthalate films.

Singapore

Investments from Singapore have recorded an increasing trend since 2002. In 2005, there was a significant increase in investments, mainly due to major expansion/diversification projects in the E&E industry. Investments from Singapore amounted to RM2.9 billion, the highest level recorded over the last five years.

Singapore was the third largest source of foreign investments in 2005. A total of 130 projects were approved, with investments amounting to RM2.9 billion, compared with 161 projects involving investments of RM1.5 billion in 2004. Of the investments approved in 2005, a total of RM920.7 million (30 per cent) was in 59 new projects, while RM2 billion or about 70 per cent was in 71 expansion/diversification projects.

Investments in new projects were concentrated in the E&E (RM462.2 million), followed by the food manufacturing (RM274 million) industries, textiles and textile products (RM45.2 million), paper, printing and publishing (RM33.3 million), chemicals and chemical products (RM27.9 million), plastic products (RM27.2 million), basic metal products (RM17.7 million) and machinery manufacturing (RM17.2 million) industries. A major new project (RM380 million) in the E&E industry was for the manufacture of semiconductor devices utilising micro electromechanical systems technology. Two other large projects were for printed circuit board assembly and the manufacture of external storage devices (RM25 million) and the production of game controllers (RM18.6 million).

Investments in expansion/diversification projects were concentrated in the E&E (RM1.7 billion), scientific and measuring equipment (RM109.5 million), plastic products (RM82.3 million), textiles and textile products (RM28.8 million) and fabricated metal products (RM19.6 million) industries. A major diversification project (RM1.5 billion) approved was for the production of colour inkjet cartridges and switches for automotive steering wheel panels. Investments in the plastic products industry were mainly for the production of polyester resins, polyfoam products, and plastic packaging materials for medical devices and other parts and components.

A total of 76 projects or 58.5 per cent of the projects approved with investments from Singapore were proposed to be located in Johor, mainly to support and complement their operations in Singapore. These projects involved investments of RM1.9 billion or 66 per cent of the total investment from Singapore in 2005.

The Netherlands

The Netherlands emerged as the fourth largest source of foreign investments in 2005, with 26 projects approved, involving investments of RM1.7 billion. In 2004, investments from the Netherlands were in nine projects for a total of RM99.2 million. Of the investments approved in 2005, a total of RM56.7 million was for six new projects, while RM1.6 billion or 94 per cent was in 20 expansion/diversification projects.

Investments from the Netherlands in new projects were mainly in the paper, printing and publishing (RM34.6 million), machinery manufacturing (RM12.3 million) and transport equipment (RM6.4 million) industries.

Investments in expansion/diversification projects were concentrated in the E&E (RM1.6 billion) and machinery manufacturing (RM26.9 million) industries. The high levels of investments were mainly due to expansion projects by a leading electronic manufacturing services company. The expansion projects (RM1.5 billion) involved the establishment of a campus to undertake R&D, design, manufacturing, distribution, logistics, procurement, services and training, and to undertake printed circuit board assembly and system integration for industrial electronic applications. Other large expansion/diversification projects approved were for the production of liquid crystal displays and remanufacture of high-end hard disks (RM31.5 million) and automated singulation machines, die sorting machines and encapsulation machines for the semiconductor industry (RM18.6 million).

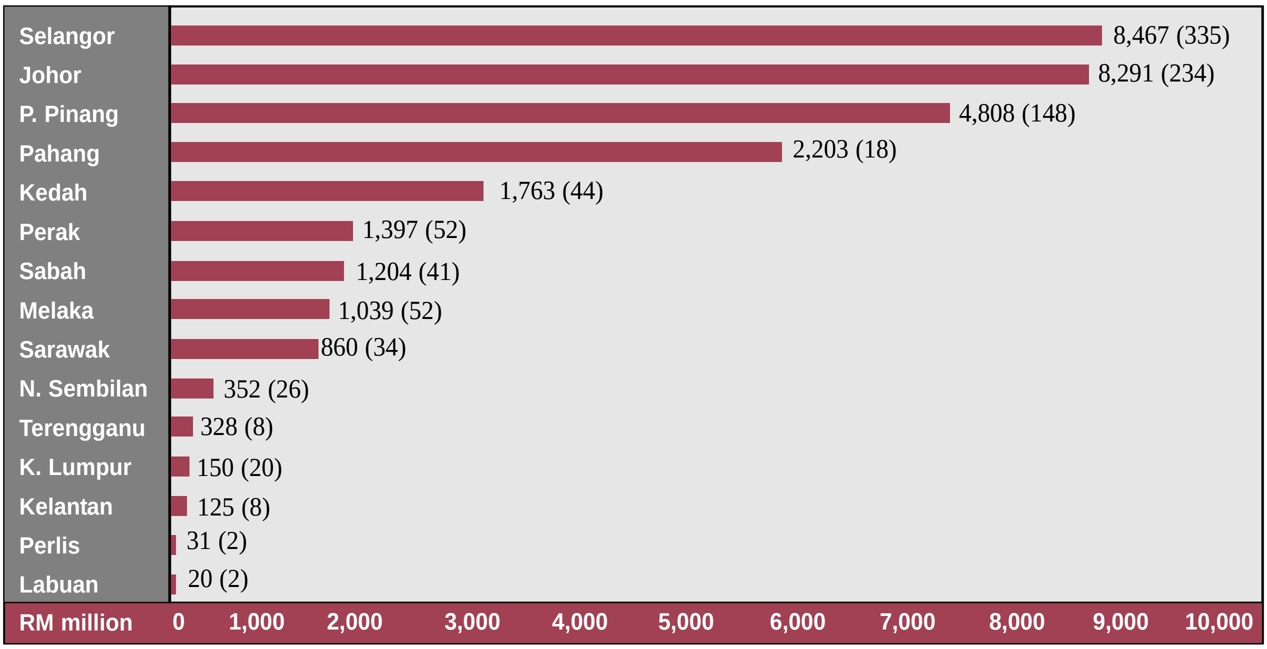
The Republic of Korea

The Republic of Korea continued to be a major source of investments in 2005, with RM673.6 million in 24 projects approved, more than double the investments approved in 2004 (RM324.6 million). Investments in new projects amounted to RM220.6 million (14 projects), while investments in expansion/ diversification projects amounted to RM453 million (10 projects).

Investments in new projects were mainly in the petroleum products, including petrochemicals (RM90.9 million), transport equipment (RM48 million), machinery manufacturing (RM34.2 million), basic metal products (RM18.3 million) and plastic products (RM16.7 million) industries. Major projects approved included the manufacture of melamine powder, floating energy power systems, and audio, video and reverse sensor systems for the automotive industry.

Investments in expansion/diversification projects by Korean companies were largely in the E&E and plastic products industries. One major diversification project approved was for the manufacture of microwave ovens, with an investment of RM392.1 million. Other expansion/diversification projects were for the production of shrinkage fit tension bands and metal stamped components for cathode ray tubes; and isolated phase high voltage busbars, auto switches and encapsulated distribution transformers.

Chart 4.5:
Approved Manufacturing Projects by State, 2005



Source: Malaysian Industrial Development Authority
Note: Figures in parentheses refer to number of projects approved

Table 4.5:
Approved Manufacturing Projects by State, 2005

State												
	Total		New		Expansion/Diversification		Total		New		Expansion/Diversification	
	Capital Investment (RM million)	Number of Projects	Total Capital Investment (RM million)	Number of Projects	Total Capital Investment (RM million)	Number of Projects	Capital Investment (RM million)	Number of Projects	Total Capital Investment (RM million)	Number of Projects	Total Capital Investment (RM million)	Number of Projects
Total	**31,056.6**	**1,026**	**13,843.2**	**572**	**17,213.5**	**454**	**28,773.5**	**1,101**	**18,650.3**	**602**	**10,123.1**	**499**
Selangor	8,467.4	335	3,877.2	200	4,590.2	135	6,050.3	335	3,860.1	211	2,190.2	124
Johor	8,291.3	234	2,922.2	112	5,369.1	122	3,987.1	256	1,318.4	120	2,668.6	136
Pulau Pinang	4,808.2	148	1,180.0	73	3,628.2	75	2,030.3	144	879.8	70	1,150.5	74
Pahang	2,203.2	18	1,950.7	10	252.4	8	994.7	18	469.1	7	525.6	11
Kedah	1,763.4	44	175.3	22	1,588.1	22	5,245.4	65	4,895.9	31	349.5	34
Perak	1,397.4	52	1,100.0	34	297.4	18	1,316.0	54	736.6	31	579.4	23
Sabah	1,204.5	41	1,012.5	31	192.0	10	338.5	40	203.2	32	135.3	8
Melaka	1,039.0	52	243.4	21	795.7	31	1,194.1	56	360.5	33	833.6	23
Sarawak	859.6	34	552.0	20	307.7	14	5,901.2	45	5,061.5	19	839.7	26
Negeri Sembilan	351.6	26	223.3	18	128.3	8	1,054.3	44	466.7	21	587.6	23
Terengganu	327.7	8	300.9	6	26.8	2	138.4	5	25.2	2	113.2	3
W.P. - Kuala Lumpur	149.5	20	113.7	14	35.9	6	163.8	26	47.5	16	116.3	10
Kelantan	124.9	8	123.1	5	1.8	3	106.6	9	73.5	6	33.1	3
Perlis	31.4	2	31.4	2	nil	nil	0.5	1	nil	nil	0.5	1
W.P.- Labuan	20.3	2	20.3	2	nil	nil	nil	nil	nil	nil	nil	nil

Source: Malaysian Industrial Development Authority

APPROVED PROJECTS BY LOCATION

A total of 717 projects or 70 per cent of the total number of projects approved in 2005 were proposed to be located in three states, namely Selangor with 335 projects, Johor (234) and Pulau Pinang (148). In terms of investment, the state of Selangor registered the highest investments at RM8.5 billion, followed by Johor (RM8.3 billion), Pulau Pinang (RM4.8 billion), Pahang (RM2.2 billion), Kedah (RM1.8 billion), Perak (RM1.4 billion), Sabah (RM1.2 billion) and Melaka (RM1 billion).

A large number of new projects were approved to be located in Selangor (200), Johor (112), Pulau Pinang (73), Perak (34) and Sabah (31). Together, these five states accounted for 450 new projects or 79 per cent of the total number of new projects approved in 2005. Expansion/diversification projects were approved to be located mainly in Selangor (135), Johor (122), Pulau Pinang (75), Melaka (31) and Kedah (22). Together, these states accounted for 85 per cent (385 projects) of the total number of projects approved for expansion/diversification. Existing companies continued to undertake expansion/diversification projects, given the strong industrial base that has developed in these states.

Investments in Selangor were in a wide range of industries, such as E&E (RM2.4 billion), transport equipment (RM961.8 million), basic metal products (RM850.9 million), paper, printing and publishing (RM742.6 million), non-metallic mineral products (RM685.1 million) and machinery manufacturing (RM664 million). In Johor, investments were mainly in the E&E (RM5.4 billion) and chemicals and chemical products (RM604.2 million) industries. Investments in Pulau Pinang and Kedah were mainly in the E&E industry, amounting to RM3.8 billion and RM1.3 billion, respectively, while investments in Pahang were largely in the basic metal products industry (RM1.7 billion).

Perak attracted investments in a broad range of industries, such as scientific and measuring equipment (RM663 million), E&E (RM131.3 million), rubber products (RM124.4 million) and chemicals and chemical products (RM105.2 million). Investments in Sabah were concentrated in food manufacturing (RM531.4 million), petroleum products, including petrochemicals (RM420.6 million) and chemicals and chemical products (RM102.6 million), while investments in Melaka were mainly in the E&E (RM564.1 million), furniture and fixtures (RM149.3 million), basic metal products (RM94.3 million) and food manufacturing (RM50.9 million) industries.

The Government continued to promote balanced industrial development in the country by encouraging the dispersal of industries. In this regard, attractive incentives were offered to companies locating their projects in the promoted areas of the Eastern Corridor of Peninsular Malaysia (Kelantan, Terengganu, Pahang and the district of Mersing in Johor) and in Sabah and Sarawak.

In 2005, a total of 109 projects (RM4.7 billion) were approved for location in these promoted areas. Of these projects, more than two-thirds or 75 projects were proposed to be located in Sabah (41 projects) and Sarawak (34 projects). The concentration of the projects in these states was due to the availability of natural resources, which encouraged the establishment of resource-based industries. Of the total investment approved in the promoted areas, RM3.9 billion was in 72 new projects, while RM780.6 million was in 37 expansion/ diversification projects.

APPROVED PROJECTS BY INCENTIVE

In 2005, the Government continued to grant incentives to projects involved in promoted products/activities that would generate spin-offs and economic benefits to the country, such as R&D, technology transfer, industrial linkages, socio-economic

Table 4.6:
Projects Approved with Incentives, 2005

Types of Incentive	Number of Projects	Total Investment (RM million)	Foreign Investment (RM million)	Domestic Investment (RM million)
Total	**367**	**18,816.0**	**12,507.8**	**6,308.2**
General	191	6,033.8	1,457.8	4,576.0
Small-Scale Manufacturing	67	122.4	5.8	116.6
Customised	49	11,069.2	10,007.7	1,061.5
Special Incentives for Selected Activities	28	282.7	47.5	235.2
High Technology	27	296.1	89.1	207.0
Strategic	5	1,011.8	899.9	111.9

Source: Malaysian Industrial Development Authority

development and employment. A total of 367 projects, with investments amounting to RM18.8 billion, were granted incentives.

General Incentives

Companies engaged in promoted products/activities that fulfil criteria such as value-added, technology and/or industrial linkages are eligible for Pioneer Status or Investment Tax Allowance. In 2005, a total of 191 projects were approved general incentives, involving investments of RM6 billion, of which 159 projects (RM3.3 billion) were granted Pioneer Status, while 32 projects (RM2.7 billion) were granted Investment Tax Allowance.

Domestic investments in the 191 projects amounted to RM4.6 billion, while foreign investments totalled RM1.4 billion. These investments were in a broad range of industries, including basic metal products (RM1.8 billion), chemicals and chemical products (RM895.2 million), transport equipment (RM745.4 million), food manufacturing (RM678.8 million) and petroleum products, including petrochemicals (RM420.6 million).

Incentives for Small-Scale Manufacturing Projects

The Government continued to grant incentives to small-scale manufacturing projects to further spur their development. Companies with shareholder funds not exceeding RM500,000 and with at least 60 per cent Malaysian equity that are involved in promoted products/activities are eligible for Pioneer Status or Investment Tax Allowance.

In 2005, a total of 67 small-scale projects, with investments amounting to RM122.4 million, were granted incentives. These projects were mainly in the fabricated metal products (22 projects/RM38.1 million), E&E (13 projects/RM19.6 million), furniture and fixtures (7 projects/RM12.8 million), chemicals and chemical products (4 projects/RM17.7 million) and wood and wood products (4 projects/RM10.1 million) industries.

Customised Incentives

Customised incentives (fiscal and non-fiscal) are granted for projects in selected industries. Projects granted these incentives are those that are technology, capital and R&D intensive, knowledge and skills-driven, and capable of generating significant linkages as well as contributing to the development of manufacturing support services, such as procurement, marketing and distribution. In 2005, a total of 49 projects, with investments of RM11.1 billion, were granted customised incentives. Foreign investments amounted to RM10 billion while domestic investments totalled RM1.1 billion.

A total of 43 projects were in the E&E industry with investments of RM9.9 billion. Major projects approved with customised incentives in the E&E industry included the manufacture of colour inkjet cartridges, semiconductor devices, telecommunication products and hard disk drives. The remaining six projects were in the scientific and measuring equipment, plastic products, basic metal products, transport equipment, fabricated metal and machinery manufacturing industries.

Special Incentives for Selected Activities

The Government provides special incentives for activities such as the utilisation of biomass to produce value-added products. In 2005, a total of 28 projects were approved these incentives, involving investments of RM282.7 million. Domestic investments in these projects amounted to RM235.2 million (83.2 per cent), while foreign investments totalled RM47.5 million (16.8 per cent).

Incentives for High Technology Projects

Companies engaged in promoted activities or for production of promoted products in areas of new and emerging technologies are eligible for incentives for high technology projects. In 2005, a total of 27 projects, with total investment of RM296.1 million, were granted these incentives. Domestic investments in these projects amounted to RM207 million (70 per cent), while foreign investments totalled RM89.1 million (30 per cent).

Incentives for high technology projects were approved in a wide range of industries, including E&E (16 projects/RM169.6 million), chemicals and chemical products (5 projects/ RM80.6 million), machinery manufacturing (2 projects/RM16.2 million) and plastic products (1 project/RM15.1 million).

Incentives for Strategic Projects

Strategic projects are those which are of national importance and generally involve heavy capital investments, high levels of technology and generate extensive linkages. In 2005, five strategic projects, involving investments of RM1 billion, were granted these incentives. Foreign investments in these projects amounted to RM899.9 million (90 per cent), while domestic investments totalled RM111.9 million (10 per cent).

In 2005, strategic projects approved were mainly in the scientific and measuring equipment (2 projects/RM684.9 million), E&E (2 projects/RM242 million) and chemicals and chemical products (1 project/RM85 million) industries.

IMPLEMENTATION OF APPROVED MANUFACTURING PROJECTS

A number of measures have been taken by the Government to assist investors in the implementation of approved projects. These include:

- appointment of Special Project Officers by MIDA to facilitate the speedy implementation of projects in the manufacturing and related-services sectors. Currently, 22 Special Project Officers are assigned to the various states for this purpose. These Special Project Officers are represented in the One Stop Centre committee meetings at both the local authority and state levels. Companies can contact the designated Special Project Officers for all assistance related to their projects; and

- establishment of the Project Implementation and Coordination Unit in MIDA in 2001, to expedite the implementation of projects approved in the manufacturing and related-services sectors. Various issues pertaining to the implementation of approved projects, including the approval of planning permits, building plans, certificates of fitness and business licences were resolved. In addition, many issues were also resolved through regular interaction between industry associations and the Government departments concerned.

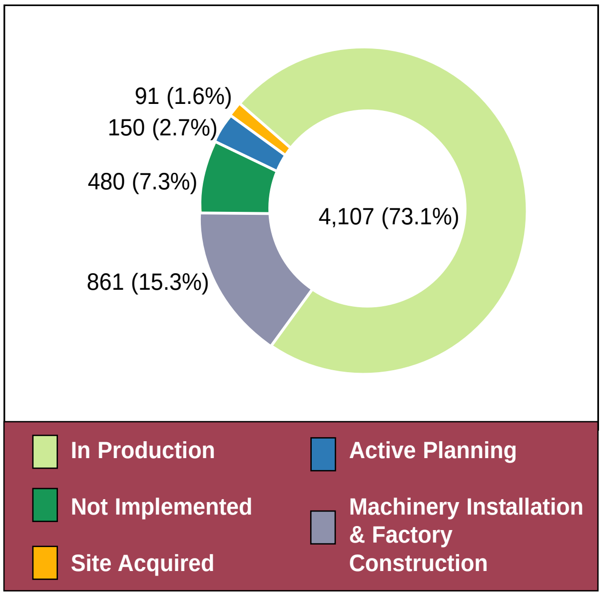
The appointment of Special Project Officers and work done through the Project Implementation and Coordination Unit have created greater awareness among Government agencies and contributed to the speedy implementation of approved projects in both the manufacturing and services sectors.

For the period 2000-2005, a total of 5,617 projects were approved, of which 4,107 projects (73.1 per cent) are in operation, while 150 projects (2.7 per cent) are at the stages of machinery installation and factory construction. Of the 4,257 projects implemented, a total of 1,484 or 34.9 per cent are export-oriented (exporting more than 80 per cent). They are mainly in the following industries:

- E&E - 450 projects
- Furniture and fixtures - 143 projects
- Food manufacturing - 102 projects
- Wood and wood products - 102 projects
- Fabricated metal products - 102 projects
- Machinery manufacturing - 102 projects
- Plastic products - 83 projects

Of the 4,107 projects in operation, 895 projects commenced operations in 2005.

Chart 4.6:
Status of Implementation of Approved Projects, 2000-2005



Source: Malaysian Industrial Development Authority

Total investment in the 4,257 projects approved and implemented for the period 2000-2005 amounted to RM95 billion. In addition, 91 projects, involving investments of RM5.4 billion, have acquired sites, while 861 projects, involving investments of RM44.2 billion, are in the planning stage. These 952 projects, when implemented, will involve investments of RM49.6 billion. In total, the investments realised from the projects approved during the period 2000-2005 are estimated at RM144.6 billion.

In terms of location, 1,283 projects implemented are located in Selangor, Johor (964), Pulau Pinang (655), Kedah (266), Perak (244) and Melaka (197).

OUTLOOK

Global FDI inflows reached a peak of US$1.4 trillion in 2000, before declining for three consecutive years to US$633 billion in 2003. Global FDI inflows have since recovered to US$648 billion in 2004. According to United Nations Conference on Trade and Development's (UNCTAD) preliminary estimates, inflows in 2005 increased to US$897 billion, with both developed and developing countries performing better than in 2004.

Developed countries attracted the major portion of FDI inflows. However, in recent years, there has been a trend of increased FDI inflows to developing countries, particularly into Asia. The share of developing countries in global FDI inflows rose to 36 per cent in 2004, the highest level recorded since 1997. Asia, receiving invesments of US$147.5 billion, was the leading destination for FDI flows to developing countries, with the People's Republic of China (US$61 billion) being the main recipient.

While Malaysia was able to attract high levels of investments in 2005, the Government recognises that global competition for FDIs is increasing in intensity as countries continue to liberalise their investment environment and offer attractive fiscal and non-fiscal incentives. The Government will continue to ensure that the investment environment in the country remains conducive and competitive, particularly in terms of the delivery system, costs of doing business, tax incentives, infrastructure, as well as availability of a skilled and educated workforce.

Efforts will be intensified to target and attract industries in which Malaysia has a strong foundation, as well as investments in potential growth areas. Malaysian companies will be encouraged to further integrate into the regional and global production and services networks of multinational corporations.

Chapter 5 Performance Of The Manufacturing Sector

OVERVIEW

In 2005, the manufacturing sector contributed significantly to the development of the economy, accounting for 31.4 per cent of Gross Domestic Product (GDP). Growth in the manufacturing sector was supported by both domestic and external demand. Sales of manufactured goods increased by 18.4 per cent to RM459.3 billion, and exports of manufactured goods accounted for 77.4 per cent of Malaysia's total export.

Table 5.1:
Manufacturing Sector Performance, 2005

Indicator	2005	2004
Share of Real GDP (%)	31.4	31.6
Production Index (2000=100)	129.3	123.0
Value-Added Growth (%)	4.9	9.8
Total Sales (RM billion)	459.3	388.0
Investments Approved (RM billion)	31.0	28.7
Productivity Growth (%) (Sales Value per Employee)	14.1	17.7
Share of Total Export (%)	77.4	78.4
Share of Total Employment (%)	28.7	28.4

Sources: *Department of Statistics, Malaysia,*
Economic Planning Unit, Malaysia (EPU)
Malaysian Industrial Development Authority (MIDA)
National Productivity Corporation (NPC)
Malaysia External Trade Development Corporation (MATRADE)

The improved performance of the manufacturing sector was also reflected in the expansion of the industrial output (measured by the Industrial Production Index). The Industrial Production Index is computed by the Department of Statistics. Effective 2005, the Industrial Production Index (Base Year 2000 = 100) is based on a sample of 86 industries out of a total of 197 industries. In 2005, the sales value and employment numbers in the manufacturing sector were derived from the Monthly Manufacturing Survey conducted by the Department of Statistics. This survey covers 110 industries out of a total of 197 industries.

Production

Based on the Monthly Manufacturing Survey, the Industrial Production Index of the manufacturing sector increased by 5.1 per cent in 2005 to 129.3 from 123 in 2004. Output of export-oriented industries expanded by 5.7 per cent, while domestic-oriented industries grew by 3.2 per cent.

In 2005, the electrical and electronics (E&E) and chemical industries were the main contributors to the expansion of the export-oriented industries. Transport equipment, processed food and beverages and non-metallic mineral products were the main contributors to the growth of the domestic-oriented industries.

Sales

Based on the same survey, the sales value of the manufacturing sector increased by 18.4 per cent to RM459.3 billion in 2005 from RM388 billion in 2004. For the export-oriented industries, sales value increased by 19.2 per cent to RM366.2 billion in 2005 (accounting for 79.7 per cent of total sales) from RM307.2 billion in 2004. Sales value of the domestic-oriented industries expanded by 15.2 per cent to RM93.1 billion (accounting for 20.3 per cent of total sales) from RM80.8 billion in 2004.

Within the export-oriented industries, the E&E industry recorded the highest sales of RM190.8 billion, followed by chemicals with sales at RM127.4 billion. Together, they accounted for 69.3 per cent of total sales of the manufacturing sector. Domestic-oriented industries that recorded high sales were the

Table 5.2:
Production Indices of Selected Manufacturing Industries

Industry Group	2005	Change (%)	2004
Overall Manufacturing	**129.3**	**5.1**	**123.0**
Export-oriented industries	**131.2**	**5.7**	**124.1**
Electrical and electronics	129.3	4.8	123.4
Chemicals	145.9	10.9	131.5
Textiles and apparel	83.5	3.0	81.0
Wood products	109.6	1.5	107.9
Rubber products	133.8	-0.4	134.3
Palm oil	139.2	8.5	128.2
Machinery and equipment	121.2	-17.0	146.0
Professional and scientific equipment	107.4	-3.7	111.4
Rubber remilling and latex processing	98.7	12.3	87.9
Footwear	106.6	14.5	93.1
Domestic-oriented industries	**122.7**	**3.2**	**118.9**
Non-metallic mineral products	113.2	2.0	111.0
Non-ferrous metal	108.1	1.8	106.2
Iron and steel	103.0	-12.9	118.3
Processed food and beverages	125.9	7.6	117.0
Transport equipment	150.2	8.5	138.5
Fabricated metal products	123.5	-4.9	129.9
Paper products	119.0	7.5	110.7
Tobacco manufactures	87.8	-3.0	90.5
Animal feeds	104.6	-2.9	107.7

Source : Department of Statistics, Malaysia
Note: Base Year 2000 = 100

Table 5.3:
Sales of Selected Manufacturing Industries

Industry Group	2005 (RM billion)	Change (%)	2004 (RM billion)
Total Sales	**459.3**	**18.4**	**388.0**
Export-oriented industries	**366.2**	**19.2**	**307.2**
Electrical and electronics	190.8	15.0	165.9
Chemicals	127.4	32.5	96.1
Wood and wood products	13.7	8.0	12.6
Rubber products	9.4	11.4	8.4
Textiles and apparel	8.8	4.7	8.4
Rubber milling and latex processing	5.4	9.4	4.9
Machinery and equipment	5.3	9.7	4.8
Professional and scientific equipment	5.0	-10.0	5.6
Animal feeds	2.6	-5.5	2.7
Tobacco manufactures	1.3	-14.3	1.5
Footwear	0.5	15.4	0.4
Domestic-oriented industries	**93.1**	**15.2**	**80.8**
Transport equipment	22.2	25.4	17.7
Iron and steel	18.2	33.4	13.6
Processed food and beverages	13.8	10.5	12.5
Non-metallic mineral products	9.5	-4.5	9.9
Fabricated metal products	8.8	8.3	8.1
Paper products	5.4	11.0	4.9
Non-ferrous metal	4.4	21.5	3.6

Source : Department of Statistics, Malaysia

transport equipment industry at RM22.2 billion, followed by iron and steel (RM18.2 billion) and processed food and beverages (RM13.8 billion).

Employment

Based on the Monthly Manufacturing Survey, employment in the manufacturing sector grew by 3.7 per cent to 998,543 workers in 2005

Table 5.4:
Employment in Selected Manufacturing Industries

Product Group	2005 (Persons)	Change (%)	2004 (Persons)
Overall Employment	**998,543**	**3.7**	**962,813**
Export-oriented industries	**737,480**	**3.8**	**710,265**
Electrical and electronics	335,132	5.8	316,705
Chemicals	124,780	7.2	116,376
Wood and wood products	105,202	2.0	103,093
Textiles and apparel	66,506	-3.7	69,074
Rubber products	59,409	3.1	57,620
Professional and scientific equipment	25,986	-8.6	28,423
Machinery and equipment	12,440	11.5	11,152
Rubber remilling and latex processing	4,908	-1.5	4,981
Footwear	3,117	9.7	2,841
Domestic-oriented industries	**261,063**	**3.4**	**252,548**
Transport equipment	58,327	10.8	52,647
Non-metallic mineral products	39,772	-0.1	39,798
Fabricated metal products	38,340	-2.2	39,197
Processed food and beverages	36,155	3.4	34,962
Paper products	21,719	6.8	20,332
Iron and steel	15,696	1.2	15,509
Non-ferrous metal	7,684	1.4	7,580
Animal feeds	2,534	-0.7	2,552
Tobacco manufactures	1,575	-8.7	1,726

Source : Department of Statistics, Malaysia

from 962,813 workers in 2004. Export-oriented industries accounted for 73.9 per cent of the total employment in the manufacturing sector, with the E&E industry recording the largest employment of 335,132 workers, followed by the chemicals (124,780) and wood and wood products (105,202) industries. Domestic-oriented industries accounted for 26.1 per cent of the total employment, with the transport equipment industry employing 58,327 workers, non-metallic mineral (39,772) and fabricated metal products (38,340).

Investments

A total of 1,026 projects were approved in 2005, with investments amounting to RM31 billion, compared with 1,101 projects with investments totalling to RM28.7 billion in 2004. Of the total number approved, 572 (56 per cent) were new projects with investments of RM13.8 billion, while 454 were expansion/diversification projects (RM17.2 billion). Investments in projects approved in 2005 were concentrated in five industries, namely E&E (RM13.8 billion), basic metal products (RM3.2 billion), chemicals and chemical products (RM1.7 billion), food manufacturing (RM1.5 billion) and scientific and measuring equipment (RM1.4 billion).

Exports

In 2005, exports of manufactured goods accounted for 77.4 per cent of Malaysia's total export. Total export of manufactured goods increased by 9.6 per cent to RM413.1 billion in 2005, compared with RM376.8 billion in 2004.

E&E products continued to be Malaysia's leading export earner, accounting for receipts of RM264.7 billion or 49.6 per cent of Malaysia's total export revenue. Other products exported that exceeded the RM10 billion level were chemicals and chemical products (RM26.3 billion), machinery and equipment (RM18.1 billion), wood products (RM14.6 billion), optical and scientific equipment (RM12.3 billion), manufactures of metals (RM10.8 billion) and textiles and apparel (RM10.3 billion).

Imports

Imports expanded by 8.5 per cent to RM434 billion in 2005, the second highest growth rate in the last five years, mainly due to higher imports of capital and intermediate goods. Collectively, these imports accounted for 85.1 per cent of Malaysia's total import.

Table 5.5:
Export Performance of Manufactured Goods

Product Group	2005			2004	
	RM billion	Share (%)	Change (%)	RM billion	Share (%)
Total Export	**533.8**	**100.0**	**11.0**	**480.7**	**100.0**
Exports of Manufactured Goods	**413.1**	**77.4**	**9.6**	**376.8**	**78.4**
Electrical and electronic products	264.7	49.6	9.6	241.5	50.2
Chemicals and chemical products	26.3	4.9	5.4	24.9	5.2
Machinery and equipment	18.1	3.4	16.4	15.6	3.2
Wood products	14.6	2.7	4.0	14.1	2.9
Optical and scientific equipment	12.3	2.3	6.5	11.6	2.4
Metal products	10.8	2.0	12.7	9.6	2.0
Textiles and apparel	10.3	1.9	6.2	9.7	2.0
Iron and steel products	7.0	1.3	-3.2	7.2	1.5
Transport equipment	7.0	1.3	31.3	5.3	1.1
Rubber products	7.0	1.3	13.0	6.2	1.3
Plastic products	6.7	1.3	19.8	5.6	1.2
Processed food	6.5	1.2	7.9	6.1	1.3
Jewellery	3.6	0.7	22.0	3.0	0.6
Non-metallic mineral products	2.9	0.5	-5.5	3.1	0.6
Petroleum products	2.2	0.4	29.1	1.7	0.4
Paper and pulp products	2.1	0.4	17.9	1.8	0.4
Beverages and tobacco	1.7	0.3	4.5	1.6	0.3

Compiled by Ministry of International Trade and Industry

Table 5.6:
Imports by End-Use

Description	2005			2004	
	RM billion	Share (%)	Change (%)	RM billion	Share (%)
Gross Import	**434.0**	**100.0**	**8.5**	**400.1**	**100.0**
Intermediate Goods	**308.3**	**71.0**	**7.2**	**287.7**	**72.0**
Parts and accessories	**163.7**	**37.7**	**2.7**	**159.3**	**40.0**
Semiconductors, printed circuits and parts	102.5	23.6	1.9	100.5	25.0
Parts for office machines	24.3	5.6	4.6	23.2	5.8
Electrical apparatus and resistors	15.2	3.5	8.3	14.0	3.5
Processed industrial supplies	**87.8**	**20.2**	**6.5**	**82.3**	**21.0**
Iron and steel	14.2	3.3	17.6	12.1	3.0
Plastics in primary forms (exclude scrap)	8.5	2.0	10.0	7.8	1.9
Organic chemicals	8.5	2.0	10.3	7.7	1.9
Copper products	5.5	1.3	15.0	4.7	1.2
Paper and paperboard	4.0	0.9	1.9	3.9	1.0
Manufactures of base metals	3.4	0.8	9.2	3.1	0.8
Inorganic chemicals (exclude spent fuel element of nuclear reactors)	2.6	0.6	6.3	2.5	0.6
Primary fuels and lubricants	**15.2**	**3.5**	**61.0**	**9.5**	**2.4**
Parts and accessories for transport equipment	**12.2**	**2.8**	**34.8**	**9.1**	**2.3**
Other processed fuels and lubricants	**12.3**	**2.8**	**24.3**	**9.9**	**2.5**
Primary industrial supplies	**8.9**	**2.0**	**1.6**	**8.8**	**2.2**
Processed food and beverages, mainly for industry	**4.6**	**1.1**	**-9.6**	**5.1**	**1.3**
Primary food and beverages, mainly for industry	**3.7**	**0.9**	**-0.1**	**3.7**	**0.9**
Capital Goods	**60.7**	**14.0**	**9.5**	**55.5**	**14.0**
Capital goods (except transport equipment)	**54.0**	**12.4**	**10.0**	**49.0**	**12.0**
Automatic data processing machines	10.8	2.5	25.1	8.6	2.1
Electrical machinery and apparatus	7.7	1.8	22.5	6.3	1.6

continued ...

Description	2005			2004	
	RM billion	Share (%)	Change (%)	RM billion	Share (%)
Telecommunications equipment (exclude parts)	5.6	1.3	2.8	5.4	1.4
Other machinery specialised for particular industry	4.2	1.0	8.4	3.9	1.0
Transformer and other electric power machines	2.7	0.6	8.9	2.5	0.6
Rotating electric plants and parts	2.4	0.6	10.1	2.2	0.6
Transport equipment for industries	**6.8**	**1.6**	**5.3**	**6.5**	**1.6**

Complied by Ministry of International Trade and Industry

Imports of intermediate goods grew by 7.2 per cent to RM308.3 billion, while imports of capital goods increased by 9.5 per cent to RM60.7 billion. The growth is in tandem with the higher levels of manufacturing activities, as reflected by the 5.1 per cent growth in the Industrial Production Index for the manufacturing sector for the year.

ELECTRICAL AND ELECTRONICS INDUSTRY

The global E&E industry continued to grow in 2005, led by the semiconductor and the ICT sub-sectors. The global semiconductor market grew by 6.9 per cent to US$227.6 billion (RM864.9 billion) in 2005 from US$213 billion (RM809.4 billion) in 2004. Presently, Malaysia is among the world's leading locations for semiconductor assembly and test operations, with export value of RM90 billion in 2005.

Within the manufacturing sector, the E&E industry continued to be the largest industry in the country. The industry continues to be the catalyst for the industrialisation process in the country, and is expected to remain the single largest contributor to exports, output and employment. The industry also contributes towards the technological advancement of Malaysia's manufacturing sector.

Production

The production index for semiconductors devices increased by 5.2 per cent to 165.7 in 2005, compared with 157.5 in 2004, due to the increase in demand for wireless applications in communication, computers and consumer electronics, as well as convergence of computing functions with the digital media, such as cell phones, media players (MP3) and digital cameras.

In 2005, the production of computers and computer peripherals registered an increase of 7.4 per cent and that for wires and cables, 18.8 per cent. However, the production of audio and audio visual products declined, due to the growing demand for these products from the People's Republic of China.

Sales

In 2005, total E&E sales increased by 15 per cent to RM190.8 billion. Sales of computers and computer peripherals sub-sector grew by 45.6 per cent to RM52.5 billion, accounting for 27.5 per cent of total E&E sales in 2005, compared with RM36 billion in 2004. This has

Table 5.7:
Production Index for Selected E&E Products

Products	2005	Change (%)	2004
Semiconductor devices	165.7	5.2	157.5
Computers and computer peripherals	134.4	7.4	125.1
Electronic valves and tubes, printed circuit board and other electronic components	118.4	3.6	114.2
Wires and cables	108.5	18.8	91.4
Audio and audio visual products	78.5	-0.8	79.1

Source: Department of Statistics, Malaysia
Note: Base Year 2000 = 100

Table 5.8:
Sales of Selected E&E Products

Products	2005 (RM million)	Change (%)	2004 (RM million)
Computers and computer peripherals	52,459.7	45.6	36,023.1
Semiconductor devices	43,051.1	2.2	42,114.5
Electronic valves and tubes, printed circuit board and other electronic components	41,055.4	20.3	34,132.0
Audio and audio visual products	27,593.5	-0.9	27,839.1
Wires and cables	5,482.5	15.1	4,761.9

Source: Monthly Manufacturing Survey, Department of Statistics, Malaysia

been attributed to growth in external and domestic demand. The increase in domestic demand, especially from key sectors, such as the Government and education sectors, small and medium-sized businesses and home-users, was due to the decline in the price of computers and computer peripherals.

The sales of semiconductor devices increased by 2.2 per cent to RM43.1 billion in 2005, compared with RM42.1 billion in 2004, due to rapid growth in demand for high value-added products and the adoption of new technology applications, such as digital television, third generation (3G) handsets, streaming video and media player (MP3) by the consumers. Strong external demand, especially by the US electronics market, had a positive impact on the electronics industry in Malaysia.

Sales in the wires and cables sub-sector increased by 15.1 per cent to RM5.5 billion in 2005, compared with RM4.8 billion in 2004, due to higher demand for convergence of computing functions with digital media.

Employment

In 2005, the E&E industry employed 335,132 workers, an increase of 5.8 per cent, compared with 316,705 workers in 2004. In tandem with the growth in output, the electronic valves and tubes and other electronic components segment was the largest employer, employing 97,292 workers, representing 29 per cent of the total E&E industry workforce.

The computers and computer peripherals segment recorded the same trend, registering an increase of 15.1 per cent to 46,851 workers, compared with 40,708 workers in 2004, due to the increase in demand for advanced computing, digital processors and multi-function devices.

Employment in the semiconductor devices sub-sector decreased by 0.8 per cent to 79,666 workers, compared with 80,306 workers in 2004, resulting from increased utilisation of modern technology in the production processes, such as computer-numerically controlled machines and robotics.

Table 5.9:
Employment in Selected E&E Segments

Segment	2005 (Persons)	Change (%)	2004 (Persons)
E&E Industry	**335,132**	**5.8**	**316,705**
Electronic valves and tubes, printed circuit board and other electronic components	97,292	15.8	83,991
Semiconductor devices	79,666	-0.8	80,306
Audio and audio visual products	59,261	3.4	57,322
Computers and computer peripherals	46,851	15.1	40,708
Wires and cables	11,780	-7.3	12,704

Source: Monthly Manufacturing Survey, Department of Statistics, Malaysia

Table 5.10:
Productivity Indicators of Selected E&E Segments

Sub-sector/Segment	Sales Value per Employee (RM'000)			Labour Cost per Employee (RM'000)			Unit Labour Cost (Number)		
	2005	Change (%)	2004	2005	Change (%)	2004	2005	Change (%)	2004
E&E Industry	**569.3**	**8.7**	**523.8**	**22.7**	**0.8**	**22.5**	**0.0398**	**-7.3**	**0.0429**
Computers and computer peripherals	1,119.7	26.5	884.9	21.5	0.5	21.4	0.0192	-20.3	0.0241
Semiconductor devices	540.4	3.0	524.4	27.9	2.0	27.4	0.0517	-1.0	0.0522
Audio and audio visual products	465.6	-4.1	485.7	24.3	6.1	22.9	0.0522	10.6	0.0472
Wires and cables	465.4	24.2	374.8	21.5	11.0	19.4	0.0462	-10.6	0.0517
Electronic valves and tubes, printed circuit boards and other electronic components	422.0	3.8	406.4	20.0	-5.5	21.2	0.0475	-9.0	0.0522

Compiled by National Productivity Corporation based on Monthly Manufacturing Survey of Department of Statistics, Malaysia

Productivity

Sales Value per Employee of the E&E industry grew by 8.7 per cent to RM569,340 in 2005 from RM523,820 in 2004. The computers and computer peripherals segment recorded the highest increase of 26.5 per cent in Sales Value per Employee, which was attributed to higher value-added electronic parts and accessories, such as flat and high definition displays for computers and computer peripheral products. Other segments that recorded increases in Sales Value per Employee were wires and cables, at 24.2 per cent, semiconductor devices (3 per cent) and electronic valves and tubes and other electronic components (3.8 per cent). The audio and audio visual products segment registered a decline in Sales Value per Employee of 4.1 per cent.

Labour Cost per Employee of the E&E industry increased marginally by 0.8 per cent to RM22,650. Labour cost competitiveness of the industry improved as Sales Value per Employee grew faster than Labour Cost per Employee. This was further supported by a significant reduction in Unit Labour Cost of 7.3 per cent.

Investments

In 2005, a total of 226 E&E projects, with investments of RM13.8 billion, were approved. Of the total projects approved, 85 projects with investments of RM2.7 billion were new projects and 141 (RM11.1 billion) were expansion/diversification projects.

Approved investments in 2005 recorded an increase of 60.5 per cent, compared with 2004. Foreign investors remained an important source of investment in the E&E industry. In 2005, foreign investments in approved projects amounted to RM11.3 billion, accounting for 81.9 per cent of the total investment, while domestic investments totalled RM2.5 billion (18.1 per cent). In comparison, foreign investments amounted to RM6.8 billion, while domestic investments were RM1.8 billion in 2004.

Investments in 2005 were mainly in the electronic components and industrial electronics sub-sectors. The electronic components sub-sector continued to account for the largest share (58.7 per cent) of the total investment in E&E, followed by the industrial electronics sub-sector (34.8 per cent), electrical products sub-sector (5.1 per cent) and consumer electronics sub-sector (1.4 per cent).

Exports

In 2005, E&E exports increased by 9.6 per cent to RM264.7 billion, accounting for 64.1

Table 5.11:
Exports of Selected E&E Products

Description	2005			2004	
	RM billion	Share (%)	Change (%)	RM billion	Share (%)
Total Export of E&E Products	**264.7**	**100.0**	**9.6**	**241.5**	**100.0**
Electrical machinery, apparatus and appliances and parts	**127.2**	**48.0**	**8.4**	**117.3**	**48.6**
Semiconductor devices, integrated circuits, micro-assemblies, transistors and valves	90.0	34.0	0.8	89.3	37.0
Electrical apparatus for electrical circuits and printed circuits	22.7	8.6	61.2	14.1	5.8
Electrical machinery and apparatus	7.6	2.9	6.6	7.1	3.0
Electrical and non-electrical household equipment	2.8	1.1	3.9	2.7	1.1
Equipment for distributing electricity	2.1	0.8	12.2	1.9	0.8
Electrical power machinery and parts	1.7	0.6	-9.7	1.9	0.8
Electro-diagnostic apparatus, medical and radiology	0.2	0.1	-28.1	0.3	0.1
Office machines and automatic data processing machines and parts	**86.8**	**32.8**	**13.1**	**76.7**	**31.8**
Automatic data processing machines	54.0	20.4	17.5	45.9	19.0
Parts for office machines and automatic data processing machines	32.3	12.2	6.7	30.3	12.6
Telecommunications and sound recording equipment	**50.8**	**19.2**	**7.0**	**47.4**	**19.6**
Telecommunications equipment and parts	28.1	10.6	11.3	25.3	10.5
Television receivers	7.1	2.7	-9.1	7.8	3.2
Sound recorders	8.3	3.1	8.0	7.7	3.2
Radio broadcast receiver	7.2	2.7	9.0	6.7	2.8

Complied by Ministry of International Trade and Industry

per cent of total exports of manufactured goods, compared with RM241.5 billion in 2004. All three major sub-sectors, namely electrical machinery, apparatus and appliances and parts; office machines and automatic data processing machines and parts; and telecommunications and sound recording equipment, registered increases in exports.

Semiconductor devices, integrated circuits, micro-assemblies, transistors and valves continued to be the main export products, valued at RM90 billion, or accounting for 34 per cent of total E&E exports in 2005. Other major E&E exports that recorded increases were automatic data processing machines (RM54 billion), parts for office machines and automatic data processing machines (RM32.3 billion), telecommunications equipment and parts (RM28.1 billion) and electrical apparatus for electrical circuits and printed circuits (RM22.7 billion).

The USA continued to be Malaysia's largest single export market for E&E products, with exports increasing by 19.3 per cent to RM82 billion. In 2005, Malaysia was ranked as the fourth largest import source of E&E products for the USA, accounting for 9 per cent of its total E&E import. The East Asian region, including ASEAN, remained an important export destination for Malaysia's E&E products. In 2005, this region accounted for 47.8 per cent of Malaysia's total export of E&E products.

The USA, Japan, Singapore and Western Europe remained major export destinations due to their high purchasing power and consumer usage and preference for the latest electrical and electronic gadgets.

Imports

Imports of E&E products increased by 6.1 per cent to RM193.2 billion, compared with RM182.1 billion in 2004. The increase was largely due to the growth in imports of

Table 5.12:
Imports of Selected E&E Products

Description	2005			2004	
	RM billion	Share (%)	Change (%)	RM billion	Share (%)
Total Import of E&E Products	**193.2**	**100.0**	**6.1**	**182.1**	**100.0**
Electrical machinery, apparatus and appliances and parts	**140.3**	**72.6**	**5.1**	**133. 4**	**73.3**
Semiconductor devices, ICs, micro-assemblies, transistors and valves	105.7	54.7	2.7	102.9	56.5
Electrical apparatus for electrical circuits and printed circuits	16.1	8.4	11.4	14.5	8.0
Electrical machinery and apparatus	12.1	6.2	20.0	10.1	5.5
Electrical power machinery and parts	3.1	1.6	0.4	3.1	1.7
Equipment for distributing electricity	1.8	0.9	9.1	1.6	0.9
Electrical and non-electrical household equipment	1.1	0.6	16.9	0.9	0.5
Electro-diagnostic apparatus, medical, and radiological equipment	0.4	0.2	42.1	0.3	0.2
Office machines and automatic data processing machines and parts	**36.6**	**19.0**	**12.0**	**32.7**	**17.9**
Parts for office machines and automatic data processing machines	25.3	13.1	7.6	23.5	12.9
Automatic data processing machines	11.0	5.7	24.6	8.8	4.8
Telecommunications and sound recording equipment	**16.3**	**8.4**	**1.8**	**16.0**	**8.8**
Telecommunications equipment and parts	14.3	7.4	-1.1	14.4	7.9
Sound recorders	1.4	0.7	31.3	1.1	0.6
Television receivers	0.3	0.2	10.8	0.3	0.2
Radio broadcast receiver	0.3	0.1	20.0	0.2	0.1

Complied by Ministry of International Trade and Industry

Table 5.13:
Malaysian Standards for E&E Products Introduced in 2005

	Title
MS IEC 60335-2-29: 2005	Household and similar electrical appliances - Safety - Part 2-29: Particular requirements for battery chargers (ICS29.200;97.180).
MS IEC 60439-1:2005	Low-voltage switchgear and control gear assemblies - Part 1 : Type-tested and partially type-tested assemblies (ICS 29.130.20)
MS IEC 60439-4:2005	Low-voltage switchgear and controlgear assemblies - Part 4 : Particular requirements for assemblies for construction sites (ACS) (ICS : 29.130.20)
MS 60269-2:2005	Low-voltage fuses - Part 2 : Supplementary requirements for fuses for use by authorised persons (fuses mainly for industrial application (ICS : 29.120.50)
MS IEC 60269-4-1:2005	Low-voltage fuses-Part 4-1 : Supplementary requirements for fuse-links for the protection of semiconductor devices - Section I to III : examples of types of standardised fuse-link (ICS : 29.120.50)
MS IEC 60529:2005	Degrees of protection provided by enclosures (IP code) (First revision) (ICS : 13.260, 29.020)
MS IEC 60947-4-2:2005	Low-voltage switchgear and control gear - Part 4-2 : Contactors and motor-starters - AC semiconductor motor controllers and starters (ICS : 29.130.20)

Source: Department of Standards, Malaysia, components used for finished products. The electrical machinery, apparatus and appliances product group remained the main import of E&E products, accounting for 72.6 per cent of total E&E import.

Developments

In 2005, a total of seven Malaysian Standards (MS) for E&E products were introduced.

The development of the E&E industry in Malaysia is focused on sustaining growth and expanding into new high technology and value-added products, such as micro-electro-mechanical systems, advanced electronics display technology, photonics and nanotechnology.

In order to expand the E&E industry for the global market, various measures are being undertaken to enhance market access, including to:

- establish strong domestic market for Malaysian products;
- encourage local companies to venture into export market;
- promote Malaysian Brand Products;
- promote outsourcing and outward investments; and
- utilise free trade agreements (FTAs) to expand market access.

TRANSPORT EQUIPMENT INDUSTRY

The transport equipment industry comprises four major sub-sectors: automotive (includes the manufacture or assembly of motor vehicles and motorcycles), automotive components and parts, marine and aerospace sub-sectors.

Automotive Sub-sector

Production

Total production of passenger and commercial vehicles in 2005 grew by 19.4 per cent to 563,408 units from 471,975 units in 2004.

Table 5.14:
Production of Motor Vehicles by Segment

Segment	2005 (Units)	Change (%)	2004 (Units)
Total	**563,408**	**19.4**	**471,975**
Passenger cars[1]	521,384	21.2	430,279
Manufacturers	334,763	6.1	315,545
Assemblers	186,621	62.7	114,734
Commercial vehicles	42,024	0.8	41,696
Manufacturers	7,231	- 2.3	7,401
Assemblers	34,793	1.5	34,295

Source: Reclassified, based on data from Malaysian Automotive Association (MAA)
Note: [1] Include vans, multi-purpose vehicles, sport utility vehicles and four-wheel drive vehicles

For passenger cars, production grew by 21.2 per cent to 521,384 units in 2005, compared with 430,279 units in 2004. For commercial vehicles, production grew by 0.8 per cent to 42,024 units in 2005, compared with 41,696 units in 2004.

The share of passenger cars to total production increased to 92.5 per cent in 2005, compared with 91.2 per cent in 2004. The increase was due to positive market response, especially with the introduction of new models and the enhancement in design for existing models. In 2005, there were more than 60 new models and variants launched. The increase in production was related to action taken by local manufacturers and assemblers in utilising their existing capacity to reduce cost in order to be more competitive.

Within the passenger car segment, production by the national car manufacturers grew by 6.1 per cent to 334,763 units in 2005. Production by assemblers grew by 62.7 per cent to 186,621

Table 5.15:
Capacity Utilisation in Automotive Sub-Sector

Category	2005	Change (%)	2004
Total installed capacity (units)	896,000	0.6	891,000
Actual production (units)	563,408	19.4	471,975
Capacity utilisation (%)	62.9	9.9	53.0

Source: Malaysian Automotive Association units. In terms of total production of passenger cars, the share of the national car manufacturers decreased to 64.2 per cent, compared with 73.3 per cent in the previous year.

Based on the new classification of passenger cars and commercial vehicles, production of commercial vehicles by manufacturers and assemblers showed a mixed trend. In 2005, the production of commercial vehicles by manufacturers registered a negative growth of 2.3 per cent, while production by assemblers recorded a positive growth of 1.5 per cent.

The total installed capacity for the automotive sub-sector increased by 0.6 per cent to 896,000 units in 2005. Capacity utilisation rate also increased to 62.9 per cent, compared with 53 per cent in 2004.

Sales

The overall sales in the automotive sub-sector increased by 32 per cent to RM14.8 billion in 2005 from RM11.2 billion in 2004. The increase was mainly due to the introduction of new models together with aggressive and effective promotion packages, such as on-the-road price discounts, attractive hire purchase rates of as low as 2.6 per cent and supported by the recent Government measure to lower the road tax for passenger cars with engine capacity of 1,600cc and below. In terms of units, sales of passenger cars increased by 13.6 per cent, while commercial vehicles decreased marginally by 0.1 per cent.

Passenger cars recorded sales of 531,034 units in 2005, or 96.4 per cent of total sales in the automotive sub-sector. Sales of national cars continued to dominate the market with 315,565 units sold in 2005, an increase of 5.5 per cent, compared with 299,014 units sold in 2004. Sales of non-national cars registered a positive growth of 27.8 per cent to 215,469 units in 2005 from 168,558 units in 2004.

In terms of market share of passenger cars, sales by manufacturers accounted for 59.4 per cent, while sales by non-national assemblers accounted for 40.6 per cent of total sales, compared with a share of 36 per cent recorded in 2004.

Table 5.16:
Sales in Automotive Sub-Sector

Segment	2005 (Units)	Change (%)	2004 (Units)
Total	**551,042**	**13.0**	**487,605**
Passenger cars[1]	531,034	13.6	467,572
Manufacturers	315,565	5.5	299,014
Assemblers	215,469	27.8	168,558
Commercial vehicles	20,008	- 0.1	20,033
Manufacturers	5,275	- 49.9	10,531
Assemblers	14,733	55.1	9,502

Source: Reclassified, based on data from Malaysian Automotive Association (MAA)
Note: [1]Include vans, multi-purpose vehicles, sport utility vehicles and four-wheel drive vehicles

For commercial vehicles, while the non-national assemblers dominated the market in 2005, with a market share of 73.6 per cent, sales by national manufacturers decreased by 49.9 per cent to 5,275 units in 2005 from 10,531 units in 2004.

Malaysia recorded the highest sales for passenger cars among the five major ASEAN markets in 2005, with total sales of 531,034 units, accounting for 59 per cent of total sales in ASEAN 5. For 2005, sales of passenger cars in Thailand totalled 188,211 units, Singapore (108,741 units), Indonesia, (35,529 units), and the Philippines (35,361 units). However, in the commercial vehicle segment, Malaysia ranked third after Indonesia, recording a share of 11.9 per cent of total sales of commercial vehicles in the region.

Employment

Total employment in the automotive sub-sector increased by 12 per cent to 22,541 in 2005, from 20,100 in 2004. The increase was to meet the growing demand for motor vehicles.

Productivity

The automotive sub-sector registered a 13.2 per cent growth in Sales Value per Employee from RM336,980 in 2004 to RM381,370 in 2005. Within the sub-sector, motor vehicles recorded the highest growth in Sales Value per

Box 5.1: National Automotive Policy

INTRODUCTION

Since the establishment of Proton in 1985, Malaysia has succeeded in developing integrated capabilities in the automotive industry, which include local design and styling capability, full scale manufacturing operations and extensive local participation in the supply of components. Today, Malaysia is ASEAN's largest passenger vehicle market with more than 500,000 vehicles sold annually, of which 90 per cent are manufactured or assembled domestically.

Nevertheless, much of the country's success in developing the domestic automotive industry has been facilitated by policies that have promoted local vehicle manufacturers. Moving forward, global and domestic challenges will put the sustainability of this industry at risk.

The global industry is seeing slow growth, value destruction and massive rationalisation, driving vehicle manufacturers to merge to achieve even higher levels in economies of scale. Recognising this global environment, the National Automotive Policy (NAP) seeks to address the manifold issues and challenges and to transform the domestic automotive sector into a more viable, competitive and significant contributor to the economy.

Moving forward, Government policy and support will be focused on automotive industry participants making a sustainable economic contribution. The key drivers for such contribution will be economies of scale, industry linkages and competitive value-added activities.

OBJECTIVES OF THE NATIONAL AUTOMOTIVE POLICY

The overall objective of the NAP is to generate sustainable economic value creation. This will maximise the long term contribution of the automotive sector to the national economy and at the same time, ultimately benefit the Malaysian consumer. The need to create economic value entails that the industry must continue to require supportive Government policies in order to become fully competitive internationally.

The NAP therefore aims to facilitate the required transformation and optimal integration of the national industry into regional and global industry networks. The urgency of the transformation is driven by an increasingly liberalised and competitive global environment. Consequently, the Government has set out the following objectives for the national automotive sector:

- To promote a competitive and viable domestic automotive sector, in particular the national car manufacturers;
- To promote Malaysia as an automotive regional hub, focusing on niche areas;
- To promote a sustainable level of economic value added and enhance domestic capabilities;
- To promote a higher level of exports of vehicles, as well as components and parts that are competitive in the global markets;
- To promote competitive and broad-based Bumiputera participation in the domestic automotive sector; and
- To safeguard the interests of consumers in terms of value for money, safety and quality of products and services.

THRUSTS OF THE NATIONAL AUTOMOTIVE POLICY

Provide Government Support and Incentives Based on Sustainable Economic Contribution

The Government will continue to nurture and support the development of the domestic automotive sector via a comprehensive package of grants and incentives. Such Government support and incentives will be aimed at optimising sustainable economic contribution, namely the scale of operations, extent of industry linkages, and the development of local and Bumiputera capabilities.

A sustainable level of economic contribution must ultimately relate to the type and level of value added activities, which will be competitive for the domestic market and for export in a fully liberalised environment. Thus, it would not be consistent with this policy to seek to maintain a level of value added activities which will not be viable and sustainable in the long run.

The level of support will also be correlated to the level of economic contribution and value-add. In this context, a large-scale manufacturing concern with exports and high industry linkages will be favoured over a pure assembly operation with little value-added activities. Similarly, greater emphasis will be given to sales, distribution and after sales activities, compared with pure importation of vehicles.

Support for manufacturing will come principally in the form of access to the Industrial Adjustment Fund and Research & Development (R&D) Grants. These grants and incentives will be given based on pre-agreed conditions and timely achievement of Key Performance Indicators.

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Increased Scale via Rationalisation to Enhance Competitiveness

For the industry at large, all participants across the value chain will be encouraged to focus on achieving a scale of operations that ensures their enduring competitive viability.

The Government will encourage rationalisation initiatives in the domestic automotive sector in order to create a leaner and more sustainable industry structure. A leaner industry structure throughout the value chain will enable industry participants to achieve a sufficient level of scale to be competitive.

In this respect, the Government will promote, through grants and incentives, two national manufacturers in the high-volume car segment to ensure sufficient scale and industry linkage. To enable achievement of the required scale and industry linkage, these national manufacturers must be able to rationalise their models and platforms portfolio.

The rationalisation at the vehicle manufacturers' level will consequently enable rationalisation of the component sector that will lead to greater scale, skills and improved quality. The end result will be a smaller number of vendors, all of whom will be operating at a scale, cost and quality level that will allow them to remain competitive and be able to export.

Promote Strategic Linkages with International Partners

Scale and focus are necessary to achieve greater competitiveness but, they are not sufficient in themselves. In addition, global best practices and industry linkage are other important key success factors for the automotive industry. Therefore, the Government will continue to encourage industry participants to collaborate with external parties to establish strategic tie-ups. Apart from sharing scale and resources, such strategic tie-ups open up opportunities and provide access for domestic industry participants to enter the global automotive supply chain and vice versa. Moreover, such strategic tie-ups also compel domestic industry participants to adopt best practice management, processes and procedures to deliver on higher quality standards that are necessary in accessing international markets.

Become a Regional Hub Focusing on Niche Areas and Complementary Activities

The Government aims to position Malaysia as a regional manufacturing and assembly hub by encouraging existing participants to deepen their commitment in Malaysia. The Government will encourage existing vehicle manufacturers to rationalise the models assembled in Malaysia, scale up focused production and deepen industry linkages, in order to export competitively. It is expected that they will not primarily compete with high-volume national manufacturers in terms of pricing or target market.

The expansion of these participants and the deepening of industry linkages will also lead to greater scale and improved quality of the industry's component economies of vendor sector, thereby improving overall viability of the industry.

SPECIFIC POLICY INSTRUMENTS

Excise Duty Structure

The excise duty structure has been streamlined, resulting in an overall reduction in the effective tax rate on most motor vehicles and a reduction in the tax differential between the different categories of motor vehicles for example, cars, MPVs, 4WD and between the different engine capacities. It is intended that the streamlining of the tax structure will promote greater transparency in pricing.

Gazetted Values of Imported Cars

To further promote greater transparency, the Government will gazette the values of imported cars for the purpose of duty computation. With the cooperation of the industry and the general public, it is expected that the incidence of tax under declaration will be significantly addressed. At the same time, the Government will step up enforcement measures against tax under declaration.

ASEAN CEPT Import Duty

To promote greater integration with the ASEAN automotive industry, Malaysia will reduce the ASEAN CEPT import duty to 5 per cent for qualifying vehicles. While this will expose the domestic industry to greater competition, it is consistent with the policy thrust for rationalisation of models and increasing scale through exports.

Industrial Adjustment Fund

Grants from the Industrial Adjustment Fund will be made available to all companies - be they local, foreign or joint ventures - that create significant economic contribution. The award these grants will be based on two main criteria: Scale and industry

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linkage subject to a sustainable level of overall capacity. Grants will be given on a model-by-model basis, subject to minimum threshold levels on both the scale and industry linkage criteria. Specific R&D grants will also be made available, based on the viability and economic contribution of the R&D project. Further consideration will be given to companies that promote sustainable and competitive Bumiputera participation.

Manufacturing Licences

New manufacturing licences will only be issued after over-capacity in the domestic automotive sector is resolved. In the meantime, vehicle assemblers will not be allowed to use or make available their existing excess capacity to third parties to assemble new makes or models that compete directly with those produced by national car manufacturers.

Where an increase in production capacity is required, companies in the high-volume and middle-volume segments will be encouraged to use existing excess capacity. New assembly facilities will be strictly allowed on a case-by-case basis only.

Approved Permits

The current system of Approved Permits, primarily used as a monitoring and data collection measure, will be phased out by 31 December 2010.

In the interim, Approved Permits will be made available based on economic contribution. Priority will be given to vehicle assemblers that have committed to a significant increase in production volume (with significant exports) in a particular model and require Approved Permits to import models that complete their product range for the Malaysian market. Approved Permits will be made available for a limited number of vehicles not assembled in Malaysia in order to ensure a sufficient choice of products for Malaysian consumers.

The importation of second hand cars (other than individual personal imports) will be progressively phased out, culminating in a total ban in 2010 in order to stimulate the demand for locally manufactured and assembled vehicles.

The Government will encourage and support companies currently awarded open Approved Permits (PEKEMA members) to transition into other related business activities, e.g. in sales and distribution or as component manufacturers/vendors.

Vehicle Type Approval

Vehicle Type Approval processes and procedures will be implemented comprehensively in order to prevent the import and sale of sub-standard vehicles. The Vehicle Type Approval process will ensure strict compliance with roadworthiness, safety and emissions standards. The Vehicle Type Approval process will be implemented by the Road Transport Department and other relevant agencies.

CONCLUSION

As a result of the implementation of these policy measures, the Government expects to see an industry with two strong national vehicle manufacturers, complemented by a number of foreign vehicle manufacturers (potentially with local joint-venture partners) that will upscale their assembly operations and at the same time, rationalise the models assembled to achieve sustainable industry linkage.

Consequently, the components sector will also become more viable - there will be fewer companies (as incumbents merge), but their volumes will be higher and more networked into the global automotive industry. Gradual liberalisation will lead to reduced scope for importers, but genuine distributors will benefit from the increased sales volumes.

The NAP aims to provide a clear and transparent direction for all industry participants to enable them to make the optimal plans and investment decisions for the future.

Going forward, future Government policies and measures introduced for the domestic automotive sector will be based on this NAP. The NAP will be a long-term policy base for the domestic automotive sector, subject to reviews and refinement dictated by the global automotive industry environment.

The Government believes that this NAP will be the key measure towards driving the transformation of the domestic automotive sector to one that is viable, competitive and resilient for the benefit of industry participants, consumers and the Malaysian economy.

Source: Prime Minister's Department, Malaysia

Table 5.17:
Productivity Indicators of Automotive Sub-Sector

Sub-sector/Segment	Sales Value per Employee (RM'000)			Labour Cost per Employee (RM'000)			Unit Labour Cost (Number)		
	2005	Change (%)	2004	2005	Change (%)	2004	2005	Change (%)	2004
Automotive Sub-sector	**381.4**	**13.2**	**337.0**	**21.9**	**1.2**	**21.7**	**0.0575**	**-10.6**	**0.0643**
Motor vehicles	654.8	17.7	556.3	27.2	1.6	26.8	0.0415	-13.7	0.0481
Motor vehicles parts and accessories	196.3	4.7	187.5	18.2	0.9	18.1	0.0928	-3.6	0.0963
Motor cycles and scooters	274.0	5.3	260.3	20.5	1.0	20.3	0.0747	-4.1	0.0779

Compiled by National Productivity Corporation based on Monthly Manufacturing Survey of Department of Statistics, Malaysia

Employee at 17.7 per cent, followed by motorcycles (5.3 per cent) and parts and accessories (4.7 per cent). The expansion in demand, due to strong consumer confidence, low interest rates, attractive car financing packages and the introduction of new models by manufacturers and assemblers, have contributed to the high growth in the Sales Value per Employee of the motor vehicles sub-sector.

The automotive sub-sector was able to improve labour cost competitiveness, as Sales Value per Employee grew faster than Labour Cost per Employee, while Unit Labour Cost declined.

Investments

In 2005, a total of 52 projects were approved in the automotive sub-sector, with total investment of RM1.1 billion, compared with 101 projects with investments of RM1.3 billion in 2004. Of these projects, 35 were either wholly Malaysian-owned or majority Malaysian-owned projects, with investments of RM782.1 million. Domestic investments in 2005 amounted to RM728.8 million (66.3 per cent), while foreign investments totalled RM360.7 million (33.7 per cent).

Among the projects approved, four were for reconditioning and reassembling of used commercial vehicles with investments of RM20.7 million, one project was for contract assembly of commercial vehicles (RM7.9 million), and another for remanufacturing of diesel engines and transmission with an investment of RM7.4 million.

Exports

Exports of the automotive sub-sector increased by 21.7 per cent to RM468 million in 2005, from RM384.7 million in 2004. Exports of passenger cars increased by 12.4 per cent to RM411.1 million in 2005 from RM365.9 million in 2004. Exports of commercial vehicles increased more by than three-fold to RM56.9 million in 2005 from RM18.8 million in 2004. Main export destinations of passenger vehicles in 2005 were the UK, amounting to RM104.6 million, followed by Singapore (RM42.3 million), Iran (RM31.4 million), Australia (RM29.7 million) and Indonesia (RM29.3 million).

Table 5.18:
Exports and Imports of Automotive Sub-Sector

Segment		2005 (RM mil.)	Change (%)	2004 (RM mil.)
Total	**Export**	**468.0**	**21.7**	**384.7**
	Import	**5,049.1**	**9.4**	**4,617.1**
Passenger cars	Exports	411.1	12.4	365.9
	Imports	4,905.9	7.0	4,584.3
Commercial vehicles	Exports	56.9	202.7	18.8
	Imports	143.2	336.6	32.8

Source: Department of Statistics, Malaysia

Imports

Imports of the automotive sub-sector increased by 9.4 per cent to RM5 billion in 2005, from RM4.6 billion in 2004. Imports of passenger cars, mainly in completely knocked-down (CKD) form, were from Japan, valued at

RM2.8 billion, followed by the Republic of Korea (RM1.4 billion), Germany (RM401 million), Thailand (RM95.8 million) and France (RM60.7 million). Total import of passenger cars in 2005 amounted to RM4.9 billion.

For commercial vehicles, total import increased by more than four-fold to RM143.2 million in 2004, from RM32.8 million in the previous year. Main sources of imports were Japan, followed by the Republic of Korea, the People's Republic of China, Thailand and Brazil.

Motorcycle Sub-Sector

The motorcycle sub-sector is classified into mopeds, scooters, street bikes and cruisers. The segment registered an increase in production of 5.8 per cent, and a marginal decrease in sales of 0.5 per cent. Capacity utilisation decreased to 42 per cent in 2005, compared with 57.2 per cent in 2004.

Production

Production of motorcycles increased by 5.8 per cent to 446,742 units in 2005 from 422,087 units in 2004. The increase was due to the continuous introduction of new and trendy models, especially for engine capacity below 150cc. The national manufacturer produced a total of 100,586 units, accounting for 22.5 per cent of total production of motorcycles and scooters in 2005.

Table 5.19:
Total Production and Capacity Utilisation of Motorcycle Sub-Sector

Production/Capacity	2005	Change (%)	2004
Production (units)	446,742	5.8	422,087
Manufacturer	100,586	-7.1	108,286
Assemblers	346,156	10.3	313,801
Installed capacity (units)	1,063,000	28.7	826,000
Manufacturer	250,000	25.0	200,000
Assemblers	813,000	29.9	626,000
Capacity utilisation (%)	42.0	-9.1	51.1
Manufacturer	40.2	-13.9	54.1
Assemblers	42.6	-7.5	50.1

Source: Motorcycle and Scooter Assemblers Association of Malaysia (MASAAM)

Capacity Utilisation

Total installed capacity for the production of motorcycles in 2005 was 1,063,000 units. Total capacity utilisation rate declined to 42 per cent in 2005 from 51.1 per cent in 2004.

Sales

Sales of motorcycles registered a marginal decline of 0.5 per cent in 2005 to RM1.6 billion in 2005. However, in terms of units, the number of motorcycles sold increased to 452,224 units in 2005 from 420,470 units in 2004. In 2005, sales by the manufacturer and assemblers were 99,714 units and 352,510 units, respectively.

Employment

Employment in the motorcycle sub-sector decreased by 5.5 per cent to 5,925 workers in 2005 from 6,271 workers in 2004. The decline was due to the reduction in capacity utilisation, as a result of cost cutting measures undertaken to enhance competitiveness.

Investments

In 2005, two projects were approved for the manufacture/assembly of motorcycles and scooters, including motorised two wheelers and specialised vehicles, with investments of RM25.5 million.

Exports

Exports of motorcycles increased by more than four-fold to RM117.7 million in 2005 from RM29.3 million in 2004. Major markets were Sri Lanka, valued at RM90 million, Greece (RM21.8 million), Singapore (RM3 million), Turkey (RM2.9 million) and Indonesia (RM2.6 million).

Imports

Imports of motorcycles decreased by 31.7 per cent to RM122.1 million in 2005, from RM178.9 million in 2004. Main sources of imports were Taiwan, valued at RM89.9 million, Thailand (RM25.7 million) and the People's Republic of China (RM21.3 million).

Automotive Components and Parts Sub-Sector

As at end 2005, there were more than 590 automotive and about 170 motorcycle/scooter component manufacturers. The automotive component sub-sector produces over 4,000 components. Of the component manufacturers, 227 were PROTON vendors (32 tier one vendors) and 161 PERODUA vendors (some vendors supply to both PROTON and PERODUA).

More than 70 per cent of the automotive component companies are Malaysian-owned. A number of these companies have technical collaborations with international automotive component manufacturers. There are also a number of foreign global automotive component manufacturers operating in Malaysia.

The production index of automotive components and parts increased by 12.1 per cent to 152 in 2005, compared with 135.6 in 2004. The growth was due to the increase in the production of passenger cars and the replacement market.

Sales

Sales of automotive components and parts in 2005 increased by 20.4 per cent to RM5.9 billion, compared with RM4.9 billion in 2004. The increase was directly related to the increase in the number of new cars and the higher demand in overseas market.

Employment

Total employment in the components and parts sub-sector increased by 13.6 per cent to 29,861 employees in 2005, compared with 26,276 in the previous year. The increase was due to expansion in the production of motor vehicles and motorcycles.

Investments

In 2005, a total of 44 projects were approved for the manufacture of automotive components and parts, including fabrication of vehicle bodies, with investments of RM1 billion, compared with 64 projects approved in 2004, with investments of RM725.7 million. Major components and parts proposed, include engines and components for passenger and commercial vehicles, automotive body panels and bumpers, transmission systems, automotive wire harnesses, batteries, brake systems and alloy rims.

Exports

Export of automotive components and parts expanded by 22.2 per cent to RM2.2 billion in 2005 from RM1.8 billion in 2004. Major export destinations in 2005 were the ASEAN countries, with exports valued at RM1.1 billion, Taiwan (RM289 million), Germany (RM157 million), Japan (RM111.8 million) and the People's Republic of China (RM89.1 million). Exports to major ASEAN countries were Thailand (RM279 million), Singapore (RM249 million) and Indonesia (RM192 million). Major components exported included steering wheels and steering columns, rims, bumpers, brakes, radiators, shock absorbers and clutches.

Imports

Imports of automotive components and parts increased by 69.2 per cent to RM4.4 billion in 2005 from RM2.6 billion in 2004. The increase was to meet the needs of new models and requirements of the existing market. Major import sources were ASEAN, valued at RM2.7 billion, Japan (RM729.3 million), Germany (RM440.9 million), the People's Republic of China (RM136.5 million) and the Republic of Korea (RM89.6 million). Within ASEAN, sources of imports were Thailand (RM1.9 billion), Indonesia (RM710.2 million) and the Philippines (RM80.7 million).

Developments

On 22 March 2006, the Government announced the National Automotive Policy (NAP) for the purpose to spur further growth in the industry. The policy is aimed at promoting a competitive and viable automotive sector, in particular that of national car manufacturers, as well as providing the necessary support for existing assemblers.

New measures for immediate implementation have been taken, such as the establishment of the Industrial Adjustment Fund to provide interest-free loans and matching grants for automation, technology enhancement and upgrading of machinery.

Beginning 1 January 2005, import duty for CKD vehicles has been reduced to zero for ASEAN, while imports from non-ASEAN countries were reduced to 10 per cent. This is to encourage value-added activities in the country. For completely built-up (CBU) vehicles, import duty was reduced to 20 per cent for ASEAN countries to comply with AFTA commitment, and to 50 per cent for non-ASEAN countries. The import duty for CBU vehicles from ASEAN was further reduced to 5 per cent with effect from 22 March 2006.

Aerospace Sub-Sector

Currently, there are two companies assembling light aircrafts, seven manufacturers of aircraft, parts and components and 28 companies involved in maintenance, repair and overhaul activities. Of these companies, 12 are involved in repair and overhaul of aircraft parts and components, including testing of aircraft instruments, 12 companies provide line and heavy maintenance and four companies are involved in engine and engine parts maintenance.

The growth of the components and parts sub-sector is dependent on the ability of companies to secure contracts from multinational corporations (MNCs). Malaysian companies have won contracts from original equipment manufacturers by providing their capabilities to meet stringent customer requirements in terms of quality, price and delivery.

Investments

In 2005, a total of four projects were approved, with investments amounting to RM226.9 million. Domestic investments in these projects amounted to RM84 million or 37 per cent of total investment, while foreign investments totalled RM142.9 million (63 per cent). Major projects approved included a new joint-venture project with investments of RM155 million for the remanufacture of aircraft landing gears and component parts. The company also plans to develop a regional maintenance centre for aircraft landing gears at Subang Airport.

Exports and Imports

Products exported were mainly components and parts of aircrafts totalling RM1.4 billion, an increase of 40 per cent, compared with RM1 billion in 2004. Major export destinations included the USA (RM355 million), Singapore (RM309 million), and the UK (RM305 million).

Imports of aircraft equipment and parts increased by 11 per cent to RM4 billion in 2005, compared with RM3.6 billion in 2004. Major sources of imports were the USA, valued at RM1.6 billion, Germany (RM1.2 billion) and Singapore (RM311 million).

Marine Sub-Sector

The marine sub-sector comprises the building and repairing of ships and boats, fabrication and engineering works of leisure crafts. Currently there are six major shipyards involved in shipbuilding, shiprepairing and metal fabrication activities with large scale operations and 70 small scale operations. The largest shipyard in Malaysia has the capability to build vessels up to 30,000 dead weight tonnes (DWT) whereas the small yards produce wooden hulls for fisherman and traders, small ferries, tug boats, barges, standby vessels and patrol boats for local usage.

Investments

In 2005, a total of five new projects were approved, with investments of RM97.6 million. All of these projects are Malaysian-owned and located in Sabah and Sarawak. Of the five projects approved, one major project, with investments of RM70.1 million is for shipbuilding and shiprepairing activities and the manufacture of metal fabricated products, mainly for the oil and gas industry.

Exports and Imports

Main export and import products were light vessels, fire floats, dredgers, floating cranes and floating or submersible drilling or production platforms. In 2005, exports increased by 37.5 per cent to RM2.2 billion from RM1.6 billion in 2004. Major export destinations were Nigeria, valued at RM527 million, Singapore (RM509 million) and Myanmar (RM235 million).

Imports recorded an increase of 10.3 per cent to RM3.2 billion, compared with RM2.9 billion in the previous year. Major sources of imports were Japan, valued at RM1.6 billion, the Republic of Korea (RM580 million) and the Netherlands (RM328 million).

CHEMICAL INDUSTRY

The chemical industry is one of the leading industries in Malaysia and remained the second largest contributor to manufactured exports in 2005. The industry covers three major sub-sectors, namely petroleum and plastic products, basic industrial chemicals and chemical products, and pharmaceuticals.

Petroleum and Plastic Products Sub-Sector

Production

The petroleum and plastic products sub-sector comprises the manufacture of refined petroleum products, plastics in primary form and synthetic rubber, plastic blow moulded products, plastic bags and films, plastic products rigid fibre reinforced, plastic foam products, plastic injection moulded components and other plastic products. This sub-sector is one of the leading industries which continued to contribute to the growth of the manufacturing sector.

Table 5.20:
Production Indices of Petroleum and Plastic Products Sub-Sector

Product Group	2005	Change (%)	2004
Overall	**145.0**	**13.3**	**128.0**
Refined petroleum products	141.2	10.8	127.4
Plastic blow moulded products	234.2	23.3	189.9
Plastic bags and films	230.6	52.8	150.9
Plastic extruded products	165.4	-10.2	184.3
Plastic foam products	138.2	2.4	135.0
Plastic injection moulded components	118.7	4.8	113.3
Plastics in primary forms and synthetic rubber	14.4	2.4	111.7

Source: Department of Statistics, Malaysia
Note: Base Year 2000 = 100

Overall production index for the petroleum and plastic products sub-sector recorded an increase of 13.3 per cent to 145 in 2005 from 128 in 2004. The growth was in response to the continued expansion in the E&E and automotive industries. Within the sub-sector, the high increases in production were recorded for plastic bags, and films and plastic blow moulded products, due to strong domestic demand.

Sales

Sales value of petroleum and plastic products increased to RM98.4 billion from RM72 billion in 2004. The higher crude oil prices contributed to the higher sale prices of intermediate materials and manufactured end products.

The increase in sales of the petroleum and plastic products sub-sector recorded was attributed to strong domestic and external demand. The improvement in the sales of

Table 5.21:
Sales of Selected Petroleum and Plastic Products

Product Group	2005 (RM million)	Change (%)	2004 (RM million)
Overall	**98,425.9**	**36.7**	**72,016.5**
Refined petroleum products	72,202.3	42.0	50,839.6
Plastics in primary forms and of synthetic rubber	12,367.9	22.1	10,132.0
Plastic injection moulded components	5,993.9	24.6	4,809.9
Plastic bags and films	4,695.4	40.3	3,346.5

Source: Department of Statistics, Malaysia

Table 5.22:
Employment in Petroleum and Plastic Products Sub-Sector

Product Group	2005 (Persons)	Change (%)	2004 (Persons)
Overall	**92,600**	**8.8**	**85,083**
Plastic injection moulded components	50,902	12.6	45,226
Plastic bags and films	13,927	8.3	12,858
Plastics in primary forms and of synthetic rubber	6,112	-0.5	6,140
Refined petroleum products	4,658	2.6	4,540
Plastic blow moulded products	3,372	11.4	3,027
Plastic foam products	2,711	0.9	2,686
Plastic extruded products	1,705	-5.1	1,796

Source: Department of Statistics, Malaysia

plastic products was attributed to higher export of semiconductors, computers and parts and industrial electrical machinery, which resulted in increased demand for plastic parts and packaging materials, such as flexible films, sheets and bags and containers.

Employment

In 2005, employment in the petroleum and plastic products sub-sector expanded by 8.8 per cent to 92,600 employees from 85,083 employees in 2004. The increase was due to the expansion of existing facilities for the production of products, such as plastic parts and components, sub-assemblies and new approved projects.

Productivity

The petroleum and plastic products sub-sector recorded Sales Value per Employee growth of 25.6 per cent to RM1.1 million in 2005 from RM846,400. The continuous demand for plastic products, particularly from the automotive, E&E and food processing industries, had contributed to the growth. The sub-sector was able to maintain its labour cost competitiveness as indicated by a decline in Unit Labour Cost of 13.4 per cent.

Investments

In 2005, a total of 15 projects were approved in the petroleum products segment, with investments of RM735 million, compared with RM1.9 billion in 2004. Of these projects, eight were new projects, with investments amounting to RM660 million, while seven were expansion/ diversification projects totalling RM75 million. Domestic investments amounted to RM602 million, accounting for 81.9 per cent of the total investment, while foreign investments totalled RM133 million (18.1 per cent).

Table 5.23:
Productivity Indicators for Chemical Industry

Sub-sector/Segment	Sales Value per Employee (RM'000)			Labour Cost per Employee (RM'000)			Unit Labour Cost (Number)		
	2005	Change (%)	2004	2005	Change (%)	2004	2005	Change (%)	2004
Chemical Industry	**1,021.1**	**23.6**	**826.0**	**25.5**	**6.1**	**24.1**	**0.0250**	**-14.2**	**0.0291**
Petroleum and plastic products	1,062.9	25.6	846.4	22.2	8.8	20.4	0.0209	-13.4	0.0241
Basic industrial chemicals and other chemical products	1,074.9	18.1	910.2	38.5	3.3	37.3	0.0359	-12.5	0.0410
Pharmaceuticals	134.3	4.9	128.00	20.3	7.1	19.0	0.1514	2.1	0.1483

Compiled by National Productivity Corporation based on Monthly Manufacturing Survey of Department of Statistics, Malaysia

In the plastic products segment, a total of 81 projects were approved, with investments of RM1.2 billion, compared with 87 projects (RM679.4 million) in 2004. Of these, 44 were new projects, with investments valued at RM520 million (44 per cent), while 37 were expansion/diversification projects (RM660 million). Domestic investments amounted to RM585 million, or accounting for 49.6 per cent of total investment, while foreign investments totalled RM595 million (50.4 per cent).

Exports

Exports of petroleum and plastic products sub-sector recorded an increase of 22.8 per cent to RM55.2 billion in 2005 from RM44.9 billion in 2004. Exports in all product groups recorded positive growth in 2005.

The petroleum product segment registered the highest export growth of 24.1 per cent, valued at RM40.5 billion in 2005, from RM32.6 billion in 2004. The bulk of the exports of petroleum products comprised liquefied natural gas, valued at RM20.8 billion, and refined petroleum products (RM17.5 billion). Exports of plastic products registered an increase of 19.8 per cent to RM6.7 billion from RM5.6 billion in 2004. Major export destinations were Japan, amounting to RM16.3 billion, Singapore (RM12.3 billion) and the Republic of Korea (RM5 billion).

Table 5.24:
Exports of Petroleum and Plastic Products Sub-Sector

Product Group	2005 (RM mil.)	Change (%)	2004 (RM mil.)
Total Export	**55,117.5**	**22.8**	**44,891.0**
Petroleum products	40,504.8	24.1	32,639.6
Synthetic resin	7,916.4	18.8	6,663.9
Plastic products	6,696.3	19.8	5,587.5

Source: Department of Statistics, Malaysia

Imports

Imports of petroleum and plastic products registered an increase of 18.3 per cent to RM34.3 billion from RM29 billion in 2004. This was due to higher imports of refined petroleum products and intermediate goods, in tandem with the increase in exports of manufactured products. Major import sources were Singapore, amounting to RM15.2 billion, Saudi Arabia (RM1.5 billion) and the USA (RM1.4 billion).

Table 5.25:
Imports of Petroleum and Plastic Products

Product Group	2005 (RM mil.)	Change (%)	2004 (RM mil.)
Total	**34,258.6**	**18.3**	**28,969.5**
Petroleum products	20,260.0	26.1	16,072.7
Synthetic resin	8,777.9	11.2	7,892.7
Plastic products	5,220.7	4.3	5,004.1

Source: Department of Statistics, Malaysia

Developments

The oil market in 2005 witnessed increases in oil price as global supply could not meet growing demand. The oil price averaged US$56 a barrel in December 2005, after reaching the highest price of US$70 a barrel in August 2005. The increase in oil prices had impacted on the transportation and manufacturing costs and contributed to the increase in the cost of doing business. Generally, there were increases in sales price of products which raw materials were derivatives of crude oil.

The establishment of the plastics fabrication industry in this sub-sector supports other industries, including E&E, automotive and construction. Plastic compounders, converters and fabricators provide the downstream linkages to the polymer industries. The extensive use of specialty and fine chemicals in food, pharmaceuticals, E&E and automotive industries has led to the development of synergies with petrochemical industries.

Basic Industrial Chemicals and Chemical Products Sub-Sector

The basic industrial chemicals and chemical products sub-sector covers the manufacture of industrial gases, basic industrial chemicals, fertilisers and nitrogen compounds, pesticides and other

Table 5.26:
Production Indices of Basic Industrial Chemicals and Chemical Products Sub-Sector

Product Group	2005	Change (%)	2004
Overall	**141.1**	**3.5**	**136.3**
Fertilisers and nitrogen compounds	147.1	30.4	112.8
Basic industrial chemicals	146.9	3.6	141.8
Paints, varnishes and similar products	143.4	4.8	136.9
Industrial gases	139.4	3.9	134.2
Pesticides and other agrochemical products	90.2	-9.0	99.1
Soap, cleaning preparations and toiletries	89.4	6.0	84.3

Source: Department of Statistics, Malaysia
Note: Base Year 2000 = 100

agrochemical products, paints, varnishes and similar products, soaps and detergents, cleaning and polishing preparations, perfumes and toilet preparations and manufacture of other chemical products.

Production

Overall production index for the basic industrial chemicals and chemical products sub-sector grew by 3.5 per cent to 141.1 in 2005 from 136.3 in 2004, due to the increase in demand from domestic-oriented industries, such as agro-based industry, healthcare and construction-related industries.

The production of fertilisers and nitrogen compounds recorded the highest growth of 30.4 per cent to 147.1 from 112.8 in 2004. The growth was attributed to increased demand for fertilisers in the plantation, agriculture and agro-based industry sub-sectors.

Sales

Sales value of the basic industrial chemicals and chemical products sub-sector registered an increase of 20.5 per cent to RM28.2 billion from RM23.4 billion, attributed mainly to the increase in the manufacture of industrial gases and basic industrial chemicals. However, the sales value of soaps, cleaning preparations and toiletries declined by 4.5 per cent, due to increasing imports from neighbouring countries, particularly Thailand, the Philippines and Indonesia, as a result of the rationalisation of MNCs, which relocated their manufacturing facilities to these countries.

The increase in oil palm planted areas by 4.5 per cent or 174,000 hectares to 4 million hectares in 2005, contributed to the higher demand and sales value for fertilisers, pesticides and agrochemical products.

Employment

The overall employment in the basic industrial chemicals and chemical products sub-sector increased by 2 per cent to 26,220 persons in 2005 from 25,696 persons in 2004. The increase was due to higher demand for basic industrial chemicals, fertilisers, pesticides and agrochemical products.

Table 5.27:
Sales of Basic Industrial Chemicals and Chemical Products Sub-Sector

Product Group	2005 (RM million)	Change (%)	2004 (RM million)
Overall	**28,182.6**	**20.5**	**23.389.5**
Basic industrial chemicals	16,552.8	20.8	13,697.6
Industrial gases	3,286.5	48.6	2,211.3
Fertilisers and nitrogen compounds	1,951.4	25.7	1,552.0
Paints, varnishes and similar products	1,713.9	9.8	1,561.2
Soap, cleaning preparations and toiletries	1,012.4	-4.5	1,059.6
Pesticides and other agrochemical products	477.3	2.9	463.7

Source: Department of Statistics, Malaysia

Table 5.28:
Employment in Basic Industrial Chemicals and Chemical Products Sub-Sector

Product Group	2005 (Persons)	Change (%)	2004 (Persons)
Overall	**26,220**	**2.0**	**25,696**
Basic industrial chemicals	8,629	1.1	8,539
Paints, varnishes and similar products	3,597	0.9	3,564
Soap, cleaning preparations and toiletries	3,224	0.3	3,215
Industrial gases	1,913	1.4	1,887
Fertilisers and nitrogen compounds	1,808	2.1	1,770
Pesticides and other agrochemical products	1,580	1.5	1,557

Source: Department of Statistics, Malaysia

Productivity
The basic industrial chemicals and chemical products sub-sector recorded a Sales Value per Employee growth of 18.1 per cent from RM910,200 in 2004 to RM1.1 million in 2005. The labour cost competitiveness of this sub-sector improved as growth in Sales Value per Employee was higher than Labour Cost per Employee. This was further complemented by a decline of 12.5 per cent in Unit Labour Cost.

Investments
In 2005, a total of 29 projects, with investments of RM347.8 million, were approved in the chemicals and chemical products sub-sector, compared with 27 projects (RM471.9 million) in 2004. Of these, 15 were new projects with investments of RM208.9 million, while the remaining 14 were expansion/diversification projects (RM138.9 million). Domestic investments amounted to RM222.6 million or 64 per cent of total investment, while foreign investments totalled RM125.2 million (36 per cent). Of the total, 18 projects were Malaysian-owned, comprising 12 new projects (RM141.3 million) and six expansion/ diversification projects (RM87.8 million).

Exports
Exports of the basic industrial chemicals and chemical products sub-sector grew marginally by 0.5 per cent to RM17.9 billion in 2005 from RM17.8 billion in 2004. Exports of almost all product groups recorded positive growth in 2005. In terms of export growth, dyeing, tanning and colouring products recorded the highest increase of 25.2 per cent to RM1.5 billion in 2005, compared with RM1.2 billion in 2004. Product groups, namely organic chemicals and chemical materials and products, registered decline in export growth by 4.9 per cent and 4 per cent, respectively.

Major export destinations for basic industrial chemicals and chemical products in 2005 were the People's Republic of China, amounting to RM3.9 billion, Thailand (RM2.5 billion), Singapore (RM2.4 billion) and Japan (RM2.4 billion).

Table 5.29:
Exports of Basic Industrial Chemicals and Chemical Products Sub-Sector

Product Group	2005 (RM million)	Change (%)	2004 (RM million)
Total Export of Basic Industrial Chemicals and Chemical Products	**17,874.3**	**0.5**	**17,780.7**
Organic chemicals	9,152.6	-4.9	9,619.4
Chemical materials and products	3,454.6	-4.0	3,600.2
Soaps and cleaning preparations	1,761.9	9.6	1,607.2
Dyeing, tanning and colouring materials	1,493.7	25.2	1,192.9
Inorganic chemicals	1,088.6	10.2	988.0
Fertilisers	922.9	19.4	772.9

Source: Department of Statistics, Malaysia

Table 5.30:
Imports of Basic Industrial Chemicals and Chemical Products Sub-Sector

Product Group	2005 (RM million)	Change (%)	2004 (RM million)
Total Import	**20,802.2**	**5.4**	**19,730.9**
Organic chemicals	8,662.5	10.5	7,842.2
Other chemical materials and products	3,243.6	-4.3	3,387.9
Inorganic chemicals	2,663.0	7.1	2,486.6
Fertilisers	2,435.6	0.8	2,416.8
Soap, cleaning preparations and toiletries	2,272.1	8.0	2,102.9
Dyeing, tanning and colouring materials	1,525.4	2.1	1,494.5

Source: Department of Statistics, Malaysia

Imports

Imports of basic industrial chemicals and chemical products sub-sector increased by 5.4 per cent to RM20.8 billion from RM19.7 billion in 2004. Imports comprised mainly intermediate chemicals. The growth in imports reflected the robust activity in the basic industrial chemicals and chemical products sub-sector in 2005.

The organic chemicals segment registered the highest import growth of 10.5 per cent to RM8.7 billion from RM7.8 billion in 2004, largely due to the development of specialty and fine chemicals for use in the food and pharmaceutical industries. Major import sources for basic industrial chemicals and chemical products were Singapore, amounting to RM5.1 billion, Japan (RM4.3 billion) and the USA (RM3.1 billion).

Developments

Malaysia is signatory to the Chemical Weapons Convention. Malaysia had enacted the Chemical Weapons Convention Act, which came into force in May 2005. With the implementation of this Act, Malaysia has fulfilled its obligation to the Organisation for the Prohibition of Chemical Weapons in its continuous efforts to ensure that chemicals monitored under the Convention would not be used to develop chemical weapons.

Many countries, including Malaysia raised concerns over the potential impact of the EU Registration, Evaluation and Authorisation of Chemicals (REACH), a product-related environmental regulation proposed by the EU on international trade. Malaysia has undertaken consultations bilaterally and at appropriate international forum, such as APEC to ensure that these initiatives to protect human health and environment will not impose unnecessary restrictions on the facilitation of trade. REACH is expected to be implemented by the EU in 2008.

APEC advocacy on REACH will also focus on specific issues of concern by other affected industry groups, such as the mineral industry. In this regard, member economies agreed to identify sector specific issues and the impact of REACH on the mineral trade.

Pharmaceutical Sub-Sector

The pharmaceutical sub-sector comprises a wide range of products for the manufacture of pharmaceuticals, medicinal chemicals and botanical products. The market for this industry is growing due to increased public awareness about health matters, resulting in greater spending on healthcare.

Production

The production index for the pharmaceutical sub-sector registered the highest growth within the chemical industry, an increase of 49.2 per cent to 266.2 in 2005 from 178.4 in 2004. The growth was attributed partly to the increase in the production of herbal medicinal products and nutraceuticals, arising from the Government's efforts in promoting healthcare and biotechnology.

Sales

Sales of the pharmaceutical products registered a growth of 11.7 per cent to RM800.3 million in 2005 from RM716.4 million in 2004. The growth in sales was largely due to increasing demand for healthcare products and services.

Employment

In 2005, employment in the pharmaceutical sub-sector increased by 6.5 per cent to 5,960 employees from 5,597 in 2004. The increase in employment was due mainly to continued expansion in the production of a wider range of generic drugs by pharmaceutical manufacturers as more patents of branded drugs expired.

Productivity

In 2005, the pharmaceutical sub-sector registered an increase in Sales Value per Employee of 4.9 per cent to RM134,280. This was attributed to the production of higher value-added products and increased demand for these products resulting from better health awareness. The sub-sector recorded a decline in labour cost competitiveness as indicated by a 7.1 per cent growth in Labour Cost per Employee, compared with 4.9 per cent growth in sales value per employee. Unit Labour Cost increased by 2.1 per cent.

Investments

A total of seven projects, with investments of RM204.3 million, were approved in the pharmaceutical sub-sector, compared with eight projects (RM42.6 million) in 2004. All seven projects approved were new projects. Domestic investments amounted to RM202.3 million, while foreign investments totalled RM2 million.

Exports

Exports of pharmaceutical products increased by 2.4 per cent to RM510.3 million in 2005, from RM498.2 million in 2004, due to higher demand in new and non-traditional markets. Major export destinations were ASEAN countries, namely Brunei Darussalam, valued at RM101.6 million and Singapore (RM90.5 million), and Hong Kong (RM35.8 million).

Table 5.31:
Exports and Imports of Pharmaceutical Products

	2005 (RM million)	Change (%)	2004 (RM million)
Exports	510.3	2.4	498.2
Imports	2,391.6	4.4	2,291.4

Source: Department of Statistics, Malaysia

Imports

Imports of pharmaceutical products were mainly branded drugs, such as antibiotics and vitamins from Australia, valued at RM263.7 million, France (RM213.2 million) and the UK (RM205.6 million).

Developments

In 2005, a number of collaborations and joint-ventures was undertaken among the local pharmaceutical manufacturers and foreign companies. Collaboration between a local company and a foreign pharmaceutical company was undertaken to set up a pharmaceutical supply chain in South Africa.

More research facilities are also being established in line with the Government's effort to provide quality medical services to all Malaysians. For example, a Clinical Trial Unit is being set up by the National Pharmaceutical Control Bureau to facilitate the carrying out of clinical trials in accordance with international ethical and scientific standards. The clinical trial for testing of new vaccines for lung cancer developed in Cuba is being planned to be carried out in Malaysia by Cuba's Centre for Molecular Immunology in cooperation with a local company.

IRON AND STEEL INDUSTRY

The iron and steel industry consists of two product groups, namely long and flat products. Long products comprise billets, steel bars, sections and wire products. Sections and wire products are mainly used in the construction and civil engineering industry. Flat products consist of hot-rolled coils (HRC), cold-rolled

Table 5.32:
Production of Selected Iron and Steel Products

Product Group	2005 (Million tonnes)	Change (%)	2004 (Million tonnes)	Installed Capacity (Million tonnes)	Capacity Utilisation (%)
Overall	**9.2**	**-6.1**	**9.8**	**16.2**	**56.8**
Billets, steel bars and rods	7.2	-5.3	7.6	11.6	62.0
HRC and CRC	2.0	-9.1	2.2	4.6	43.5

Source: Malaysian Iron and Steel Industry Federation (MISIF)

coils (CRC) and coated steel coils. They are mainly used as intermediate raw materials for industries, such as E&E, furniture and pipes.

Scrap iron, direct-reduced iron and hot-briquetted iron are the essential raw materials for producing both long and flat products. Malaysian iron and steel manufacturers use the electric arc furnace technology in steel making, with scrap iron as the main input. Most major international manufacturers use the blast furnace technology, with iron ore as the main input.

Production

There are 42 plants involved in upstream activities, with total installed capacity of 24.3 million tonnes. In the downstream activities, there are 677 establishments, including small and medium enterprises (SMEs), with an estimated total installed capacity of more than 11 million tonnes.

The overall production of iron and steel products declined by 6.1 per cent to 9.2 million tonnes in 2005. Total installed capacity was 16.2 million tonnes and the utilisation rate was 56.8 per cent.

In 2005, the installed capacity for HRC was 2.5 million tonnes and for CRC, 2.1 million tonnes per annum. Capacity utilisation was 62 per cent for HRC and 25 per cent for CRC. The current production of the sub-sector is sufficient to meet most of the domestic requirements, including CRC for downstream manufacturing activities, except for certain specifications and grades of long and flat products.

The installed capacity for billets and steel bars was 5.4 million tonnes and 6.2 million tonnes, respectively. The capacity utilisation for billets was 77 per cent, while for steel bars, 47 per cent. The low capacity utilisation for steel bars was due to the construction industry downturn and corresponding excess capacity in the domestic market.

In 2005, production of billets, steel bars and rods decreased by 5.3 per cent to 7.2 million tonnes, attributed to contraction in the construction sector. Production of HRC and CRC decreased by 9.1 per cent to 2 million tonnes from 2.2 million tonnes in 2004, mainly due to reduced demand from local manufacturers that required HRC and CRC of higher and different grades and specifications which were not produced locally.

Sales

Sales of basic iron and steel products registered an increase of 33.4 per cent to RM18.2 billion in 2005, compared with RM13.6 billion in 2004. The increase in sales value, despite the decline in production volume, was due to, among others, higher domestic steel prices and increased demand for certain grades of steel from the local E&E industry.

Employment

Total employment in the industry increased by 1.2 per cent to 15,696 workers in 2005 from 15,509 in 2004. The growth was due to the establishment and operation of two new facilities and five expansion projects on existing plants.

Table 5.33:
Productivity Indicators of Iron and Steel Industry

Sub-sector/Segment	Sales Value per Employee (RM'000)			Labour Cost per Employee (RM'000)			Unit Labour Cost (Number)		
	2005	Change (%)	2004	2005	Change (%)	2004	2005	Change (%)	2004
Basic iron and steel	1,160.2	31.8	880.0	28.9	13.5	25.5	0.0249	-13.8	0.0289

Compiled by National Productivity Corporation based on Monthly Manufacturing Survey of Department of Statistics, Malaysia

Productivity

The industry recorded Sales Value per Employee growth of 31.8 per cent from RM879,990 to RM1.2 million in 2004. This was due to increase in domestic demand and higher prices of iron and steel products. The industry was able to maintain its labour cost competitiveness as Sales Value per Employee grew faster than Labour Cost per Employee. This was supported by a decline in Unit Labour Cost of 13.8 per cent.

Investments

In 2005, a total of 47 projects were approved with investments of RM3.2 billion, of which RM2.8 billion was domestic investments and RM430.5 million was foreign investments. A total of 28 were new projects, with investments of RM2.1 billion, while 19 were expansion/ diversification projects, with investments of RM1.1 billion. Major projects approved include a RM96.5 million project to produce heavy gauge cold formed steel sections/ profiles, a new project to produce brass rods, hexagonal bars, brass square bars and brass profiles and shapes, with investments of RM66.5 million, and three expansion projects by major CRC and steel billets manufacturers involving investments of RM200 million each.

Exports

Exports of iron and steel products decreased by 2.8 per cent to RM7 billion in 2005, attributed to increased competition from the People's Republic of China. Exports were mainly to Thailand, valued at RM1.3 billion, Singapore (RM831 million) and the People's Republic of China (RM596 million). Main export items were tubes, pipes and hollow profiles, valued at RM2.8 billion, followed by flat-rolled products (RM1.9 billion) and semi-processed iron and steel products (RM819 million).

Table 5.34:
Exports and Imports of Iron and Steel Products

	2005 (RM billion)	Change (%)	2004 (RM billion)
Total Export	7.0	-2.8	7.2
Total Import	18.3	13.7	16.1

Compiled by Ministry of International Trade and Industry

Imports

Imports increased by 13.7 per cent to RM18.3 billion in 2005. Main import items were flat-rolled products, valued at RM5.4 billion followed by tubes, pipes and hollow profiles (RM4.4 billion) and semi-processed iron and steel products (RM4.3 billion). Major sources of imports were Japan, valued at RM5.3 billion, the People's Republic of China (RM1.8 billion) and Taiwan (RM1.6 billion). The increase was mainly attributed to higher imports of selected grades and specifications of iron and steel products which were not produced locally, and the higher price of imported products.

Developments

In 2005, world crude steel production increased by 5.9 per cent to reach 1.1 billion tonnes. The steel manufacturers in the USA and the EU reduced output by about 16 million tonnes to balance market demand and stabilise prices. In contrast, the People's Republic of China became a net exporter of crude steel, with output increasing by 24.6 per cent to reach

349 million tonnes from 280 million tonnes in 2004.

Steel prices were stable in the first quarter of 2005, but started to decline in the second quarter, as a result of oversupply from the People's Republic of China. For example, prices of HRC decreased from US$619 per tonne in May 2005 to US$518 per tonne in September, while the price of CRC declined from US$725 per tonne to US$621 per tonne. Towards the end of 2005, prices started to increase slightly in most regions, as a result of growing demand and rise in the cost of raw materials, such as iron ore, scrap and energy.

The rapid changes in global trends, especially in the price of raw materials, production, supply situation and consumption, as well as mergers and acquisitions, continued to influence the domestic iron and steel industry's production and export performance. With rapid developments in the People's Republic of China and more positive developments in other economies, such as India, Japan and the Russian Federation, the supply of materials become tight and pushed the prices higher. Such tight market situations have affected the domestic iron and steel industry, as demonstrated by the decline in production and exports.

MACHINERY AND EQUIPMENT INDUSTRY

The machinery and equipment (M&E) industry is important to the economic and industrial development as it has cross-cutting effects on all sectors, such as manufacturing, agriculture, transportation, construction and mining. The industry comprises four sub-sectors, namely specialised machinery for specific industries; power generating machinery; metal working machinery; and general industrial machinery and equipment. The industry continued to be the third largest contributor to manufactured exports, accounting for 3.4 per cent share in 2005, compared with 4.1 per cent in 2004.

Production

Based on the Monthly Manufacturing Survey of the Department of Statistics, overall production index of the industry declined by 17 per cent to 121.2 from 146 in 2004. The production index of industrial air-conditioning, refrigerating and ventilating machinery sub-sector declined by 20.5 per cent to 97.3 in 2005, due to slower growth in the construction and housing sectors.

Sales

Based on the same survey, sales of the M&E industry grew by 9.7 per cent to RM5.3 billion, compared with RM4.8 billion in 2004. Sales

Table 5.35:
Production Indices of Selected Machinery and Equipment Industry

Selected Activities	2005	Change (%)	2004
M&E Industry	**121.2**	**-17.0**	**146.0**
Industrial air-conditioning, refrigerating, and ventilating machinery	97.3	-20.5	122.3
Pumps, compressors, taps and valves	183.3	-11.7	207.6

Source: Department of Statistics, Malaysia
Note: Base Year 2000 = 100

Table 5.36:
Sales of Selected Machinery and Equipment Products

Selected Products	2005 (RM million)	Change (%)	2004 (RM million)
M&E Industry	**5,255.2**	**9.7**	**4,788.9**
Industrial air-conditioning, refrigerating, and ventilating machinery	3,212.0	-4.7	3,368.7
Pumps, compressors, taps and valves	2,043.2	43.9	1,420.2

Source: Department of Statistics, Malaysia

Table 5.37:
Employment in Machinery and Equipment Industry

Selected Activities	2005 (Persons)	Change (%)	2004 (Persons)
M&E Industry	**12,440**	**11.5**	**11,152**
Industrial air-conditioning, refrigerating, and ventilating machinery	7,320	6.1	6,899
Pumps, compressors, taps and valves	5,120	20.4	4,253

Source: Department of Statistics, Malaysia

of pumps, compressors, taps and valves sub-sector surged by 43.9 per cent to RM2 billion in 2005 from RM1.4 billion in 2004. The increase in sales value was due to the increase in demand for pumps, compressors, taps and valves and clearance of available stock in the market. The sales value of industrial air-conditioning, refrigerating, and ventilating machinery declined by 4.7 per cent to RM3.2 billion in 2005 from RM3.4 billion in 2004.

Employment

According to the Monthly Manufacturing Survey of the Department of Statistics, employment in the M&E industry increased by 11.5 per cent to 12,440 workers in 2005 from 11,152 workers in 2004. Employment in the industrial air-conditioning, refrigerating and ventilating machinery sub-sector increased by 20.4 per cent, while employment in the pumps, compressors, taps and valves sub-sector increased by 6.1 per cent. Increase in employment was due to hiring of more personnel to increase sales and expedite clearance of existing stock in the market.

Productivity

The M&E industry recorded a decline in Sales Value per Employee of 1.6 per cent to RM422,443 in 2005 from RM429,420 in 2004. The highest growth in Sales Value per Employee within the industry was the manufacture of pumps, compressors, taps and valves, at a rate of 19.5 per cent, attributed to the increase in demand for value-added products used in the oil and gas, medical equipment and aerospace industries. In terms of labour cost competitiveness, the sub-sector was able to sustain its competitiveness as Sales Value per Employee growth was higher than Labour Cost per Employee. This was further complemented by a decline in Unit Labour Cost by 8.7 per cent.

Investments

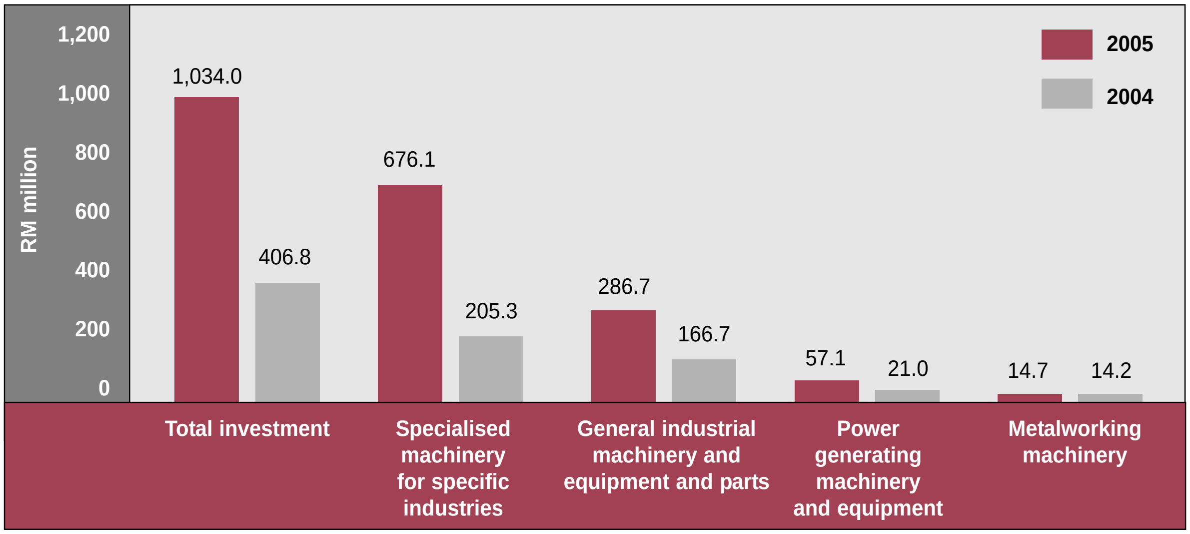
A total of 86 projects, with investments of RM1 billion, were approved in 2005, compared with 81 projects in 2004. Of the total, 64 were new projects involving investments of RM824.7 million and 22 were expansion/diversification projects (RM209.9

Table 5.38:
Productivity Indicators of Machinery and Equipment Industry

Sub-sector/Segment	Sales Value per Employee (RM'000)			Labour Cost per Employee (RM'000)			Unit Labour Cost (Number)		
	2005	Change (%)	2004	2005	Change (%)	2004	2005	Change (%)	2004
Machinery and Equipment Industry	**422.4**	**-1.6**	**429.4**	**26.4**	**-10.2**	**29.4**	**0.0625**	**-8.7**	**0.0684**
Pumps, compressors, taps and valves	399.1	19.5	333.9	27.8	-13.3	32.1	0.0698	-27.4	0.0962
Air conditioning, refrigerating and ventilating machinery	438.8	-10.1	488.3	25.4	-8.4	27.7	0.0578	1.8	0.0568

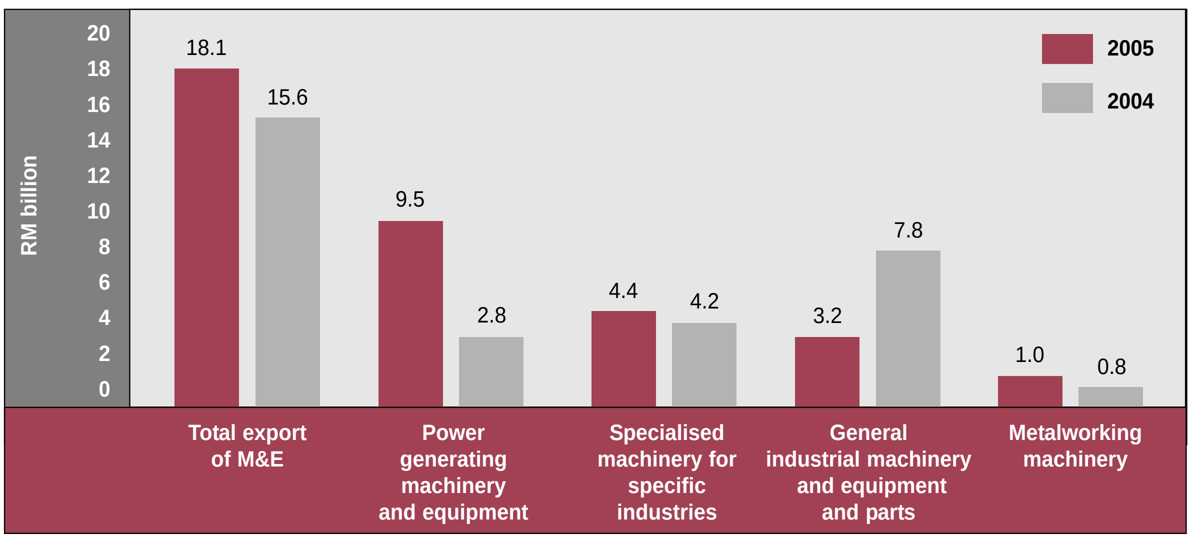
Compiled by National Productivity Corporation based on Monthly Manufacturing Survey of Department of Statistics, Malaysia

Chart 5.1:
Investments Approved in Machinery and Equipment Industry, 2005



Source: Malaysian Industrial Development Authority

Chart 5.2:
Exports of Machinery and Equipment, 2005



Compiled by Ministry of International Trade and Industry

million). Domestic investments amounted to RM457.4 million (44.2 per cent of the total investment), while foreign investments totalled RM577.2 million (55.8 per cent).

Of the total number of projects approved, 37 projects were for the specialised machinery segment, with investments of RM676.1 million in 2005, compared with 39 projects (RM205.3 million) in 2004. For the power generating segment, two projects were approved, with investments of RM57.1 million, compared with five projects (RM21 million) in 2004. For the general industrial, components and parts sub-sector, 45 projects, with investments of RM286.7 million, were approved, compared with RM166.7 million in 2004. In the metal working machinery sub-sector, two projects, with investments of RM14.7 million, were approved in 2005, compared with five projects, with investments of RM14.2 million in 2004.

Exports

Exports of machinery and equipment increased by 16.4 per cent in 2005 to RM18.1 billion from RM15.6 billion in 2004. The increase in exports was due to higher demand for specialised machinery for specific industries. Among other major export items were heating and cooling equipment, components and parts of pumps and compressors, rotating electric plant and parts and non-electrical engines, motors and parts. Major export markets were Singapore, valued at RM4.3 billion, the USA (RM1.6 billion) and Thailand (RM1.5 billion).

Imports

Imports of the industry increased by 10.5 per cent to RM36.4 billion in 2005 from RM32.9 billion in 2004. Major sources of imports were Japan, valued at RM9.1 billion, the USA (RM5.6 billion), the People's Republic of China (RM3.5 billion) and Germany (RM2.8 billion). Major import items were machinery, equipment and parts for specialised machinery for specific industries, pumps and compressors, fans and rotating electric plant, internal combustion piston engines and heating and cooling equipment.

Developments

Malaysia is still a net importer of machinery and equipment. However, there are potential areas of growth in the industry, particularly in the area of specialised machinery, as the demand for such machinery is increasing. In 2005, a total of 37 projects were approved for the manufacture of specialised machinery, including 12 projects to manufacture machine and equipment for the E&E industry.

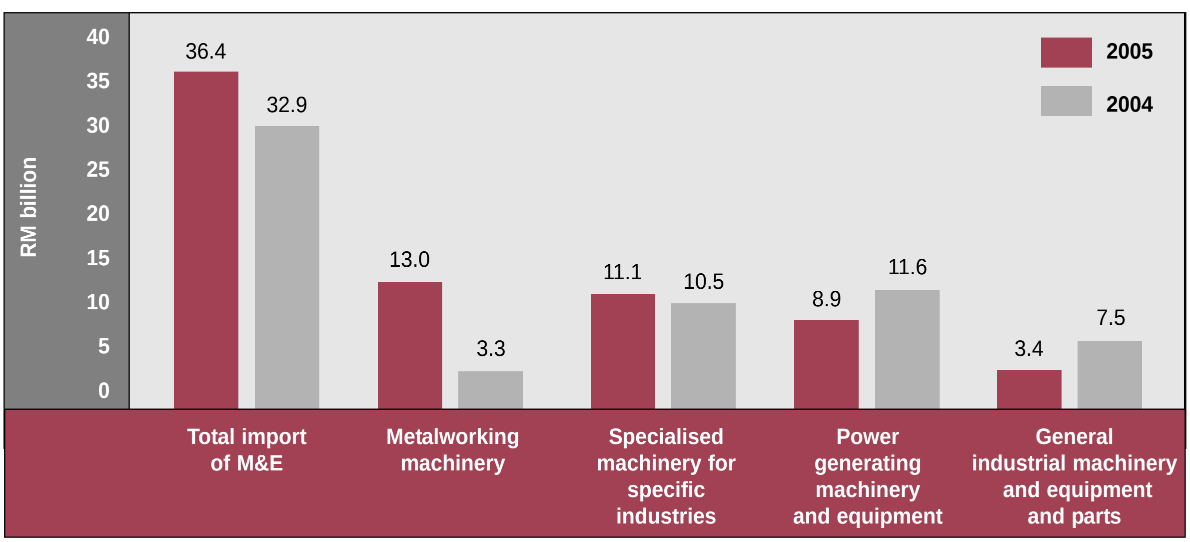
The specialised machinery sub-sector has the capability to manufacture specialised machinery for the extraction of oil and gas, including sub-sea systems, surface wellheads and drilling systems. In the field of crane manufacturing, Malaysia is one of the leading countries in the world that has the technology to manufacture high speed heavy lifting tower cranes and oil and gas pedestal cranes.

NON-METALLIC MINERAL INDUSTRY

The non-metallic mineral industry consists of cement and concrete products, ceramics and clay-based products, glass and glass products and other non-metallic mineral sub-sectors.

The cement sub-sector includes the production of Portland cement (ordinary cement), clinker, ready-mix concrete, hydraulic cement and articles of concrete, cement and plaster. Hydraulic cement is a non-corrosive, non-

Chart 5.3:
Imports of Machinery and Equipment, 2005



Compiled by Ministry of International Trade and Industry

Table 5.39:
Industrial Production Index of Selected Non-Metallic Mineral Products

Selected Activities	2005	Change (%)	2004
Non-Metallic Mineral Industry	**113.2**	**2.0**	**111.0**
Cement sub-sector			
Hydraulic cement	125.4	-6.3	133.9
Ready-mix-concrete	124.0	0.6	123.2
Articles of concrete, cement and plaster	115.5	-4.6	121.1
Ceramics sub-sector			
Refractory ceramic products	124.2	-5.5	131.4
Structural non-refractory clay and ceramic products	106.7	-0.5	107.3
Glass sub-sector			
Glass and glass products	101.6	14.5	88.8

Source: Department of Statistics, Malaysia
Note: Base Year 2000 = 100

rusting and non-shrink material. Hydraulic cement is ideally suited for interior and exterior applications to stop the seepage of water through cracks and faults in concrete and masonry.

The ceramics sub-sector comprises two segments, namely conventional ceramics and advanced ceramics. The products under conventional ceramics are heat insulation, refractory products, bricks, tiles, clay pipes, sanitaryware and tableware, while the advanced ceramics segment includes advanced ceramic parts and components for the E&E industry, such as ceramic substrates, ceramic rods and catalytic converters.

The glass and glass products sub-sector includes float glass, safety glass, cast glass, glass mirrors, tinted glass, high value-added products, such as glass panels and funnels for cathode ray tubes, tempered glass for E&E industry, as well as windows and screens for the automotive industry.

Production

In 2005, the production index for the non-metallic mineral industry increased by 2 per cent to 113.2, compared with the previous year. The expansion in production by the industry was contributed mainly from the 14.5 per cent increase in the manufacture of glass and glass products. The production index for both the cement and ceramics sub-sectors declined in 2005, largely due to the slowdown in the construction industry.

Within the cement sub-sector, the production index for the manufacture of hydraulic cement and articles of cement, concrete and plaster declined by 4.6 per cent and 6.3 per cent, respectively, in 2005. The decline was due to the slowdown in the construction industry. The production index for ready mix-concrete recorded a marginal increase to 124 from 123.2 in 2004, attributed to a marginal increase in concrete projects.

Total installed capacity for cement is 28.3 million metric tonnes per annum, while total

Table 5.40
Installed Production and Capacity Utilisation of Clinker and Cement

Products	2005 (Million metric tonnes)			2004 (Million metric tonnes)		
	Installed Capacity	Production	Capacity Utilisation (%)	Installed Capacity	Production	Capacity Utilisation (%)
Clinker	17.8	15.6	87.6	17.8	15.4	86.6
Cement	28.3	17.4	61.5	28.3	17.1	59.6

Source: Cement and Concrete Association

Table 5.41:
Sales of Selected Non-Metallic Mineral Products

Sub-Sector	2005 (RM million)	Change (%)	2004 (RM million)
Non-Metallic Mineral Industry	**9,499.0**	**-4.5**	**9,498.0**
Cement sub-sector	4,760.1	-1.7	4,843.3
Hydraulic cement	2,584.2	-6.1	2,752.0
Ready-mix-concrete	1,323.6	3.9	1,274.2
Articles of concrete, cement and plaster	852.3	4.3	817.1
Ceramic sub-sector	859.0	19.6	718.0
Non-structural non-refractory ceramic ware	499.0	49.7	334.0
Refractory ceramic products	360.0	-6.3	384.0
Glass sub-sector			
Glass and glass products	2,355.9	-17.1	2,843.3

Source: Department of Statistics, Malaysia

production was 17.4 million metric tonnes in 2005, resulting in an excess capacity of 10.9 million metric tones. Total installed capacity of clinker was 17.8 million metric tonnes per annum, while total production in 2005 was 15.6 million metric tonnes. There is an excess capacity of 2.2 million metric tonnes of clinker in the industry.

Within the ceramic sub-sector, the production index for refractory ceramic products and structural non-refractory clay and ceramic products declined by 5.5 per cent and 0.5 per cent, respectively, in 2005. The decline was due to the slowdown in housing and development of new building projects. For the glass sub-sector, production increased by 14.5 per cent to 101.6 in 2005 from 88.8 per cent in 2005. The increase was due to external demand for glass products.

Sales

In 2005, sales of non-metallic mineral products declined by 4.5 per cent to RM9.5 billion from RM10 billion in 2004. The decline was largely attributed to a lower demand for glass products from the construction sector.

Sales in the cement sub-sector declined by 1.7 per cent to RM4,760 million in 2005, compared with RM4,843 million in 2004. Within the sub-sector, sales of hydraulic cement declined by 6.1 per cent to RM2.6 billion in 2005 from RM2.8 billion in the previous year due to a slowdown in maintenance and repairs using hydraulic cement. However, sales of both ready mix-concrete and articles of concrete, cement and plaster increased by 3.9 per cent and 4.3 per cent, respectively, due to higher demand for fabricated construction materials and the use of Industrialised Building System components for building and elevated highways projects.

In 2005, sales of the ceramic sub-sector increased by 19.6 per cent to RM859 million from RM718 million in 2004. The increase in sales was largely due to the higher demand for non-structural non-refractory ceramic wares.

Employment

Employment in the non-metallic mineral industry declined marginally to 39,772 workers from 39,798 in 2005. In the cement sub-sector, employment declined by 2.1 per cent to 12,454 workers in 2005, compared with 12,730 workers in 2004. The decline was due to lower demand for cement in the construction sector.

In the ceramic sub-sector, employment increased by 2.9 per cent to 12,795 workers in 2005 from 12,730 in 2004. The increase was due to the expansion of existing operations for the manufacture of ceramic tiles, sanitaryware and clay bricks.

Employment in the glass and glass products sub-sector declined by 15.3 per cent to 6,691

Table 5.42:
Employment in Selected Non-Metallic Mineral Sub-Sectors

Sub-Sector	2005 (Persons)	Change (%)	2004 (Persons)
Non-Metallic Mineral Industry	**39,772**	**-0.1**	**39,798**
Cement sub-sector	12,454	-2.1	12,730
Articles of concrete, cement and plaster	5,122	2.6	4,993
Ready-mix-concrete	3,720	-5.6	3,942
Hydraulic cement	3,612	-4.8	3,795
Ceramic sub-sector	12,795	2.9	12,428
Non-structural non-refractory ceramic ware	4,568	0.3	4,554
Refractory ceramic products	8,227	4.5	7,874
Glass sub-sector			
Glass and glass products	6,691	-15.3	7,898

Source: Department of Statistics, Malaysia

persons in 2005 from 7,898 in 2004. The decline was due to the rationalisation process in the industry, arising from the slowdown of demand for glass products from the construction sector.

Productivity

The non-metallic mineral industry registered a decline in Sales Value per Employee of 4.5 per cent to RM238,830 in 2005, compared with RM249,960 in 2004.

The manufacture of ready-mix concrete recorded the highest growth of 10.1 per cent in Sales Value per Employee, followed by the manufacture of other articles of concrete, cement and plaster at 1.7 per cent, while the manufacture of hydraulic cement declined by 1.3 per cent. The high Sales Value per Employee of ready-mix concrete was due to the increase in sales by 3.9 per cent, following continuous demand for the product. Labour cost competitiveness of the sub-sector declined as Labour Cost per Employee grew more than the Sales Value per Employee, while Unit Labour Cost increased by 2 per cent.

Both the manufacture of refractory ceramic products and structural non-refractory clay and ceramic products registered decline in Sales Value per Employee of 6.6 per cent and 5.5 per cent, respectively. Slow demand and excess capacity were among the factors that contributed to the decline in productivity of the

Table 5.43:
Productivity Indicators of Non-Metallic Mineral Industry

Sub-sector/Segment	Sales Value per Employee (RM'000)			Labour Cost per Employee (RM'000)			Unit Labour Cost (Number)		
	2005	Change (%)	2004	2005	Change (%)	2004	2005	Change (%)	2004
Non-Metallic Mineral Industry	**238.8**	**-4.5**	**250.0**	**23.2**	**1.0**	**22.9**	**0.0970**	**5.7**	**0.0917**
Hydraulic cement	715.4	-1.3	725.2	41.3	-0.9	41.6	0.0577	0.5	0.0574
Ready-mix concrete	355.8	10.1	323.3	22.7	3.1	22.0	0.0638	-6.4	0.0682
Other articles of concrete, cement and plaster	166.4	1.7	163.7	19.6	-6.4	21.0	0.1180	-7.9	0.1282
Refractory ceramic products	78.7	-6.6	84.3	15.0	3.0	14.5	0.1899	10.3	0.1722
Structural non-refractory clay and ceramic products	129.9	-5.5	122.8	21.4	3.3	20.7	0.1744	9.3	0.1596
Glass and glass products	352.1	-2.2	360.0	30.7	13.1	27.1	0.0871	15.7	0.0753

Compiled by National Productivity Corporation based on Monthly Manufacturing Survey of Department of Statistics, Malaysia

refractory ceramic sub-sector. The labour cost competitiveness of both sub-sectors declined as Labour Cost per Employee grew more than the Sales Value per Employee. Unit Labour Cost increased by 10.3 per cent and 9.3 per cent, respectively.

The glass and glass products sub-sector registered a decline in Sales Value per Employee of 2.2 per cent, due to a 17.1 per cent decline in sales value, as a result of slow activities in the construction sector. Labour cost competitiveness of the sub-sector declined as Labour Cost per Employee grew more than the Sales Value per Employee, while Unit Labour Cost increased by 15.7 per cent.

Investments

In 2005, a total of 30 projects were approved in the non-metallic mineral industry, compared with 43 projects in 2004. Approved investments in these projects increased to RM921.5 million in 2005 from RM774.9 million in 2004.

In the cement sub-sector, 11 projects were for the manufacture of concrete products, with investments of RM149 million. Three of these projects were new projects with investments, valued at RM13.8 million, while eight were expansion/diversification projects (RM135.2 million).

For the ceramic sub-sector, nine projects were approved with a total investment of RM128.2 million for the manufacture of ceramic products, such as ceramic tiles, sanitaryware and clay bricks. Of these projects, three were new projects (RM52.5 million) and six were expansion/diversification projects (RM75.7 million).

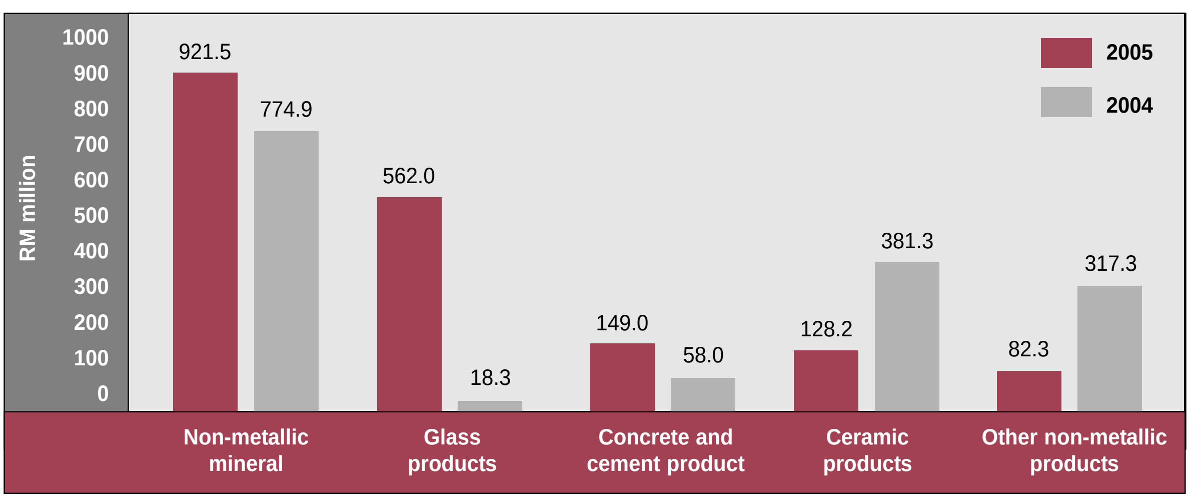
For the glass sub-sector, three projects were approved for the manufacture of glass products, such as glass panels and funnels, pattern and float glass and bottles and jars. Two were expansion and diversification projects, with investments amounting to RM532 million, and one was for a new project with investment valued at RM30 million.

Exports

Total export of non-metallic mineral products declined by 6.5 per cent to RM2.9 billion in 2005, compared with RM3.1 billion in 2004.

Exports of cement and cement-based products increased by 13.9 per cent to RM501.1 million in 2005 from RM440 million in 2004. The increase was due to higher external demand for cement and fabricated construction materials. Main export destinations were Bangladesh, valued at RM50.9 million, Sri Lanka (RM26.8 million) and Australia (RM20.4 million). Major exports items were

Chart 5.4:
Approved Investments in Non-Metallic Mineral Industry



Source: Malaysian Industrial Development Authority

Table 5.44:
Exports of Non-Metallic Mineral Products

Products	2005 (RM million)	Change (%)	2004 (RM million)
Exports of Non-Metallic Mineral Products	**2,934.3**	**-6.5**	**3,105.1**
Glass and glass products	1,216.5	-13.4	1,404.3
Ceramic products	1,001.0	10.9	902.6
Cement and concrete products	501.1	13.9	440.0

Compiled by Ministry of International Trade and Industry

clinker, valued at RM82 million, followed by white cement (RM31 million) and hydraulic cement (RM4 million).

Exports of ceramic products totalled RM1 billion in 2005, compared with RM902.6 million in 2004. Major export destinations were the USA, valued at RM114 million, followed by Australia (RM96 million) and the UK (RM85 million). Major export items included glazed ceramics tiles, valued at (RM742 million), followed by other ceramic articles (RM216 million) and unglazed ceramic tiles (RM152 million).

Total export of glass and glass products declined by 13.4 per cent to RM1.2 billion in 2005 from RM1.4 billion in 2004. The decline in exports was due to lower demand for glass products in the global market. Major exports destinations were Singapore, valued at RM1.9 billion, followed by the Republic of Korea (RM1.6 billion) and Thailand (RM138.8 million).

Imports

In 2005, imports of non-metallic mineral products declined by 9.4 per cent to RM3.1 billion from RM3.4 billion in 2004. The decline was due to lower imports of glass products.

Imports of cement products declined by 3.9 per cent to RM294.8 million in 2005 from RM283.3 million in 2004. Major sources of imports were Japan, valued at RM51.1 million, followed by Taiwan (RM22.8 million) and the People's Republic of China (RM19.6 million). Major import items were cement clinker, valued at RM92 million, white cement (RM0.8 million) and hydraulic cement (RM0.6 million).

Developments

For the cement sub-sector, there are 11 companies involved in the manufacture of ordinary Portland cement. Of these, seven companies are operating as integrated manufacturing plants producing clinker and cement, while four companies are involved in cement grinding. MITI has not issued any new manufacturing licence since 1998 because there was excess capacity of cement and clinker in the industry. In the area of standards, two new Malaysian Standards (MS) were published in 2005. One new standard was for Portland cement (MS 522: Part 2: 2005) and another for pre-cast concrete piles (MS 1314: Part 6: 2005).

For the ceramic sub-sector, 13 companies are manufacturing ceramic floor and wall tiles,

Table 5.45:
Imports of Non-Metallic Mineral Products

Products	2005 (RM million)	Change (%)	2004 (RM million)
Imports of Non-Metallic Mineral Products	**3,051.2**	**-9.4**	**3,369.3**
Glass and glass products	1,216.5	-13.4	1,404.3
Ceramic products	918.9	30.0	706.7
Cement and concrete products	283.3	-3.9	294.8

Compiled by Ministry of International Trade and Industry

Table 5.46:
Malaysian Standards for Advanced Ceramics Published in 2005

	Title
MS ISO 14703 : 2005	Fine ceramics (Advanced ceramics, advanced technical ceramics) - Sample preparation for the determination of particle size distribution of ceramic powders
MS ISO 14704 : 2005	Fine ceramics (Advanced ceramics, advanced technical ceramics) - Test method for flexural strength of monolithic ceramic at room temperature.
MS ISO 14705 : 2005	Fine ceramics (advanced ceramics, advanced technical ceramics) - Test method for hardness of monolithic ceramics at room temperature
MS ISO 15165 : 2005	Fine ceramics (Advanced ceramics, advanced technical ceramics) - Classification system
MS ISO 15490 : 2005	Fine ceramics (Advanced ceramics, advanced technical ceramics) - Test method for tensile strength of monolithic ceramics at room temperature
MS ISO 15733 : 2005	Fine ceramics (Advanced ceramics, advanced technical ceramics) - Test method for tensile stress - Strain behaviour of continuous, fibre-reinforced composites at room temperature
MS ISO 17562 : 2005	Fine ceramics (Advanced ceramics, advanced technical ceramics) - Test method for linear thermal expansion of monolithic ceramics by push-rod technique

Source: Department of Standards, Malaysia

with a total capacity of 80 million square metres. About 30 per cent of the total ceramic tiles produced were exported, mainly to Japan, Singapore, Hong Kong and India. A total of six companies are producing advanced ceramic components and parts. Of these, four companies are producing advanced ceramic products, mainly for the E&E Industry.

In the area of standards, 10 new Malaysian Standards (MS) were published in 2005. One standard was for ceramic tableware (MS 1817:2005), two standards for ceramic cookware (MS ISO 8391-1:2005 and MS ISO 8391-2:2005) and seven standards were for advanced ceramics.

For the glass and glass sub-sector, there are at present two manufacturers involved in the manufacture of glass components for the E&E industry and supply about 10 per cent of the world market for glass panels and funnels. One of these manufacturers supplies 60 per cent of the world demand for heat resistant glass products, such as glass plates for microwave ovens.

Two Malaysian Standards were published in 2005 for glass and glass products, namely MS 1135 and MS 1498. The MS 1135 specifies transparent, highly flat, glossy float glass and polished plate glass used mainly for windows, doors, mirrors, vehicles and buildings. Dimensions, grades, quality, shapes and test methods are also specified. The MS 1498 specifies the tempered glass for use as glazing in building and furniture.

TEXTILES AND APPAREL INDUSTRY

The textiles and apparel industry contributed significantly to exports, sales and employment in the manufacturing sector. In 2005, the textiles and apparel industry ranked the seventh largest contributor to exports in the manufacturing sector, accounting for 2.5 per cent of exports of manufactured goods.

Production

The production index of the textiles and apparel industry increased by 3.1 per cent in 2005 to 83.5, compared with 81 in 2004. The expansion in production was largely due to a 17.9 per cent increase in the production of the apparel sub-sector.

Sales

Based on the Monthly Manufacturing Survey of the Department of Statistics, sales value for the textiles and apparel industry increased by 4.7 per cent to RM8.8 billion in 2005 from RM8.4 billion in 2004, attributed to increased sales of higher value-added products.

Table 5.47:
Productivity Indicators of the Textiles and Apparel Industry

Sub-sector/Segment	Sales Value per Employee (RM'000)			Labour Cost per Employee (RM'000)			Unit Labour Cost (Number)		
	2005	Change (%)	2004	2005	Change (%)	2004	2005	Change (%)	2004
Textiles and Apparel Industry	**131.7**	**8.8**	**121.0**	**13.3**	**-4.4**	**13.9**	**0.1010**	**-12.1**	**0.1149**
Textiles sub-sector	212.2	-4.8	222.8	16.0	-7.4	17.3	0.0754	-2.8	0.0776
Natural fibre spinning; weaving of textiles	153.5	15.4	133.2	18.3	11.6	16.4	0.1191	-3.3	0.1232
Man-made fibre spinning; weaving of textiles	323.4	10.0	294.2	15.8	-18.6	19.4	0.0488	-25.9	0.0659
Dyeing, bleaching, printing and finishing of yarns, and fabric (except batik)	189.9	5.2	180.5	20.4	4.6	19.5	0.1074	-0.6	0.1080
Knitted and crocheted fabrics and articles	107.0	-4.3	111.8	13.6	-4.0	14.2	0.1274	0.3	0.1270
Apparel sub-sector	83.0	10.6	75.0	11.7	-1.1	11.8	0.1405	-10.6	0.1572

Compiled by National Productivity Corporation based on Monthly Manufacturing Survey of Department of Statistics, Malaysia

Sales of apparel products increased by 7.7 per cent to RM3.4 billion in 2005 from RM3.2 billion in 2004, due to higher demand for shirts, blouses and dresses. The sales of textile products increased by 2.9 per cent to RM5.2 billion in 2005 from RM5.3 billion in 2004, due to higher demand for high-end products.

Employment

Based on the same survey, employment in the textiles and apparel industry declined by 3.7 per cent to 66,506 workers in 2005, compared with 69,074 in 2004. This was attributed to increased automation in the production processes and the move towards the manufacture of higher value-added products.

Productivity

The textiles and apparel industry registered a 8.8 per cent growth in Sales Value per Employee to RM131,646 in 2005 from RM121,043 in 2004. High demand, especially from the man-made fibre spinning and apparel sub-sectors, contributed to the growth. The industry was able to sustain its labour cost competitiveness, with a decline of 4.4 per cent and 12.1 per cent in Labour Cost per Employee and Unit Labour Cost, respectively.

In 2005, the textiles sub-sector recorded a decline of 4.8 per cent in Sales Value per Employee to RM212,190. This was due to a decline in both sales and employment as the sub-sector is competing with lower cost producing countries and the relocation of lower end activities to other countries. The sub-sector was able to sustain its labour cost competitiveness as indicated by a 7.4 per cent decline in Labour Cost per Employee and 2.8 per cent decrease in Unit Labour Cost.

The Sales Value per Employee of the apparel sub-sector grew at 10.6 per cent, with an increase in Sales Value per Employee level to RM82,950 in 2005, from RM74,990 in 2004. Development in fashion and design has created niche markets and increased demand for garment making, garment accessories, merchandising, as well as wholesale and retail sales. The sub-sector was able to sustain its labour cost competitiveness, with a decrease of 1.1 per cent and 10.6 per cent in Labour Cost per Employee and Unit Labour Cost, respectively.

Exports

Effective 1 January 2005, quotas for exporting textiles and apparel products was abolished under the World Trade Organisation (WTO) Agreement on Textiles and Clothings. The resilience of the industry is reflected by the increase in the volume of exports under the quota free market. Total export of textiles and apparel increased by 6.2 per cent to RM10.3 billion in 2005 from RM9.7 billion in 2004. Export of textiles increased by 10.2 per cent to RM5.4 billion in 2005 from RM4.9 billion in 2004, while export of apparel increased by 2.1 per cent to RM4.9 billion, compared with RM4.8 billion in 2004.

Major export markets for textiles and apparel were the USA, valued at RM2.9 billion, followed by the UK (RM456.2 million), Turkey (RM638.1 million) and Singapore (RM461.9 million). Main export items were textile yarns (including special yarns), woven fabrics of man-made textile materials, and men's and women's clothings.

Imports

In 2005, total import of textiles and apparel increased by 4 per cent to RM5 billion from RM4.8 billion in 2004. Import of textiles increased by 2.6 per cent to RM4.1 billion in 2005 from RM4 billion in 2004, while imports of apparel increased by 10.5 per cent to RM981.6 million, compared with RM888.3 million in the previous year. Major sources of imports of textiles and apparel in 2005 were the People's Republic of China, valued at RM1.5 billion, followed by Taiwan (RM564.8 million), Indonesia (RM429.9 million), Thailand (RM422.1 million) and Japan (RM341.5 million). Main products imported were textile yarn, woven fabrics of man-made textile materials, knitted or crocheted fabrics, clothing accessories of textile fabrics and women's clothing.

Investments

In 2005, a total of 35 projects were approved with investments of RM373.9 million, compared with RM823.9 million in 2004 in 36 projects. Domestic investments amounted to RM227.7 million (61 per cent) and foreign investments was RM146.2 million (39 per cent).

Of the total projects approved, 12 projects (RM192.1 million) were for the production of primary textiles, 15 projects (RM157.2 million) for made-up garments, six (RM22.1 million) for made-up textile products and two (RM2.5 million) for made-up textile accessories.

Developments

Malaysia's export of textiles and apparel continued to increase from RM9.7 billion in 2004 to RM10.3 billion in 2005. The growth in exports by 6.2 per cent was partly due to the USA's decision to re-impose quantitative restrictions on textiles and apparel products originating from the People's Republic of China.

The Agreement on the Early Harvest Programme for the Free Trade Area (FTA) between Malaysia and Pakistan was signed on 1 October 2005. Both countries offered textiles and apparel products under the Early Harvest Programme to enjoy preferential tariff in each other's market. The implementation of Early Harvest Programme under the Malaysia-Pakistan FTA, starting from 1 January 2006, will provide an opportunity for Malaysian manufacturers to source raw material of textiles and textile products at a competitive price from Pakistan. There is also an opportunity for the industry to have better market access and acquire market share in Pakistan, provided the products are competitive in terms of price and quality.

WOOD AND WOOD PRODUCTS INDUSTRY

The wood and wood products industry comprises wood products, furniture and fixtures, as well as paper products. The wood products range from sawn timber, veneer sheets and plywood, builders' carpentry and joinery, laminboard, particleboard and other panels and boards. Paper products include pulp, paper and paperboard, corrugated paper and containers of paper and paperboard.

Table 5.48:
Production Indices of Wood and Wood Products Industry

Products	2005	Change (%)	2004
Overall	**112.8**	**3.6**	**108.9**
Wood products	109.6	1.5	107.9
Laminboard and particleboard	137.0	20.8	113.4
Veneer sheets and plywood	111.3	-7.3	120.0
Sawmilling and planing of wood	94.1	9.2	86.2
Paper products	119.0	7.5	110.7
Corrugated paper and paperboard	101.6	8.3	126.9
Pulp, paper and paperboard	97.5	6.3	91.7

Source: Department of Statistics, Malaysia
Note: Base Year 2000 = 100

Table 5.49:
Sales of Wood-Based Products

Products	2005 (RM million)	Change (%)	2004 (RM million)
Total Sales	**19,103.5**	**8.9**	**17,544.5**
Wood products	13,654.2	8.0	12,637.0
Veneer sheets and plywood	6,082.2	3.2	5,891.8
Wooden and cane furniture	4,989.1	18.7	4,201.8
Laminboard and particleboard	1,483.8	3.5	1,434.2
Builders' carpentry and joinery	1,099.0	-0.9	1,109.3
Paper products	5,449.3	11.0	4,907.5
Corrugated paper and paperboard	2,353.0	11.7	2,106.0
Pulp, paper and paperboard	1,951.5	5.9	1,843.6

Source: Department of Statistics, Malaysia

Production

The overall production index of the wood and wood-based products industry increased by 3.6 per cent to 112.8 in 2005 from 108.9 in 2004, mainly due to strong external demand for laminboard, particleboard and other panels and boards. In the paper products sub-sector, production index increased by 7.5 per cent to 119, compared with 110.7 in 2004 in response to improved demand in the domestic market.

Sales

In 2005, total sales of wood and wood products increased by 8.9 per cent to RM19.1 billion from RM17.5 billion in 2004. Sales of wooden and cane furniture recorded an increase of 18.7 per cent to RM5 billion in 2005 from RM4.2 billion in 2004, following huge exports to traditional markets, such as Japan, the USA and the UK. Sales of paper products increased by 11 per cent to RM5.4 billion from RM4.9 billion in 2004.

Employment

Employment in the wood and wood products industry grew by 2.8 per cent to 126,921 workers in 2005 from 123,425 in 2004. In the wood products sub-sector, employment in the wooden and cane furniture segment registered an increase of 9.1 per cent to 41,121 persons in 2005 from 37,680 in 2004, benefiting from the increase in production for export market. The paper products segment registered an increase of 6.8 per cent to 21,719 persons from 20,332 in 2004.

Productivity

Sales Value per Employee for the wood and wood products industry improved by 5.9 per cent in 2005 to RM150,510 from RM142,150 in 2004. The growth was driven by high production of plywood, hardboard and particle board resulting from expansion in the export markets. Labour Cost per Employee also increased by 3.3 per cent to RM13,180. The industry recorded an increase in labour cost

Table 5.50:
Employment in Wood and Wood Products Industry

Products	2005 (Persons)	Change (%)	2004 (Persons)
Total Employment	**126,921**	**2.8**	**123,425**
Wood products	105,202	2.0	103,093
Veneer, sheets and plywood	47,760	-2.2	48,816
Wooden and cane furniture	41,121	9.1	37,680
Builders' carpentry and joinery	9,504	neg.	9,506
Laminboard and particleboard	6,817	-3.9	7,091
Paper products	21,719	6.8	20,332
Corrugated paper and paperboard	12,587	4.9	12,003
Pulp, paper and paperboard	4,293	6.9	4,017

Source: Department of Statistics, Malaysia
Note: neg. - negligible

Table 5.51:
Productivity Indicators of Wood and Wood Products Industry

Sub-sector/Segment	Sales Value per Employee (RM'000)			Labour Cost per Employee (RM'000)			Unit Labour Cost (Number)		
	2005	Change (%)	2004	2005	Change (%)	2004	2005	Change (%)	2004
Wood and Wood Products Industry	**150.5**	**5.9**	**142.2**	**13.2**	**3.3**	**12.8**	**0.0875**	**-2.4**	**0.0897**
Wood products	129.8	1.9	127.4	11.7	5.7	11.1	0.0904	3.8	0.0871
Builders' carpentry and joinery	115.6	-0.9	116.7	12.9	0.2	12.9	0.1119	1.1	0.1107
Laminboard and particleboard	217.7	7.6	202.3	20.2	-3.0	20.8	0.0927	-9.9	0.1029
Veneer sheets and plywood	127.4	5.5	120.7	9.2	9.7	8.4	0.0719	3.9	0.0692
Wooden and cane furniture	121.3	8.8	111.5	13.0	2.4	12.7	0.1075	-5.9	0.1142
Paper products	250.9	4.0	241.4	20.2	-1.4	20.5	0.0804	-5.2	0.0848
Corrugated paper and paperboard	186.9	6.5	175.5	18.0	0.6	17.9	0.0965	-5.6	0.1022
Pulp, paper and paperboard	454.6	-1.0	459.0	26.5	-8.0	28.8	0.0582	-7.2	0.0627

Compiled by National Productivity Corporation based on Monthly Manufacturing Survey, Department of Statistics

competitiveness, as Sales Value per Employee grew higher than Labour Cost per Employee. In addition, the Unit Labour Cost decreased by 2.4 per cent.

Sales Value per Employee for the wood products sub-sector improved by 1.9 per cent in 2005 to RM129,790 from RM127,420 in 2004. The growth was attributed to the growing external demand from Japan, the USA and the People's Republic of China. Malaysia's largest export markets for wood-based products are Japan, the USA and the People's Republic of China. Labour Cost per Employee also increased by 5.7 per cent to RM11,730. The sub-sector recorded a decline in labour cost competitiveness, as Sales Value per Employee grew slower than Labour Cost per Employee. Unit Labour Cost of the sub-sector increased by 3.8 per cent.

Sales Value per Employee for the paper products sub-sector improved by 4 per cent in 2005 to RM250,900 from RM241,370 in 2004. The growth was attributed to increasing demand and diversification of the industry into higher value-added downstream products. Labour Cost per Employee also decreased by 1.4 per cent to RM20,180. The sub-sector recorded an increase in labour cost competitiveness, as Sales Value per Employee grew higher than Labour Cost per Employee.

In addition, the Unit Labour Cost decreased by 5.2 per cent.

Investments

In 2005, a total of 86 projects in the wood-based sub-sector (including furniture) was approved with investments of RM789.1 million, compared with RM1.2 billion in 2004. Of these, 58 were new projects with investments of RM440.2 million, while 28 were expansion/diversification projects (RM341.7 million). Domestic investments amounted to RM641.3 million or accounted for 82 per cent of the total investment.

The highest investments were recorded in the wooden furniture segment with 50 projects approved, involving investments of RM421.5 million, compared with RM302.6 million in 2004. Domestic investments amounted to RM358 million, accounting for 84.9 per cent of total investment. Of these, 33 were new projects, with investments of RM208.2 million and 17 were expansion/ diversification projects, with investments of RM213.3 million.

In the panel products segment, six projects were approved, with investments of RM117.8 million. Of this, domestic investments amounted to RM111.1 million, accounting for 94.4 per cent of the total investment. Five were new projects, with investments of RM106.8 million and an expansion/diversification project, with investments of RM11 million. Projects approved included a joint-venture with Canadian technology to manufacture fibre composite board utilising rice husk.

A total of 13 projects were approved in the mouldings and builder's carpentry and joinery segment, with investments of RM112.5 million. Domestic investments amounted to RM89.2 million or 79.3 per cent of the total investment. Of these, eight were new projects, with investments of RM54.6 million and five were expansion/diversification projects, with investments of RM57.9 million. Projects approved were mainly for the manufacture of wooden doors and flooring boards, including the manufacture of activated carbon/charcoal briquettes, with an investment of RM21.5 million.

Exports

Total export of wood and wood products increased by 5.6 per cent to RM16.7 billion in 2005 from RM15.8 billion in 2004. Exports of wood products increased by 4 per cent to RM14.6 billion in 2005, largely due to increased demand from Japan, with exports totalling RM3.6 billion, followed by the USA (RM3.3 billion) and the UK (RM806.3 million). Exports of veneer, plywood, particle board and other panel products accounted for 50.3 per cent of total export of wood products. Exports of wooden furniture increased by 7.1 per cent to RM5.8 billion, accounting for 39.8 per cent of total export earnings of wood products, largely due to increased demand from the USA, India and the Netherlands for wooden bedroom furniture, office furniture and seats of wooden frame.

Exports of paper products increased by 17.9 per cent to RM2.1 billion in 2005, compared with RM1.8 billion in 2004, due to strong

Table 5.52:
Exports of Selected Wood and Wood Products

Products	2005 (RM million)	Change (%)	2004 (RM million)
Total Export of Wood and Wood Products	**16,712.3**	**5.6**	**15,832.6**
Wood products	14,638.9	4.0	14,074.3
Veneer, plywood, particleboard and other panel products	7,356.9	1.4	7,255.2
Wooden furniture	5.826.3	7.1	5,441.8
Builders' joinery and carpentry of wood	1,162.6	6.1	1,095.9
Paper products	2,073.4	17.9	1,758.3
Paper and paperboard, cut to size	1,266.8	18.0	1,073.4
Paper and paperboard	668.4	6.0	630.8

Source: Department of Statistics, Malaysia

Table 5.53:
Imports of Selected Wood and Wood Products Industry

Products	2005 (RM million)	Change (%)	2004 (RM million)
Total Import	**6,246.0**	**4.4**	**5,981.4**
Wood products	980.0	-0.5	985.1
Wooden furniture	443.1	-4.1	462.2
Veneer, plywood, particleboard and other panel products	384.5	2.5	375.0
Other wood products	149.6	3.6	144.4
Paper products	5,266.0	5.4	4,996.3
Paper and paperboard	4,000.7	1.9	3,926.4
Paper and paperboard, cut to size	772.8	10.5	699.1

Compiled by Ministry of International Trade and Industry

demand from Singapore, valued at RM541.4 million, followed by Japan (RM242.4 million) and Thailand (RM177.5 million). Exports of paper and paperboard (cut to size), valued at RM1.3 billion, constituted 61.1 per cent of total export of paper products in 2005.

Imports

Total import of wood and wood products industry increased by 4.4 per cent to RM6.2 billion from RM6 billion in 2004. Imports of wood products declined marginally by 0.5 per cent to RM980 million. The People's Republic of China was the largest source of import for wood products, valued at RM286.4 million, followed by Thailand (RM133.9 million), Poland (RM87.4 million) and Germany (RM44.3 million). Major products imported were furniture parts, with a share of 45.2 per cent, and veneer, plywood, particleboard and other panel products (39.2 per cent).

Imports of paper products increased by 5.4 per cent to RM5.3 billion in 2005 from RM5 billion in 2004. The largest import was paper and paperboard, valued at RM4 billion. Main sources of import were Indonesia, valued at RM955.1 million, followed by Japan (RM534.7 million), Taiwan (RM450.3 million), Thailand (RM423.1 million) and the USA (RM1.4 million).

Developments

Malaysia is now moving towards original design manufacturing from original equipment manufacturers by upgrading the production of higher value-added furniture, incorporating indigenous design and better finishing. These products have successfully penetrated into the up market segments in the USA, the UK and Japan.

The wood and wood products industry requires continuous and easy access to raw materials, such as forest logs and rubberwood. However, the supply of these resources is declining. As a measure to resolve this issue, the Government banned the export of rubberwood sawn timber, effective 1 January 2006. This was to ensure adequate supply of rubberwood for the wood products industry, especially furniture, and to increase the production of value-added rubberwood products in the country.

Emphasis has been given to increase the timber certification of Permanent Forest Reserves in Malaysia. As of 2005, a total of 4.7 million hectares (32.8 per cent out of 14.4 million hectares) of Permanent Forest Reserves have been certified by the Malaysian Timber Certification Council. The revised certification scheme, which is based on the principles and criteria of the Forest Stewardship Council on sustainable forest management was implemented in 2005. Even though currently the quantity of certified timber exported is less than 1 per cent of total export, efforts are being intensified to increase the trade in certified timber to achieve 50 per cent target by 2010.

RUBBER PRODUCTS INDUSTRY

The rubber products industry consists of manufacture of rubber gloves, rubber tyres and

Table 5.54:
Production Indices of Rubber Products Industry

Products	2005	Change (%)	2004
Rubber Products Industry	**133.8**	**-0.4**	**134.3**
Rubber gloves	151.6	4.0	145.8
Tyres and tube	94.9	-10.3	105.8
Retreading and rebuilding of rubber tyres	88.6	-20.0	110.8
Other rubber products (latex-based and general rubber products)	149.5	2.0	146.6

Source: Department of Statistics, Malaysia
Note: Base Year 2000 = 100

tubes, retreading and rebuilding of rubber tyres and manufacture of other rubber products. In 2005, the rubber products industry consumed 483,000 tonnes of natural rubber, making Malaysia the fifth largest consumer of natural rubber after the People's Republic of China, the USA, Japan and India. As at end 2005, about 500 manufacturers were operating in the rubber products industry.

Production

Despite a marginal decrease in the overall production index of rubber products in 2005, the production index of rubber gloves increased by 4 per cent to 151.6 from 145.8 in 2004, while the manufacture of other rubber products recorded an increase of 2 per cent to 149.5, compared with 146.6 in the previous year. However, the manufacture of rubber tyres and tubes, as well as retreading and rebuilding of rubber tyres recorded decreases of 10.3 per cent and 20 per cent, respectively.

Sales

Sales of rubber products increased by 11.4 per cent to RM9.4 billion in 2005 from RM8.4 billion in 2004, due to increased demand for rubber gloves and other rubber products for industrial and general usage.

Employment

Total employment in the rubber products industry increased by 3.1 per cent to 59,409 workers from 57,620 in 2004. The highest

Table 5.55:
Sales of Rubber Products

Products	2005 (RM million)	Change (%)	2004 (RM million)
Total Sales	**9,365.1**	**11.4**	**8,403.3**
Rubber gloves	4,321.5	13.1	3,820.2
Other rubber products (latex-based and general rubber products)	3,284.6	17.3	2,800.2
Tyres and tube	1,670.9	-1.1	1,690.2
Retreading and rebuilding of rubber tyres	88.2	-5.0	92.8

Source: Department of Statistics, Malaysia

Table 5.56:
Employment in Rubber Products Industry

Products	2005 (Persons)	Change (%)	2004 (Persons)
Total Employment	**59,409**	**3.1**	**57,620**
Rubber gloves	30,266	1.4	29,838
Other rubber products (latex-based and general rubber products)	22,674	6.3	21,327
Tyres and tube	5,731	0.8	5,685
Retreading and rebuilding of rubber tyres	738	-4.2	770

Source: Department of Statistics, Malaysia

Table 5.57:
Productivity Indicators of the Rubber Products Industry

Sub-sector/Segment	Sales Value per Employee (RM'000)			Labour Cost per Employee (RM'000)			Unit Labour Cost (Number)		
	2005	Change (%)	2004	2005	Change (%)	2004	2005	Change (%)	2004
Rubber Products Industry	**157.6**	**8.1**	**145.8**	**16.8**	**5.0**	**16.0**	**0.1063**	**-2.8**	**0.1094**
Manufacture of rubber gloves	142.8	11.5	128.0	14.7	6.4	13.8	0.1031	-4.6	0.1081
Retreading and rebuilding of rubber tyres	119.5	-0.8	120.5	17.3	-0.9	17.4	0.1445	-0.1	0.1446
Rubber tyres and tubes	291.6	-1.9	297.3	27.7	-0.5	27.8	0.0951	1.5	0.0936
Other rubber products (latex-based and general rubber products)	144.9	10.3	131.3	16.7	6.4	15.7	0.1153	-3.6	0.1196

Compiled by National Productivity Corporation based on Monthly Manufacturing Sales, Department of Statistics, Malaysia

number of employees was in the rubber gloves segment, which increased by 1.4 per cent to 30,266 persons in 2005 from 29,838 in 2004.

Productivity

The industry recorded an increase of 8.1 per cent in Sales Value per Employee to RM157,640 in 2005 from RM145,840 in 2004. Growth was due to the increase in demand from the healthcare sub-sector, components and parts for the automotive, machinery and equipment industries. This was further supported with continued efforts by domestic manufacturers in enhancing quality, upgrading of manufacturing processes and continuous R&D support. Labour Cost per Employee also increased by 5 per cent to RM16,760. With a reduction of 2.8 per cent in Unit Labour Cost and higher Sales Value per Employee, compared with Labour Cost per Employee, the industry was able to improve its labour cost competitiveness.

Investments

In 2005, a total of 27 projects were approved in the rubber products industry, valued at RM773 million, compared with 29 projects, with investments of RM385.2 million in 2004. Of the 27 projects approved, 14 were new projects, with investments of RM334.4 million and 13 were expansion/diversification projects (RM438.6 million).

Projects approved in 2005 involved domestic investments of RM557.8 million, accounting for 72.2 per cent of the total investment, while foreign investments totalled RM215.2 million (27.8 per cent). In comparison, domestic investments accounted for RM275.4 million (71.5 per cent), while foreign investments totalled RM109.8 million (28.5 per cent) in 2004.

In 2005, a total of 13 projects approved (RM323.1 million) were Malaysian-owned companies. These projects were export-oriented in nature, with 23 out of the 27 projects proposing to export at least 50 per cent of their products. This will maintain the export-oriented nature of the rubber products sub-sector in the coming years.

Investments in 2005 were mainly in latex products (RM134.2 million), industrial and general rubber products (RM100.7 million), tyres and tyre-related products (RM280.7 million), and recycling of waste tyres into rubber crumb, steel wire, fuel oil and fibre (RM257.4 million). A total of 12 projects (RM134.2 million) were approved in the latex products sector, of which five were new projects (RM30.8 million) and seven were expansion/diversification projects (RM103.4 million). Domestic investments amounted to RM125.6 million or 93.6 per cent of total investment, while foreign investments totalled RM8.6 million (6.4 per cent). Of the 12 projects approved for the latex products sector, eight projects, with investments amounting to RM128.9 million were for the production of rubber medical devices, such as examination gloves, condoms and rebreathing bags. These new projects will further strengthen Malaysia's position as the world leader in the medical rubber products industry.

Two projects, with investments of RM280.7 million, were approved for the production of tyres for passenger cars, trucks, earthmovers and graders. Domestic investments totalled RM102.9 million, while foreign investments amounted to RM177.8 million.

A total of 10 projects, with investments of RM100.7 million, were approved in the industrial and general rubber products sub-sector for the manufacture of products, such as moulded rubber products for the automotive industry, industrial hoses, anti-vibration dampers, tubes and seals. Domestic investments were valued at RM71.9 million or 71.4 per cent of total investment, while foreign investments totalled RM28.8 million (28.6 per cent). Six were new projects, valued at RM31.5 million, while four (RM69.2 million) were expansion/diversification projects.

The recycling of waste tyres into rubber crumb, steel wire, fuel oil and fibre attracted two new projects, with investments totalling RM257.4 million.

Exports

The total export of rubber products in 2005 increased by 13 per cent to RM7 billion, compared with RM6.2 billion in 2004. Main exports were rubber gloves, valued at RM4.5 billion, followed by general rubber goods and industrial rubber products, such as vulcanised rubber thread, including rubber tubes, pipes and hoses (RM1.2 billion), and tyres and tubes (RM484.2 million).

Malaysia continued to be the world's leading exporter of rubber gloves and maintained its position as the largest supplier of rubber gloves to the USA, accounting for RM1.8 billion or

Table 5.58:
Exports of Rubber Products

Products	2005 (RM million)	Change (%)	2004 (RM million)
Total Export	**6,985.5**	**13.0**	**6,183.6**
Rubber gloves	4,502.8	11.0	4,058.3
Industrial rubber goods	1,199.9	1.7	1,025.1
Articles of rubber	590.1	13.2	521.3
Tyres and tyre-related products	484.2	12.1	431.8
Synthetic rubber	208.6	41.8	147.1

Compiled by Ministry of International Trade and Industry

Table 5.59:
Imports of Rubber Products

Products	2005 (RM million)	Change (%)	2004 (RM million)
Total Import	**2,172.1**	**12.2**	**1,935.8**
Synthetic rubber	824.4	20.4	684.8
Articles of rubber	574.5	2.9	558.1
Tyres and tyre-related products	516.0	16.0	444.8
Industrial rubber goods	169.1	-5.1	178.1
Rubber gloves	88.2	26.0	70.0

Compiled by Ministry of International Trade and Industry

87.5 per cent of total exports. Other major export destinations for rubber gloves were Japan, with exports valued at RM383 million, the UK (RM368 million), Germany (RM296.4 million) and the People's Republic of China (RM290.3 million).

Imports

The total import of rubber products increased by 12.2 per cent in 2005 to RM2.2 billion from RM1.9 billion in 2004, attributed to imports of synthetic rubber (38 per cent), as well as tyres and tubes (23.8 per cent). Sources of imports were Japan, valued at RM494 million, followed by Thailand (RM450.5 million), and the USA (RM186.6 million).

Developments

As a leading hub for rubber technology and the world leader in rubber research, Malaysia continues to undertake innovations in new and high value-added products and applications. The innovations include liquid natural rubber, epoxidised natural rubber, deproteinised natural rubber, and thermoplastic natural rubber. These rubbers are suitable for heavy-duty engineering and the manufacturing of earthquake isolators.

Malaysian-owned companies have also developed into major global producers and established their own brands and marketing channels. The introduction of the Standard Malaysian Gloves scheme and technological developments, such as polymer coated and powder-free gloves, have supported the movement up the value chain, particularly in the production of specialty gloves.

PALM OIL INDUSTRY

The palm oil industry comprises palm oil, palm kernel oil, palm kernel cake, oleochemicals and finished products. Intensive R&D and increase in plantation area, especially in Sabah and Sarawak, as well as aggressive efforts in promoting oil palm products for non-traditional usage have enabled the sector to maintain its competitiveness.

The industry, as a whole, experienced a mixed performance in 2005. While recording a strong growth in production, export earnings from palm oil declined resulting from lower prices for crude palm oil and processed palm oil. The decline in prices was attributed to high stocks at the beginning of the year, slow pace of exports during the second-half of the year and competition from lower soybean oil prices in the world market.

Average crude palm oil price declined by 13.4 per cent to RM1,394 per tonne in 2005 from RM1,610 in 2004. The average price of refined bleached deodorised (RBD) palm oil declined by 13.2 per cent to RM1,454, while RBD palm olein declined by 14.6 per cent to RM1,497. Likewise, the average price of RBD palm stearin dropped by 15.8 per cent to RM1,298 per tonne.

Production

Overall production of palm oil products, including oleochemical products, crude palm oil, crude palm kernel oil, palm kernel cake and palm kernel, increased by 8.4 per cent in 2005. The production of oleochemical products recorded the highest increase of 12.9 per cent

Table 5.60:
Production of Palm Oil Products

Products	2005 (Tonnes)	Change (%)	2004 (Tonnes)
Total	**24,883,458**	**8.4**	**22,964,964**
Crude palm oil	14,961,658	7.1	13,976,182
Palm kernel	3,964,034	8.3	3,661,456
Palm kernel cake	2,095,877	10.7	1,894,017
Oleochemical products	2,019,258	12.9	1,788,864
Crude palm kernel oil	1,842,631	12.1	1,644,445

Source: Malaysian Palm Oil Board

to 2 million tonnes in 2005 from 1.8 million tonnes in 2004. This was followed by crude palm kernel oil (12.1 per cent) and palm kernel cake (10.7 per cent). The increase was mainly attributed to the expansion in matured areas, enhanced plantation and mill management.

Investments

In 2005, a total of 30 projects were approved in the palm oil products industry, with investments of RM1.7 billion. In the palm oil (edible) products sub-sector, 19 projects were approved, with investments of RM758.3 million in 2005, compared with 17 projects with investments of RM362.9 million in 2004. Of these, 12 were expansion projects, while seven were new projects. Domestic investments amounted to RM460.6 million or 61 per cent of the total investment.

In the oleochemical sub-sector, 11 projects were approved, with investments of RM968.4 million in 2005, compared with 14 projects (RM2.2 billion) in 2004. Of these, six were new projects (RM340.7 million) and five were expansion/diversification projects (RM627.6 million). Foreign investments amounted to RM724.3 million, accounting for 75 per cent of total investment, while domestic investments totalled RM244.1 million (25 per cent).

Five projects, with investments of RM544.8 million, were approved for the production of fatty alcohols, fatty acids, glycerine, tocotrienol concentrates (used in health foods), diacylglycerols and emulsifier blends, stabiliser blends and flavours (used in the food industry).

With the increasing interest in the palm biodiesel industry, six projects, with investments of RM423.5 million, were approved for the production of fatty acid methyl esters (palm biodiesel). Three of the biodiesel projects, with investments of RM178.5 million, are Malaysian-owned, comprising two new projects and one expansion/diversification project. The other three new projects, with investments of RM245 million, are foreign-owned.

Exports

Total export volume of palm oil products, comprising palm oil, oleochemical products, palm kernel oil, finished products (include margarine and shortening) and palm kernel cake, increased by 7.3 per cent to 18.6 million tonnes in 2005 from 17.4 million tonnes in 2004. However, in terms of total earnings, the export of palm oil products declined by 6.1 per cent to RM28.6 billion, compared with RM30.4 billion in 2004, due to lower average palm oil prices during the year.

In 2005, exports of palm kernel oil, oleochemical products and palm kernel cake increased, with the exports of palm kernel oil recording an increase of 10.6 per cent to RM2.2 billion, compared with RM2 billion

Table 5.61:
Exports of Palm Oil Products

Exports	2005		Change (%)		2004	
	Quantity (Tonnes)	RM million	Quantity	Value	Quantity (Tonnes)	RM million
Total Export	**18,621,679**	**28,599.7**	**7.3**	**-6.1**	**17,360,546**	**30,443.5**
Palm oil	13,445,511	20,033.7	6.9	-9.7	12,581,792	22,175.6
Oleochemical products	1,834,178	5,137.8	3.6	1.9	1,770,220	5,040.0
Palm kernel oil	850,790	2,182.2	9.0	10.6	780,375	1,972.4
Finished products	391,389	829.1	4.5	-2.5	374,602	850.2
Palm kernel cake	2,031,995	353.6	13.1	0.7	1,795,918	351.3

Source: Malaysian Palm Oil Board

in 2004. Exports of palm oil and finished products declined by 9.7 per cent and 2.5 per cent, respectively.

The People's Republic of China remained the largest market for Malaysian palm oil, with exports increasing by 5.5 per cent to 3 million tonnes in 2005. The increase was due to the higher import quota allocated to palm oil and the competitive price of palm oil over soybean oil. Exports to the EU increased by 15.6 per cent to 2.3 million tonnes. The increase was a result of higher demand for palm oil in the production of biofuel formulation. The Government's support for the industry, through the introduction of various measures and tax exemptions, has made palm oil the most viable alternative fuel to the more expensive fossil fuel.

Exports of palm oil to the USA increased by 62.8 per cent to 0.6 million tonnes in 2005, as a result of American food manufacturers switching to palm oil in anticipation of trans-fat labelling. Exports of palm oil to Egypt increased by 81.6 per cent to 0.6 million tonnes in 2005, mainly due to the expansion of the oils and fats manufacturing sector in that country.

Imports

Total import value of palm oil products declined by 47.4 per cent in 2005 to RM994.7 million from RM1.9 billion in 2004. Total volume of palm oil products imported decreased by 23.2 per cent to 667,099 tonnes in 2005, compared with 868,142 tonnes in 2004. Palm oil and palm kernel oil were the main raw materials imported by Malaysia. The decline in import was mainly due to lower imports of crude palm oil as the production in Malaysia increased and the price of local crude palm oil was lower, compared with imported crude palm oil.

Developments

One of the strategies to increase the consumption of palm oil is to diversify its usage into the non-traditional area, for example, biofuel. In line with this strategy, the Government announced the National Biofuel Policy in August 2005 to spur the development of the biofuel industry in Malaysia. The biofuel B5 was introduced to the domestic market on 21 March 2006, and was initially used on selected Government vehicles. The introduction of B5 to the general public in the domestic market is still in the pipeline.

An increasing number of companies are keen to build biodiesel plants, while joint ventures between the private sector and the Malaysian Palm Oil Board (MPOB) has already been initiated to set up palm biodiesel plants in Malaysia using MPOB patented technology for the export market.

PROCESSED FOOD AND BEVERAGES INDUSTRY

The processed food industry comprises the manufacture of sugar and sugar confectionery, cocoa and chocolate products, dairy products, snacks and biscuits, processed fish and fish products, as well as flour and rice milling. The beverages sub-sector covers the manufacture of soft drinks, malt liquors and malt.

Production

In 2005, the production index for the industry increased by 7.6 per cent to 125.9 from 117 in 2004, due to strong domestic demand. Within the processed food sub-sector, products that

Table 5.62:
Imports of Palm Oil Products

Products	2005 (Tonnes)	Change (%)	2004 (Tonnes)
Total Import	**667,099**	**-23.2**	**868,142**
Palm oil	556,519	-21.9	712,659
Palm kernel oil	110,580	-28.9	155,483

Source: Malaysian Palm Oil Board

Table 5.63:
Production Indices of Selected Processed Food and Beverages Products

Products	2005	Change (%)	2004
Overall	**125.9**	**7.6**	**117.0**
Processed food	127.2	7.9	117.9
Cocoa products	173.6	28.4	135.3
Snacks	140.8	15.9	121.5
Processing of fish and fish products	138.1	-1.9	140.8
Chocolate products and sugar confectionery	130.6	19.8	109.0
Biscuits and cookies	126.5	5.0	120.4
Flour milling	117.5	14.4	102.6
Sugar refineries	113.9	-2.6	117.0
Condensed, powdered and evaporated milk	95.9	13.8	84.3
Rice milling	88.0	-0.8	88.8
Other processed food	174.1	4.6	166.4
Beverages	119.3	6.1	112.4
Soft drinks	150.5	6.9	140.7
Malt liquors and malt	105.2	5.6	99.6

Source: Department of Statistics, Malaysia
Note: Base Year 2000 = 100

Table 5.64:
Sales of Selected Processed Food and Beverages Products

Products	2005 (RM million)	Change (%)	2004 (RM million)
Total	**13,792.2**	**10.5**	**12,485.3**
Processed food	12,967.5	10.5	11,733.8
Condensed, powdered and evaporated milk	2,988.3	14.3	2,614.0
Cocoa products	1,959.5	31.4	1,490.7
Sugar	1,855.1	8.9	1,703.3
Flour	1,144.0	13.8	1,005.6
Processed fish and fish products	1,008.9	-0.2	1,010.7
Vegetables and animal oils and fats (exclude palm oil)	979.1	2.6	954.0
Biscuits and cookies	624.9	4.3	598.9
Chocolate products and sugar confectionery	620.9	3.0	602.7
Rice	484.5	3.9	466.5
Snacks	350.6	15.9	302.4
Beverages	824.6	9.7	751.2

Source: Department of Statistics, Malaysia

recorded increases in production were cocoa products (28.4 per cent), and chocolate products and sugar confectionery (19.8 per cent). Malaysia is the largest cocoa grinder in Asia and a net exporter of cocoa products, including chocolates, with exports to more than 70 countries.

The beverages sub-sector also recorded an increase of 6.1 per cent in production, attributed to the increase in external demand for both alcoholic, as well as non-alcoholic beverages in 2005.

Sales

The sales value of processed food and beverage products expanded by 10.5 per cent to RM13.8 billion in 2005, supported by a continuous increase in domestic consumption and exports.

Employment

In 2005, total employment in the industry increased by 3.4 per cent to 36,155 workers from 34,962 in 2004. Employment in the cocoa products sub-sector registered an increase of 23.7 per cent to 1,659 persons in 2005 from

Table 5.65:
Employment in Processed Food and Beverages Industry

Products	2005 (Persons)	Change (%)	2004 (Persons)
Total Employment	**36,155**	**3.4**	**34,962**
Processed food sub-sector	34,215	3.6	33,033
Processed fish and fish products	7,374	-1.5	7,490
Biscuits and cookies	5,998	4.2	5,754
Chocolate products and sugar confectionery	4,143	11.3	3,723
Condensed, powdered and evaporated milk	3,551	-3.1	3,665
Snacks	2,667	12.6	2,368
Sugar	1,913	-0.7	1,926
Cocoa products	1,659	23.7	1,341
Flour	1,470	3.5	1,420
Vegetable and animal oils and fats (exclude palm oil)	1,087	0.9	1,077
Rice	1,078	2.8	1,049
Beverages sub-sector	1,940	0.6	1,929

Source: Department of Statistics, Malaysia

1,341 in 2004. Other sub-sectors that registered positive growth in employment were snacks, chocolate products and sugar confectionery, biscuits and cookies, flour, rice, as well as vegetables and animal oils and fats (exclude palm oil).

Productivity

Sales Value per Employee of the processed food and beverages industry recorded a growth of 6.8 per cent to RM381,480 in 2005, compared with RM357,110 in 2004. However, labour cost competitiveness of the industry declined in 2005, due to the slower growth of Sales Value per Employee, compared with a double-digit growth of 11.2 per cent in Labour Cost per Employee. In addition, the Unit Labour Cost of the industry increased by 4.1 per cent.

The processed food sub-sector recorded an increase of 2.9 per cent in Sales Value

Table 5.66:
Productivity Indicators of Processed Food and Beverages Industry

Sub-sector/Segment	Sales Value per Employee (RM'000)			Labour Cost per Employee (RM'000)			Unit Labour Cost (Number)		
	2005	Change (%)	2004	2005	Change (%)	2004	2005	Change (%)	2004
Processed Food and Beverages Industry	**381.5**	**6.8**	**357.1**	**21.8**	**11.2**	**19.6**	**0.0572**	**4.1**	**0.0550**
Processed food	379.0	2.9	368.4	21.6	6.6	20.3	0.0571	3.6	0.0551
Cocoa products	1,181.2	6.3	1111.7	28.5	-2.7	29.3	0.0241	-8.7	0.0264
Manufacture of sugar	969.8	9.7	884.4	32.7	18.9	27.5	0.0338	8.7	0.0311
Vegetable and animal oils and fats	900.7	1.7	885.8	29.4	7.0	27.5	0.0327	5.5	0.0310
Flour milling	778.2	9.9	708.3	75.4	87.9	40.1	0.0969	70.9	0.0567
Rice milling	449.4	1.1	444.7	18.1	-4.1	18.9	0.0403	-5.2	0.0425
Chocolate products and sugar confectionery	149.9	-7.4	161.9	16.9	-7.2	18.2	0.1127	0.3	0.1124
Processed fish and fish products	136.8	1.4	134.9	10.6	4.6	10.1	0.0776	3.2	0.0752
Biscuits and cookies	104.2	0.1	104.1	12.2	4.9	11.6	0.1172	4.8	0.1118
Beverages	425.1	9.1	389.6	25.1	2.9	24.4	0.0590	-5.7	0.0625
Soft drinks	559.5	4.9	533.4	31.5	1.7	30.9	0.0562	-3.1	0.0580

Compiled by National Productivity Corporation based on Monthly Manufacturing Survey of Department of Statistics, Malaysia

per Employee from RM368,350 in 2004 to RM379,000 in 2005. This was attributed to the nature of the sub-sector, which comprises mainly small businesses with low value-added content, high dependency on imported raw materials and low R&D activities. Labour Cost per Employee registered an increase of 6.6 per cent, valued at RM21,640 in 2005, from RM20,300 in 2004. The sub-sector registered a decline in labour cost competitiveness as the growth of Sales Value per Employee was lower than growth of Labour Cost per Employee, while Unit Labour Cost increased by 3.6 per cent.

The beverages sub-sector recorded an increase of 9.1 per cent in Sales Value per Employee from RM389,610 in 2004 to RM425,060 in 2005. The sub-sector was able to maintain its labour cost competitiveness as indicated by a higher growth in Sales Value per Employee, compared with a growth of 2.9 per cent in Labour Cost per Employee and 5.7 per cent decline in Unit Labour Cost.

Investments

In 2005, a total of 64 projects, with investments of RM752.6 million, were approved in the food processing and beverages industry. Domestic investments amounted to RM440.7 million, accounting for 58.6 per cent of total investment, while foreign investments totalled RM311.8 million (41.4 per cent).

The flour-based products group received the highest investments of RM218.5 million, accounting for 29 per cent of the total investment in the sub-sector. A total of 12 projects were approved, including the manufacture of flour-based products, such as bakery products, biscuits, snack food and noodles. Of these, eight were new projects and four were expansion/diversification projects.

In the seafood processing segment, a total of eight new projects, with investments of RM48.5 million, were approved, while six new projects, with investments of RM72.4 million were approved for the processed meat and poultry products segments. In the fruits and vegetables processing segment, four new projects, with investments of RM21.6 million were approved.

A total of 18 projects, with investments of RM105.7 million, were approved for the production of other food products, including sauces, syrups, mixed condiments, wheatgrass products and confectionery products. Domestic investments in these projects accounted for 78.3 per cent of the total investment.

Exports

All major products in the processed food sub-sector recorded increases in exports. Export of processed foods products increased by 7.9 per cent to RM6.5 billion in 2005 from RM6.1 billion in 2004. Main export items were cocoa and cocoa preparations, accounting for

Table 5.67:
Major Exports of Processed Food and Beverage Products

Products	2005 (RM million)	Change (%)	2004 (RM million)
Exports of Processed Food Products	**6,529.9**	**7.9**	**6,054.0**
Cocoa and cocoa preparations	1,873.2	19.8	1,563.1
Cereals and flour preparation	902.8	20.8	747.1
Processed seafood	581.8	1.9	571.1
Sugar and sugar confectionery	470.0	6.6	441.1
Dairy products	418.2	3.8	402.9
Vegetables and fruits, prepared/preserved	262.6	-3.6	272.6
Processed meat	60.2	-16.5	72.1
Tea and mate	34.2	-18.6	42.0
Exports of Beverages	**881.3**	**12.3**	**785.0**
Alcoholic beverages	581.7	16.3	500.2
Non-alcoholic beverages	299.6	5.2	284.8

Compiled by Ministry of International Trade and Industry

Table 5.68:
Imports of Selected Processed Food and Beverage Products

Products	2005 (RM million)	Change (%)	2004 (RM million)
Imports of Processed Food Products	**6,353.6**	**7.5**	**5,910.2**
Dairy products	1,716.7	10.7	1,551.1
Sugar and sugar confectionery	1,339.6	13.3	1,182.8
Cereals and flour preparation	418.4	-30.7	604.2
Vegetables and fruits, prepared/preserved	396.7	10.7	358.2
Processed seafood	390.4	-6.2	416.3
Cocoa and cocoa preparations	179.3	11.8	160.3
Tea and mate	84.0	14.6	73.3
Processed meat	22.4	-5.1	23.7
Imports of Beverages	**593.7**	**-3.6**	**615.9**
Alcoholic beverages	560.4	-4.9	589.0
Non-alcoholic beverages	33.3	23.8	26.9

Compiled by Ministry of International Trade and Industry

28.7 per cent of total exports of processed food, followed by prepared cereals and flour preparations (13.8 per cent) and processed seafood (8.9 per cent).

Improvements in product quality and acceptance of Malaysian food products, together with aggressive promotions, contributed to the better export performance. Major export markets were Singapore, Indonesia, the USA, Thailand and Australia.

Imports

Imports of processed food products increased by 7.5 per cent to RM6.4 billion in 2005 from RM5.9 billion in 2004. Major import items were dairy products, accounting for 27 per cent of total imports of processed food, followed by sugar and sugar confectionery (21.1 per cent) and prepared cereals and flour preparations (6.6 per cent). In 2005, main sources of imports were Australia, New Zealand, Thailand and the USA.

Developments

The Government continues to develop and promote Malaysia as the regional *halal* hub. In the 2005 Budget, the Government introduced specific incentives for the production of *halal* food, such as Investment Tax Allowance for *halal* food production and double deduction for expenses incurred in obtaining *halal* safety and quality standards. The Government has also provided a grant of RM10 million for the development and promotion of *halal* products.

Malaysia is promoting the Malaysian *Halal* Standard (MS 1500:2004) as a benchmark for International Standard for *halal* products. The *halal* food standard is in compliance with the international standards of Good Manufacturing Practices and Good Hygiene Practices.

OUTLOOK

Malaysia is forecast to achieve a GDP growth of 6 per cent in 2006, compared with 5.3 per cent in 2005, attributed to positive growth of the global economy and trade. The upturn in the global electronics cycle and a more balanced growth across the major economies, with the recovery in Europe and Japan, are expected to provide stimulus to the Malaysian economy.

In 2006, the Third Industrial Master Plan (IMP3), covering a 15-year period from 2006 to 2020, will be launched and implemented. The IMP3, will focus on strengthening the manufacturing sector and moving towards producing higher value-added products through the application of the latest technologies. The development of the sector will also be promoted through existing tax incentives and additional measures that will be undertaken to facilitate the sector in expanding and shifting into higher value-added activities.

In 2006, barring any unforeseen circumstances and with resilient domestic demand and sustained global demand, the manufacturing sector is expected to register a higher growth of 7 per cent, compared with 4.9 per cent in 2005. In addition to the expected turnaround in the global electronics industry, the strong external demand for resource-based products, such as chemicals and petroleum products, will contribute substantially to the growth of the manufacturing sector. The downside risks that could adversely affect the outlook include the sharp and prolonged increase in oil prices and the spread of avian influenza.

The E&E sub-sector is expected to register higher growth, as a result of further upturn in the electronics industry in late 2005. The USA is expected to lead the demand for IT-related products. The sub-sector will focus on sustaining growth and expanding into new, high technology, value-added products, such as photonics, data storage systems, conductive polymers and wireless technology.

In the automotive sector, sales are expected to be higher due to price reduction following the announcement of the NAP. The industry will be more competitive with the anticipated increase in exports, especially from ASEAN countries. Domestic manufacturers need to improve productivity and increase production, as well as explore new markets to be more competitive.

With the NAP, incentives given to manufacturers and assemblers will reduce their production cost and thus improve the quality. Through Japan-Malaysia Economic Association and other bilateral and multilateral FTAs, trade in the automotive sub-sector will be more active, and it is projected that more foreign companies will invest in this sub-sector.

The output of chemicals and petrochemical products is expected to increase due to sustained demand for pharmaceuticals, chemicals and petroleum products, from both the domestic and global markets. Continuous efforts by the industry to expand production of generic drugs and expand the export market will contribute to the growth of the pharmaceutical sub-sector. With the anticipated positive growth of other sectors of the economy, the growth of the chemical products sub-sector that supplies intermediate products and inputs to other industries, such as agro-based, E&E, automotive and construction-related industries, is expected to be sustained. The availability of hydrocarbon feedstock from the domestic oil and gas industry and the projected sustained growth of major export markets, such as the People's Republic of China, ASEAN and Japan, will contribute to the growth of the petroleum products sub-sector.

The demand for iron and steel products by the construction and building sector is expected to grow with increased public sector expenditure, including the development and improvement of infrastructure with the implementation of the Ninth Malaysia Plan in 2006. The construction sector is expected to register positive growth, mainly due to improvement in the civil engineering sub-sector, such as the increase in construction activity in the oil and gas industry and in public projects.

The machinery and equipment industry is projected to register growth, due to high demand for specialised machinery in the global market. The machinery and equipment industry has the technical and competitive advantage in producing certain types of specialised machinery and equipment, such as E&E equipment and plastic processing machinery. The industry will continue to focus on the manufacture of high value-added specialised machinery or custom-made machinery and equipment for specific industries.

The phasing-out of the global quota on the textiles and apparel trade in 2005, under the Multi Fibre Agreement (MFA), impacted on the international market for these products. The resilience of the Malaysian industry was reflected by an increased volume of exports under the quota free market in 2005. The demand for textiles and apparel is expected to grow further in 2006.

Exports of wood-based products is expected to improve with the growth of the global construction industry. Exports of furniture is expected to grow by 5 per cent to 10 per cent annually until 2010, in tandem with a projected growth of 8 to 9 per cent per year in the world furniture trade.

Malaysia is expected to maintain its position as the world's leading producer and exporter of natural rubber gloves, catheters and latex thread. The demand for rubber products is expected to increase further as a result of the projected growth in the E&E and automotive sub-sectors, and infrastructural developments in the region.

Higher prices for primary commodities are expected to contribute positively to Malaysian exports. The demand for palm oil to produce palm diesel is expected to increase with the commencement of methyl ester plants in 2006.

Chapter 6 Performance Of The Services Sector

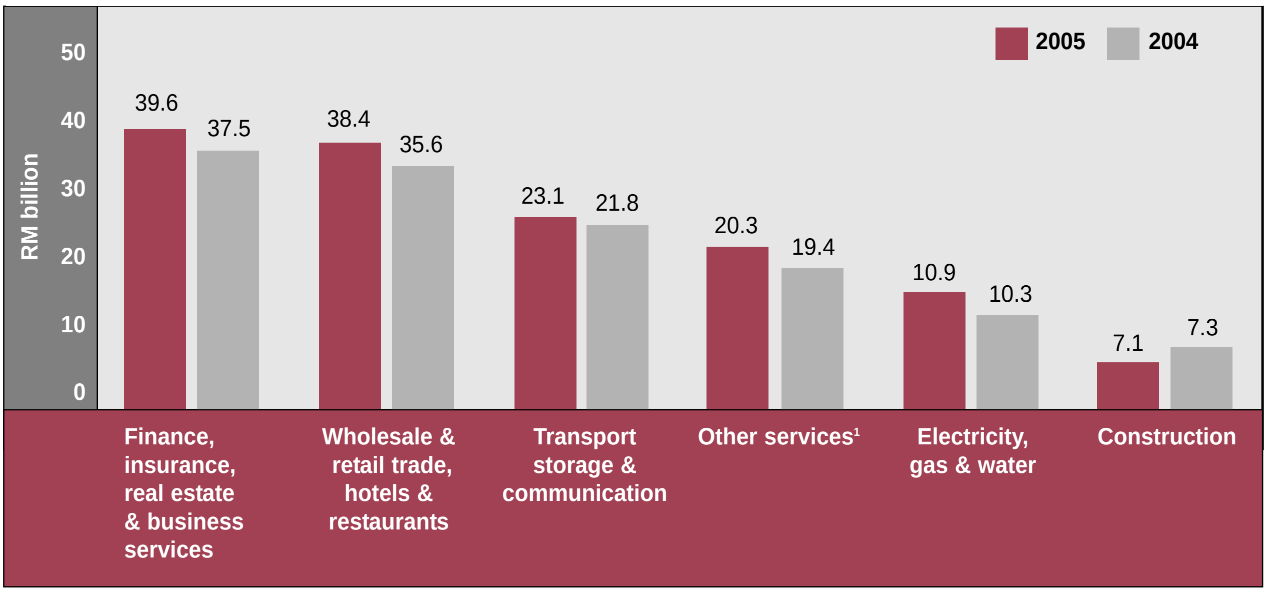
OVERVIEW

The services sector comprises a wide range of activities, which include logistics (transport, storage and communication), finance, insurance, real estate and business services, utilities (electricity, gas and water), wholesale and retail trade, hotels and restaurants and construction. The services sector is a major contributor to the growth of the Malaysian economy.

In 2005, the services sector, which included construction services, but excluded Government services, grew at 5.4 per cent and contributed RM139.5 billion (53.2 per cent) to Gross Domestic Product (GDP), compared with RM131.9 billion (53 per cent) in 2004. The finance, insurance, and real estate and business services sub-sector maintained its position as the leading services sub-sector, contributing RM39.6 billion or 15.1 per cent to GDP in 2005, followed by wholesale and retail trade, hotels and restaurants sub-sector (RM38.4 billion or 14.7 per cent), and transport, storage and communication sub-sector (RM23.1 billion or 8.8 per cent).

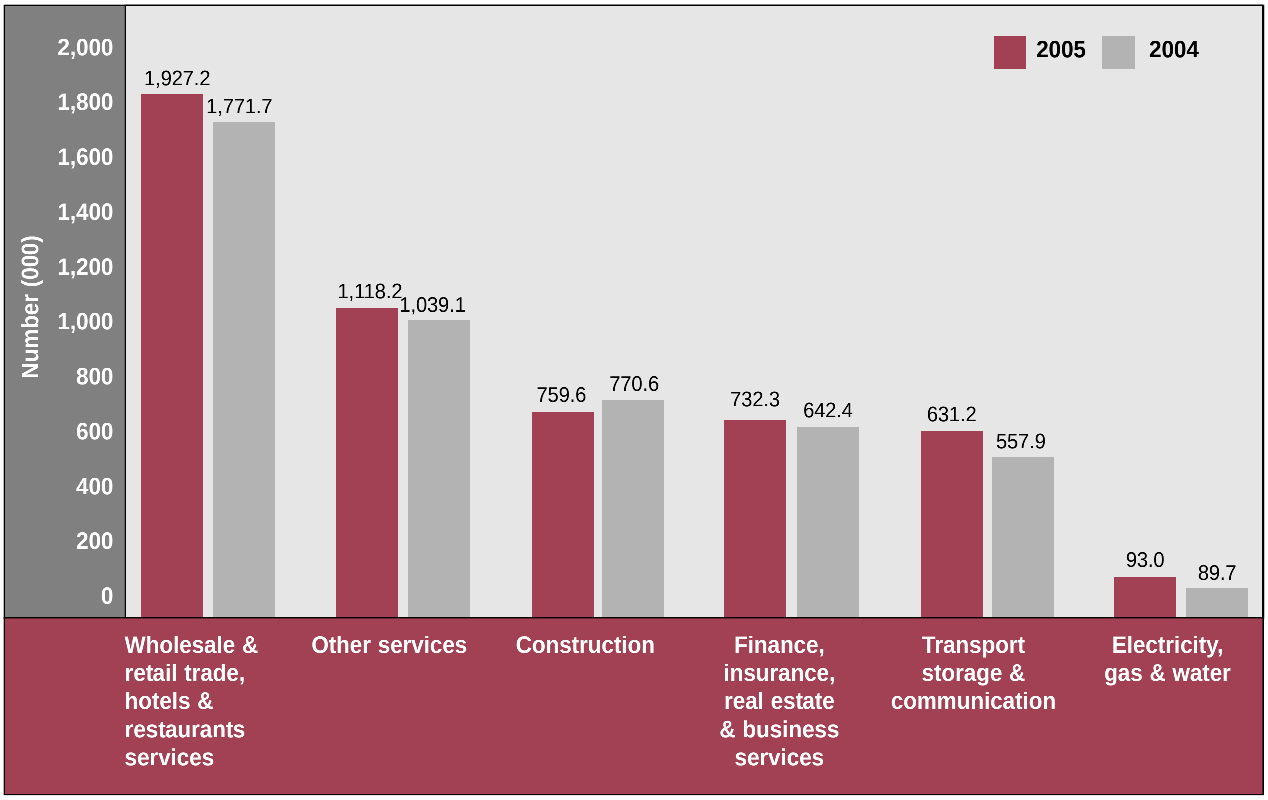
The services sector is also the largest employer in the Malaysian economy. In 2005, the sector contributed 5.2 million employment opportunities or 48.3 per cent of total employment. Within the services sector, the wholesale and retail trade, and hotels and restaurants sub-sector was the biggest employer, with 1.9 million workers or 17.7 per cent of total employment in 2005. In the same year, construction services and the finance, insurance, real estate and business services sub-sectors employed 759,600 persons or 7 per cent and 732,300 persons or 6.7 per cent of the total workforce, respectively.

Chart 6.1:
Contribution of Services Sub-Sectors to Real GDP, 2005



Sources: Department of Statistics, Malaysia and Economic Planning Unit, Malaysia
Note: [1] Include imputed rent from owner-occupied dwellings; community, social and personal services; products of private non-profit services to house hold and domestic devices of households

Chart 6.2:
Employment in Services Sub-Sectors, 2005



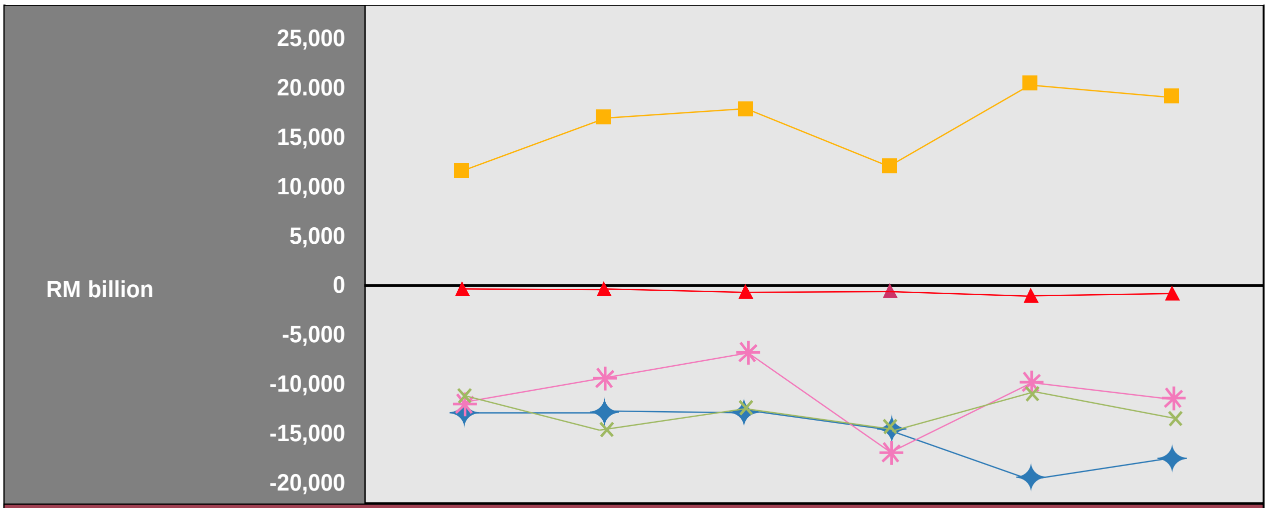
Source: Economic Planning Unit, Malaysia

Based on the Balance of Payment (BOP) data, Malaysia continued to be a net importer of services. Despite strong inflows in the travel component, the services account remained deficit in 2005. Total deficit in the services account increased from RM8.8 billion in 2004 to RM10.2 billion in 2005. Net inflow in the travel account amounted to RM18.1 billion (2004: RM19.4 billion). Other components of the services account, namely transportation, Government transactions and other services, continued to register a net outflow, contributing to the overall deficit in the services account.

In terms of export of services, the travel component was the largest export earner, increasing from RM31.1 billion in 2004 to RM32.3 billion in 2005. Tourists to Malaysia were the largest contributors to travel exports accounting for more than 95 per cent of travel receipts. Exports of transportation services also increased from RM12 billion in 2004 to RM16.2 billion in 2005, the largest component being sea and air freight services. Other services which contributed to export receipts were other business services (merchanting and other trade, operational leasing and miscellaneous business services), construction, communication, computer and information services, and insurance.

In terms of import of services, the transportation sub-sector was the largest component which increased from RM29.8 billion in 2004 to RM31.9 billion in 2005. Within the transportation segment, payment of sea and air freight constituted the largest import component. Total import of the travel component increased from RM11.7 billion in 2004 to RM14.2 billion in 2005, reflecting the increasing trend of Malaysians travelling abroad. Other important services components imported included business services, namely operational leasing and miscellaneous business services, royalties and license fees, construction, communication and insurance.

Chart 6.3:
Services Account (Net), 2000-2005



	2000	2001	2002	2003	2004	2005
Transportation	-11,736	-11,352	-11,572	-13,486	-17,783	-15,707
Travel	11,158	16,148	17,102	11,523	19,398	18,117
Government transactions	-62	25	-284	-327	-721	-350
Other services	-10,030	-13,187	-11,242	-13,011	-9,675	-12,311
Total	-10,670	-8,366	-5,996	-15,300	-8,780	-10,249

Source: Department of Statistics, Malaysia

PERFORMANCE OF SELECTED SERVICES

Business and Professional Services

There are two sub-sectors under the business and professional services, namely Business Services and Professional Services. Business Services include shared services or captive outsourcing and offshoring of business activities, which include back office operations, call or contact centres and information and communication technology support or data centres and operational headquarters (OHQs), representative and regional offices.

Professional Services comprises accredited professional services, which include accounting; book-keeping and auditing; tax consultancy; legal; architectural; engineering and other technical services; and non-accredited professional services, which include research and development (R&D), advertising, market research, management consultancy, and environmental and energy services.

The contribution of the business and professional services to GDP has been estimated from statistics under finance, insurance, real estate and business services. Their contribution to GDP increased from RM37.5 billion (15.1 per cent) in 2004 to RM39.6 billion (15.1 per cent) in 2005. During the same period, employment grew by 7 per cent to 732,300 persons in 2005.

The business and professional services sub-sector is one of the fastest growing sub-sectors and its contribution towards industrial development gained in importance during the Second Industrial Master Plan (IMP2) period. The types of services provided and the delivery methods have undergone changes, largely driven by advancements in technology, in particular the information and communication technology (ICT).

Business Services

Regional Establishments

Regional establishments provide intermediate service inputs to the operations of multinational corporations (MNCs) and their affiliates globally. As at 2005, a total of 552 regional offices and 1,252 representative offices had been approved. These offices provide feedback to their parent companies on the opportunities for business in Malaysia and the region in the medium to long term. These regional establishments are engaged in data collection and fact finding.

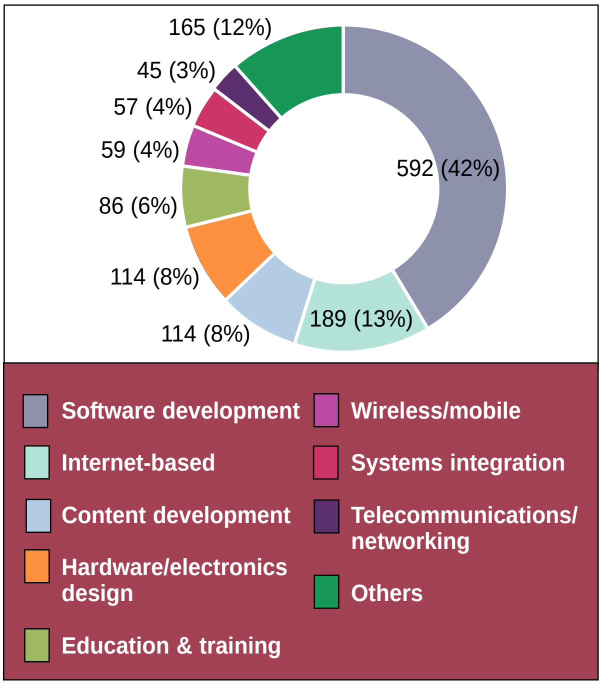
Business Process Outsourcing

The growth of business process outsourcing in recent years has been driven by major factors, such as the orientation of companies to focus on their core competencies, growing availability of competitive outsourcing service providers, automation and the liberalisation of the investment regime relating to foreign direct investments (FDIs).

According to the World Investment Report 2004, the offshore outsourcing of business processes is expected to grow from US$1.3 billion in 2002 to US$24 billion in 2007. Common areas outsourced include information technology (IT), accounting and legal services, maintenance, market research, human resource, consultancy services and marketing-related activities.

For two consecutive years (2004 and 2005), the AT Kearney's Global Services Location Index (previously known as the Offshore Location Attractiveness Index) ranked Malaysia as the third most attractive business location for business process outsourcing, behind India and the People's Republic of China. Malaysia's favourable performance was attributed, among others, to its continued investments in modern infrastructure in the Multimedia Super Corridor of Malaysia (MSC Malaysia), enhancement in incentives to make them more attractive for companies to locate in Malaysia, and measures on liberalisation of employment and intensify the usage of English language and upgrade the technical skills among the workforce. As at 2005, a total of 1,421 companies were granted MSC-status. Of these, 1,033 were majority Malaysian-owned, 349 majority foreign-owned and 39 with equal ownership.

Chart 6.4:
Approved MSC Companies by Sector as at 2005



Source: Multimedia Development Corporation

MSC Malaysia is concentrating on capturing offshore shared services projects, where customers are primarily located outside Malaysia. By the end of 2010, the Multimedia Development Corporation aims to have 100,000 high value shared service outsourcing jobs in the MSC Malaysia. By 2020, the number of jobs created is projected to grow to 600,000.

Total investment in the telecommunications and IT sub-sector, which covers communication and multimedia projects, MSC-status companies, and software development companies, amounted to RM6.1 billion (294 projects) in 2005, compared with RM6.6 billion (202 projects) in 2004. In 2005, domestic investments approved amounted to RM5.6 billion (92.4 per cent), while foreign investments was RM462.7 million (7.6 per cent).

As at 2005, a total of 106 OHQs have been approved by the Malaysian Industrial Development Authority (MIDA) for establishment in Malaysia. Of these, 82 have

Table 6.1:
Accredited Professional Services

	No. of Establishments		Gross Output (RM million)		Employment (Persons)	
	2003	1996	2003	1996	2003	1996
Total	**6,961**	**4,808**	**6,088**	**4,543**	**88,285**	**78,465**
Legal services	3,108	2,078	1,588	1,144	32,288	25,979
Accounting services	1,383	985	1,000	634	19,225	15,816
Architectural consultancy services	914	578	753	683	9,367	8,063
Engineering consultancy services	718	505	1,963	1,441	15,903	16,568
Surveying services	690	498	767	627	11,007	11,563
Drafting consultancy services	148	164	16	13	495	476

Source: Census of Professional Services Private Sector, 2004, Department of Statistics, Malaysia

started operations. These companies are engaged in providing business services, including outsourcing, R&D, back room operations and other qualifying business services to their group of related companies within and outside Malaysia.

Professional Services

Accredited Professional Services

During the period 1996-2003, the number of establishments in legal, accounting, architectural, drafting, engineering and surveying consultancy services increased from 4,808 in 1996 to 6,961 in 2003. The gross output of these services increased from RM4.5 billion in 1996 to RM6.1 billion in 2003. During the same period, employment in these establishments increased from 78,465 persons to 88,285. Legal and engineering consultancy services formed the major segments, accounting for 58 per cent of gross output in 2003. These two services were also the major sources of employment, absorbing 55 per cent of the total employment of business and professional services in 2003.

The value-added contribution of the accredited professional services decreased from RM4.2 billion in 1996 to RM4 billion in 2003. This was due largely to the weak performance of the construction industry, which affected its related services (architectural and drafting consultancy, engineering and surveying services). During the same period, legal and accounting services registered a marginal increase in value-added.

Table 6.2:
Contribution of Accredited Professional Services to Gross Domestic Product

	Value-Added (RM million)		Value-Added as Percentage of GDP (%)	
	2003	1996	2003	1996
Total	**4,038**	**4,237**	**1.7**	**1.7**
Legal	1,189	1,062	0.5	0.4
Engineering consultancy	1,146	1,349	0.5	0.5
Accounting	792	597	0.3	0.2
Architectural consultancy	460	638	0.2	0.3
Surveying consultancy	441	579	0.2	0.2
Drafting consultancy	10	12	neg.	neg.

Sources : Census of Professional Services Private Sector, 2003,
National Product and Expenditure Accounts, 1987-2003, Department of Statistics, Malaysia
Note: neg. - *negligible*

Non-Accredited Professional Services

Energy Services

Energy sources, including petroleum, natural gas, coal, renewable energy, and primary and secondary electricity sectors, each provides a specific market for energy services. These energy services are required at each step of the energy chain, from the location of the potential energy source to its distribution and finally to the consumer.

In Malaysia, presently, there are 12 firms involved in the upstream exploration and development activities for oil and gas, including Petronas Carigali, the only Malaysian-owned company. The upstream stage of exploration, which is highly specialised, is closely related to the construction and fabrication industry. The exploration and development activities for oil and gas have created backward linkages, with the setting up of companies to service the construction of oil rigs, offshore platforms and pipelines for use in the oil and gas industry.

Renewable energy is important in achieving the goal of sustainable energy supply in the long term. Renewable energy from biomass and solar energy accounts for 90 per cent of the renewable energy potential. The value of the equivalent energy that can be generated from the available biomass in Malaysia is estimated at RM10 billion per annum. The bulk of the available biomass is from oil palm and timber wastes, which are normally disposed of by open burning. Converting biomass into a usable form of energy is an environment-friendly approach to waste disposal.

The Government grants a wide range of incentives to promote the utilisation of biomass derived from oil palm waste, timber waste and padi husk as a source of renewable energy. To further encourage the generation of energy using biomass, the Government has granted tax incentives in the form of Pioneer Status, with full tax exemption for 10 years or Investment Tax Allowance of 100 per cent for five years. The application period for the tax incentive has been extended for another five years until 31 December 2010.

To date, 32 projects, all of which are undertaken by Malaysian-owned companies, have been granted Pioneer Status/Investment Tax Allowance incentives, involving total investment of RM630.9 million to generate energy from biomass. The approved projects are capable of generating 153.1 megawatt of electricity, 926.4 tonnes of steam, 150.7 giga joules of heat and 1,000 refrigerant tonnes of chilled water and will utilise 5.7 million tonnes of biomass per annum. Of the projects approved, 14 have commenced operations, of which nine are located in Peninsular Malaysia and five are in Sabah.

Environmental Services

The environmental services industry includes the supply of equipment (such as for water supply and delivery, treatment of waste water, waste handling, air pollution control and laboratory testing), services (such as engineering design, construction and management of utilities, waste collection and processing, and legal and consultancy services) and resources (such as sale of water, recovered materials and renewable energy) relating to environment.

Presently, the environmental services sub-sector provides supporting services to the Federal Government, local authorities and manufacturing companies which need to comply with environmental requirements. The emerging trend in this sub-sector is the growth potential associated not only with compliance with rules and regulations, both at the national and international levels, but also its expanding capacity as a source of technological innovation, competitive advantage and benchmarking with international service standards. Privatisation of these services has expanded the role of the private sector in the delivery of environmental services.

Presently, the following environmental services are granted incentives under

Promotion of Investments Act, 1986:

- storage, treatment and disposal of toxic and hazardous wastes;
- energy conservation;
- waste recycling activities; and
- use of renewable energy resources.

As at 2005, a total of 97 companies were granted incentives, involving a combined investment of RM2 billion. Of the total, 52 companies have started operations.

Market Research Services

The market research services sub-sector is expected to grow further as more businesses become aware of the importance of marketing intelligence. Industry sources have indicated that:

- in 2004, the industry has an estimated annual gross revenue of RM200 million, of which 50 per cent was contributed by foreign companies operating in Malaysia;
- an increasing number of companies have outsourced their market research requirement to independent companies to gather information on market intelligence, consumer preferences and brand loyalty; and
- foreign-owned firms dominate the market, while smaller local companies compete in niche markets.

Management Consultancy Services

Management consultancy services comprise services related to IT, financial management, market and feasibility studies, strategic planning, business process re-engineering, change and risk management and other advisory services.

Management consultancy services are expected to grow, in view of the increasing pace and complexity of new ventures and the sophistication in business models and work processes. The demand for other types of consultancy services, such as energy and environmental consultancy services and technical testing, is also expected to increase. The provision of energy consultancy services is a relatively new business in Malaysia. Therefore, there is potential for the growth and development of these services among local service providers.

Advertising Services

During the period 1996-2003, the share of value-added for advertising services to GDP was at 0.1 per cent. The lower employment for the sub-sector, from 4,079 persons in 1996 to 3,855 in 2003, contributed to improvement in labour productivity, as reflected by an increase in value-added per employee, from RM65,900 in 1996 to RM86,700 in 2003.

The total number of establishment increased from 143 in 1996 to 212 in 2003. During the same period, gross output per employee increased from RM436,306 to RM560,018. Competition in this industry was more intense towards sectoral concentration and between local and large international agencies.

Research and Development Services

R&D includes industrial design (product and process development covering designing and prototyping) and research services provided by, among others, design houses, contract R&D companies, R&D companies and approved R&D institutes/research companies.

The involvement of private companies in R&D activities is crucial to the nation's industrialisation drive. New innovations and technologies developed through R&D will enhance the country's competitiveness in the international arena. Various tax incentives and financial assistance schemes have been put in place to encourage the private sector's involvement in carrying out R&D activities. These incentives include the Pioneer Status, Investment Tax Allowance for in-house, contract and independent R&D companies, as well as double deduction on approved R&D expenditure.

To date, a total of 83 R&D projects, involving investments of RM1.3 billion, have been granted Pioneer Status/Investment Tax Allowance incentives. Foreign investments in these R&D projects amounted to RM909.8 million and domestic investments totalled RM390.7 million. R&D investments were concentrated in the E&E industry (RM681.6 million), chemicals and chemical products industry (RM211.6 million), machinery manufacturing industry (RM111.3 million) and transport equipment industry (RM76.1 million). A total of 2,789 employment opportunities were created by these projects.

Financial assistance schemes, such as the Research and Development Grant Scheme, Multimedia Super Corridor R&D Grant Scheme, Intensification of Research in Priority Areas, Demonstrator Applications Grant Scheme and Commercialisation of R&D Fund, are primarily aimed at Malaysian-owned companies.

In 2005, a total of nine R&D projects, with total investment of RM22.5 million, were approved financial assistance, compared with 296 R&D projects with total investment of RM189.1 million in 2004. The number of R&D projects granted financial assistance declined substantially in 2005 due to the freeze of three R&D grant schemes, namely Research and Development Grant Scheme, Multimedia Super Corridor R&D Grant Scheme and Intensification of Research in Priority Areas, which are currently under review. Of the R&D projects approved for financial assistance, six projects, involving investments of RM19 million, were approved under Commercialisation of R&D Fund, while two projects, with investments of RM2.6 million, were approved under Demonstrator Applications Grant Scheme and one project, with investments of RM935,156, was approved under the Multimedia Super Corridor R&D Grant Scheme.

Distributive Trade Services

This sub-sector comprises wholesaling, retailing, franchising, direct selling, catering and restaurants. It also includes commission agents or representatives, including those of international trading companies. Distribution of motor vehicles and other consumer durable goods is also included in the sub-sector. Some of these distributors also perform important tasks, including repair and maintenance services of goods.

The distributive trade services sub-sector has undergone structural changes during the IMP2 period, which are evident in the format and modes of delivery of services, as well as new types of distribution outlets. The notable changes are those related to the greater number of mega malls and shopping complexes, hypermarkets, and specialty stores. The entrants of foreign retailers, for example, operators of hypermarkets, changed further the profile of the distributive trade services sub-sector in which integrated wholesale and retail functions emerged. The dynamics within this sub-sector has spinned off new activities and services, which contributed to the development

Table 6.3:
Profile of Distributive Trade Services Sub-Sector, 2001

Activity	Establishments		Number of Workers		Fixed Assets		Revenue	
	Number	Share (%)	'000	Share (%)	RM billion	Share (%)	RM billion	Share (%)
Total	**284,171**	**100.0**	**1,172**	**100.0**	**26.0**	**100.0**	**248.7**	**100.0**
Wholesale	16,386	5.8	180	15.3	13.3	50.9	115.0	46.2
Retail	153,660	54.1	512	43.7	7.7	29.6	71.7	28.8
Motor vehicles	31,800	11.2	148	12.6	3.2	12.2	48.9	19.6
Restaurants	82,325	29.0	332	28.3	1.9	7.4	13.2	5.3

Source: Census of Distributive Trade 2002, Department of Statistics, Malaysia of more comprehensive and innovative supply chain activities, resulting in greater international network and outsourcing.

The development of distributive trade services sub-sector and its current status include the following:

- the sub-sector experienced an average annual growth rate of 2.7 per cent, with contribution to GDP increasing from RM25.3 billion in 1995 to RM26.8 billion in 2000 and to RM33.1 billion in 2005;

- total sales increased from RM159.6 billion in 2000 to RM205.6 billion in 2005;

- the largest revenue generators were wholesale services, which contributed 46.2 per cent and 70.2 per cent of the total revenue in 2001 and 2005, respectively;

- generated employment of 1.3 million workers in 2005, compared with 1.1 million in 2000; and

- retail trade services contributed the highest share of total employment in the sub-sector.

During the period 2003-2005, the Ministry of Domestic Trade and Consumer Affairs approved 758 distributive trade establishments, with a total investment of RM2.5 billion. They include 334 projects in the wholesale and retail trade, 322 projects approved under the Petroleum Development Act, which are mainly for the setting up of petrol stations, 67 projects for direct selling, 28 hypermarkets/supermarkets and three departmental stores. Of the total investment, 56.5 per cent was foreign-owned. Investment in hypermarkets was substantial, with 47 of the 81 approved hypermarkets being in operation as at 2005.

Since the late 1990s, the policy liberalisation had been introduced to attract foreign participation in hypermarkets, superstores, departmental stores and specialty stores. The foreign operators are larger, adopting modern methods of operations and management strategies and are driven by innovations and application of ICT. In addition, they also enjoy economies of scale and scope while receiving support from their foreign networks, which is seen as a source of competitive advantage.

To promote Malaysia as a regional and global trading centre, the Government promoted the international procurement centre (IPC) and the regional distribution centre (RDC) activities in 1996 and 2003, respectively. To date, a total of 177 IPCs and 10 RDCs have been approved. The total annual sales turnover of these centres was estimated at RM59 billion and their business spending was estimated at RM4.7 billion per annum. These centres serve as procurement and distribution centres and undertake supply chain management for their manufacturing operations, both in Malaysia and abroad.

Wholesale Trade

The sub-sector has undergone structural transformation, characterised by rising productivity and its concentration into larger businesses by foreign-owned firms. Although the total number of establishments declined from 22,940 in 1993 to 16,386 in 2001, their contribution to revenue increased from RM101.6 billion to RM115 billion. In 2005, wholesale establishments contributed RM144.3 billion of sales turnover in the distributive trade services sub-sector.

In terms of management capabilities and performance, although 98.4 per cent of the total establishment were Malaysian-owned, the foreign-owned firms were larger in size and were relatively more advanced in terms of management approaches, operational systems, technology and productivity. In terms of revenue generation, the largest segment of the wholesale trade was in non-agricultural intermediate products, followed by agricultural produce, covering fruits and vegetables, livestock and poultry, food, beverages and tobacco, and household goods.

Retail Trade

Based on the Census of Distributive Trade 2002, for reference year 2001, out of the total of 153,660 retail establishments (other than motor vehicles and restaurants), 41.9 per cent were involved in specialised stores, followed by 33.1 per cent in non-specialised stores, such as provision stores, supermarkets, superstores, hypermarkets, convenience stores and mini markets. It is estimated that 99.7 per cent of retail establishments were Malaysian-owned.

The retail trade business is dominated by the specialised retail outlets. In 2001, they constituted 66.8 per cent of the total number of establishments of 153,660 and generated 71.4 per cent of the total revenue of RM71.6 billion in retail trade. Nevertheless, the non-specialised retailers are becoming increasingly visible, as reflected in the number of outlets and sales revenue of provision stores. Although the number of departmental stores increased only marginally from 29 in 2000 to 33 in 2005, the total sales volume increased from RM638 million in 2000 to RM883 million in 2005.

The number of franchisors increased from 90 in 2000 to 204 in 2005. In terms of franchisees, the number increased from 2,159 in 2000 to 2,584 in 2005. By business sector, the franchisees were mainly involved in the distribution of household, food and automotive products.

The number of direct selling licences registered a sharp decline from 772 in 1996 to 385 in 2001. From 2002 onwards, the industry witnessed an expansion, with the number of licences issued in 2005 totalling 569. Sales turnover from direct selling activities increased from RM4.5 billion in 2000 to RM5.3 billion in 2005. Direct selling activities were mainly involved in the distribution of locally manufactured products, such as herbal and other health supplements, handicraft, cosmetics, food products and footwear.

E-commerce grew at an average annual rate of 81.8 per cent from RM11.1 billion in 2003 to RM36.7 billion in 2005. This was largely attributed to the rise in e-commerce transactions in the business-to-business (B2B) segment from RM7.7 billion to RM29.3 billion, while the business-to-consumer (B2C) increased from RM3.4 billion to RM7.4 billion over the same period. In terms of business sector, more banks, bookshops, ticketing agents and cinemas offered their services through on-line transactions.

During the IMP2 period, an important feature of the distributive trade services sub-sector was the development of its linkages with the transport and communication, agriculture, manufacturing and tourism sectors. The distributive trade sub-sector also witnessed increased linkages with the financial sector as a result of the rising trend in cashless transactions.

Construction Services

There are two categories of construction services:

- general construction works, comprising building and civil engineering construction; and

- specialist trade or works, consisting of, among others, mechanical works, electrical and air-conditioning works, and other specialist trade or works, such as plumbing, sewerage and sanitary works; painting works; carpentry, tiling and flooring works; and glass works.

Prior to the financial crisis of 1997, the sector was growing faster than the overall GDP growth, driven by strong demand for properties and substantial investments in public infrastructure. At its peak performance in 1997, the sector registered value-added of RM9.5 billion, representing 4.8 per cent of GDP. In 1998, following the financial crisis, the sector contracted by 24 per cent. Subsequently, the sector recorded a gradual recovery. Nevertheless, its contribution to the overall GDP decreased from 4.7 per cent in 1996 to 2.7 per cent in 2005. In 2005, the sector employed a total of 759,600 workers, absorbing 7 per cent of the total workforce of 10.9 million.

An increasing number of Malaysian construction firms have provided construction services to overseas markets, such as India, West Asia and South Africa. As at 2005, the Construction Industry Development Board (CIDB) had facilitated 76 Malaysian construction companies in undertaking a total of 316 projects, worth RM17.6 billion, in these overseas markets.

Gross output of construction services was contributed substantially by a few large construction firms (output capacity of above RM100 million). In 2002, these firms numbered 44 and contributed 24 per cent of the total value of gross output. In contrast, 3,447 construction companies recorded output capacity of less than RM10 million, and 837 companies, between RM10 million and RM100 million.

Construction services are characterised by distinct market segments between the private and public sectors. Medium to high-cost residential housing and non-residential buildings are undertaken largely by the private sector, while low-cost housing, and public amenities and infrastructure works are implemented by the Government.

In 2002, of the total value of RM40.8 billion in construction works undertaken, 65.9 per cent was by the private sector. Civil engineering works recorded the highest contribution to gross output, at 38.4 per cent, followed by residential construction (23.7 per cent), non-residential construction (22.3 per cent) and special trades (15.6 per cent). Value-added generated by the construction services sub-sector grew steadily from RM4.4 billion in 1990 to RM14.8 billion in 2002.

Table 6.4:
Profile of Construction Services Sub-Sector, 2002

Output Size	Establishments		Gross Output	
	Number	Share (%)	RM billion	Share (%)
Total	**4,328**	**100.0**	**41.7**	**100.0**
Less than RM10 million	3,447	79.6	10.4	24.9
RM10 million - RM100 million	837	19.3	21.3	51.1
More than RM100 million	44	1.1	10.0	24.0

Source: Survey of Construction Industry, Department of Statistics, Malaysia
Note: The survey covered only companies with value of work exceeding RM500,000

Education and Training Services

Education and training services cover private higher education (college and university education, and commercial and other technical education) and adult and other vocational education (post-secondary non-tertiary education, tertiary education and skills training).

Education and training services are an important supplier of qualified and trained workforce for industries and services. The provision of education services has been undertaken traditionally by the Government. With liberalisation in the mid-1990s, there was an increasing number of private higher learning and training

Table 6.5:
Performance of Construction Sector 1990, 1996 and 2002

Year	Gross Output (RM billion)	Costs of Inputs (RM billion)	Value-Added of Surveyed Companies (RM billion)	Employment (Persons)
2002	41.8	27.0	14.8	455,663
1996	44.6	27.5	17.2	627,369
1990	11.9	7.6	4.4	305,547

Source: Survey of Construction Industry, Department of Statistics, Malaysia institutions. Public-funded institutions for education and training services include universities, teacher training colleges, polytechnics and colleges, and vocational institutions, while the private sector is involved in universities and colleges, and commercial and other technical institutions.

During the period 2003-2005, a total of 287 private educational establishments were approved by Ministry of Higher Education, involving a total investment of RM273 million. These establishments were largely Malaysian-owned (89.4 per cent), with an employment potential of 2,395 persons.

The liberalisation on the supply of education has facilitated private sector participation in education and training services. During the 1990s, local private universities and offshore campuses of foreign universities and private colleges were established, with the latter conducting all segments of foreign degree programmes locally.

A number of the providers of education and training services have gained international recognition. As at 2005, three colleges have become public listed companies and have been recognised as international education providers. Some of the internal courses of the private higher educational institutions have also been accredited by internationally renowned universities.

Private Education Institutions

Presently, there are 16 private universities, of which 11 are Malaysian-owned and the remaining five are branch campuses of foreign universities. In addition, there are 11 university colleges operating in the country.

These institutions award bachelor degrees and other higher qualifications, mainly in business, applied sciences, IT, engineering and medical disciplines. With internationally recognised qualifications, as well as relatively lower fees, education in these institutions is attractive and accessible to both Malaysian and international students.

The presence of branch campuses of foreign universities from Australia and the United Kingdom (UK) provides additional choices in education and training for Malaysians. These establishments also help to enhance private education services by attracting foreign students, who wish to pursue qualifications from prestigious universities of developed countries, to study in Malaysia.

The main features of private non-university status colleges and institutions are:

- their number grew from 354 in 1996 to a peak of 632 in 2000 and consolidated to 532 in 2005. These institutions vary, in terms of size, facilities and programmes offered;

- some of them offer diploma and certificate courses for professional qualifications, and franchised degree programmes of foreign universities. They also conduct examinations on behalf of professional bodies in Malaysia, such as the Malaysian Institute of Accountancy, Institution of Engineers Malaysia, Institute of Bankers Malaysia and National Vocational Training Council; and

- presently, there are 26 private colleges that have been accredited by universities from the UK, Australia and France to conduct full degree programmes in Malaysia.

Enrolment in private higher education institutions increased from 50,840 in 1995 to 341,310 in 2005. Of these, 38.5 per cent were in diploma courses, 32.4 per cent in degree courses and 27.8 per cent in certificate courses. In 2005, a total of 41,312 foreign students were enrolled in higher education institutions. The majority of the foreign students were from the People's Republic of China, Indonesia, Thailand, Bangladesh, Republic of Korea, Pakistan, India, as well as West Asia and Africa. The main fields of studies were business and administration, arts, design and music.

Technical Education and Vocational Training

There are numerous private technical education and vocational training providers. These providers assume an important role, offering affordable courses to meet the demand in niche areas. The number of private technical education and vocational training providers, accredited by National Vocational Training Council, increased from 316 in 2000 to 1,330 in 2005. The output of these training institutions increased from 18,725 students in 2000 to 33,111 in 2005.

Commercial and Professional Education

Specialised industrial, commercial and professional training and continuous professional education are provided by various professional bodies, trade associations and training organisations. These organisations focus on education and training activities in specialised skills and competencies, required by the profession or trade. They include the Federation of Malaysian Manufacturers, Institute of Manufacturing, Malaysian Institute of Certified Public Accountants, Institution of Engineers Malaysia, Institute of Architects Malaysia and the Malaysian Institute of Management.

Health Services

Health services cover the provision of healthcare services, such as hospital services, medical and dental services, social work services (for example, nursing homes), human health activities and veterinary services.

The value chain of the health services sub-sector includes the manufacture, provision and distribution of pharmaceutical products, medical equipment and devices, health insurance, R&D, and education and training of medical personnel.

According to a study conducted in 2003 by the National Economic Action Council, value-added of health services amounted to RM2.5 billion in 2000, constituting 1.2 per cent of the GDP. Public healthcare accounted for 60 per cent of the value-added and private healthcare, 40 per cent.

During the period 1990-2000, private healthcare services grew at an average annual rate of 8 per cent, higher than the 5.4 per cent growth of the public healthcare service. This was due to the liberalisation of Government policy and a greater demand for such services by the higher income group.

In 1999, gross output in current prices of the private healthcare services (excluding allied health and nursing care, and social work services) was estimated at RM2.9 billion. This was contributed largely by private hospitals, including maternity homes, at 52.7 per cent, followed by medical services (41.7 per cent), dental services (5.2 per cent) and veterinary services (0.5 per cent).

The main features of the private healthcare services are:

- medical services constituted the bulk (2,688 or 71.4 per cent) of the total number of establishments of 3,763, followed by dental services (20.5 per cent), hospitals (6 per cent) and veterinary services (2.1 per cent);

- there are two large private healthcare service providers. Together, they account for 24 per cent of the total number of beds in private hospitals. There are also six medium-sized private hospitals, with an average number of 286 beds per hospital, and 15 other smaller private hospitals, with less than 200 beds each;

- the private hospitals are concentrated in urban areas, in particular, Selangor and the Federal Territory. In 2004, of the total private hospital beds in Malaysia, 44.9 per cent were in Selangor and Federal Territory, followed by Pulau Pinang (18.5 per cent), Johor (7.6 per cent), Perak (7.4 per cent) and Melaka (7.2 per cent). This indicates that private hospitals cater to the needs of the higher income

Table 6.6:
Private Healthcare - Number of Establishments and Workers, 2001

	Number of Establishments	Share (%)	Number of Workers	Share (%)
Total	**3,763**	**100.0**	**43,437**	**100.0**
Medical services	2,688	71.4	21,223	48.8
Dental services	773	20.5	3,281	7.6
Hospitals	224	6.0	18,709	43.1
Veterinary services	78	2.1	224	0.5

Source: National Economic Action Council Report, 2003

group of the urban population, including expatriates; and

- medical services accounted for 48.8 per cent of the total employment, followed by hospitals (43.1 per cent).

While private hospitals comprised 62 per cent of the total number of hospitals, they accounted for only 22 per cent of the number of beds, reflecting their smaller size, compared with Government hospitals. However, private hospitals have a higher ratio of doctors to beds (10:19), compared with Government hospitals (10:40).

During the period 2003-2005, a total of 25 private hospitals were approved by Ministry of Health, involving a total investment of RM89 million. All the establishments are wholly Malaysian-owned, with potential employment of 745 workers.

Tourism Services

Tourism services comprise hotels, resorts, lodging owners and operators, tour operators, travel agencies, restaurant and catering

Table 6.7:
Healthcare Sector - Key Indicators, 2004

	Public	Private	Total
No. of hospitals	131	218	**349**
No. of beds	37,280	10,542	**47,822**
Doctors	9,410	8,836	**18,246**
Doctors - beds ratio	10:40	10:19	**10:26**
Beds - population ratio	1:686	1:2,427	**1:535**
Dentists	1,111	1,439	**2,550**
Nurses	30,002	10,218	**40,220**

Source: Health Facts 2004, Ministry of Health, Malaysia

services, and transport companies. The scope of tourism services has progressed from supplying services on current mass products and markets to more innovative tourism packages. These include eco-tourism, agro-tourism, edu-tourism, health tourism, sports tourism and event organisation (meetings, incentives, conferences and exhibitions-MICE). Further growth is expected in these new niche markets, which include long and medium haul markets.

For the period 1996-2005, total tourist receipts had increased from RM10.3 billion to RM31 billion, reflecting an average annual growth rate of 12.9 per cent. For the same period, tourist arrivals increased from 7.1 million to 16.4 million, with an average annual growth rate of 8.1 per cent.

ASEAN countries continued to account for more than 70 per cent of total tourist arrival. Within ASEAN countries, Singapore and Thailand accounted for more than 60 per cent of tourist arrivals. Tourist arrivals from West Asia increased from 31,371 in 1996 to 164,000 in 2005.

The tourism services sub-sector is a significant contributor to foreign exchange earnings, which increased from RM10.3 billion in 1996 to RM29.6 billion in 2004. The sub-sector is Malaysia's second largest source of foreign exchange earnings, after the manufacturing sector. In 2005, foreign exchange earnings grew by 4.7 per cent to RM31 billion.

Per capita tourist expenditure expanded at the rate of 4.4 per cent from RM1,444 in 1996 to

RM1,890 in 2005. Main components of tourist expenditure were accommodation, shopping and food and beverages. The average length of stay of tourists in Malaysia had also increased from 5.4 nights in 1996 to 7.2 nights in 2005.

The tourism services sub-sector is also a major contributor to employment, providing 451,000 employment opportunities in 2005. The major source of employment was in hotels and other lodging services, which increased steadily by more than two-fold from 39,000 workers in 1995 to 91,156 in 2005. It is projected that by 2010, a total of 520,700 direct employment opportunities will be created in the sub-sector.

Hotels and Lodgings

In 2005, there were 2,256 hotels and other lodging places. Within the hotel segment, the 4-star and 5-star hotels account for 19 per cent, while the 2-star and 3-star hotels formed the bulk of the number of hotels (36 per cent). Total number of hotel rooms grew from 94,744 in 1995 to reach 170,873 in 2005 and is projected to further increase to 247,008 by 2010. Of the hotels rated by the Ministry of Tourism, Kuala Lumpur has the highest proportion of luxury hotels, followed by Pulau Pinang and Selangor. Sarawak has the highest number of budget hotels, followed by Sabah and Kuala Lumpur.

For the period 2003-2005, a total of 85 hotels and tourism projects have been approved by the Ministry of Tourism, involving a total investment of RM4.9 billion, of which 36.7 per cent were from foreign sources. These projects are expected to provide potential direct employment for 7,296 workers.

A total of 360 hotel projects were granted tax incentives during the IMP2 period, of which 309 projects were the establishment of new hotels and 51 projects were expansion, refurbishment or modernisation of existing hotels. During the same period, a total of 30 tourist projects, including both in-door and out-door theme parks and safaris, were granted tax incentives. As a measure to encourage more domestic tourism, a total of 180 budget hotels (hotels rated 3-star and below) were granted tax incentives. Of the total investment of RM20.9 billion, 80 per cent or RM18.4 billion was for the establishment of new hotels.

Specialised Tourism Products and Services

Specialised tourism projects cover indoor and outdoor theme parks, safaris, agricultural parks and recreational camps. As at 2004, there were 19 specialised tourism projects in strategic locations, such as Genting Highlands, Fraser's Hill, Cameron Highlands and national parks. In addition, there are also service providers in the tourism related services, for example, convention and exhibition centres which are an important source of growth for the tourism sub-sector, due to their capacity to attract high spending business travellers. In 2005, a total of 3,230 international conventions were organised in Malaysia, with foreign delegate arrivals of 775,286, an increase of 63.7 per cent from 473,486 arrivals in 2001. These international events generated about RM3 billion in tourist receipts from foreign business travellers in 2005.

To enhance the appeal of Malaysia as a tourist destination, continual efforts were made to promote the country's traditional advantages, that is, its cultural and natural heritage. Continuous effort has been expanded by the Government to further enhance the attractiveness of the country's historical and cultural advantages. Among specialised tourism products and services promoted include MICE tourism, sports and recreational tourism, thematic events, eco-tourism, health tourism, education tourism, Malaysia My Second Home Programme, and Agro-Tourism.

Travel Agencies and Tour Operators

In tandem with the growth in hotels and other lodging places, the number of travel and tour establishments also increased from 744 in 1990 to 2,383 in 2005. In 2005, a total of 20,610 licences were issued to tour coach and car rental operators.

Logistics

The logistics services which comprise transport as its core element and related integrated services such as warehousing, distribution and forwarding, serves as an important link for Malaysia's industrialisation and international trade. The transport sector covers ports, airports, roads, railways and inland haulage services. Although transport comprises several modes, more than 90 per cent of international trade is seaborne, with ports providing the important interface between shipping and land transport. Ports are linked to the hinterland and marketplace largely by roads, railway, haulage services and, to some extent, through major airports. The transport sector is also supported by a number of integrated logistics services and together they provide the logistics support to domestic- and export-oriented primary producers and manufacturers.

During the IMP2 period, the transportation sub-sector, including storage and communication, grew at an average annual rate of 6.5 per cent. The growth of this sub-sector was in line with the rapid expansion of the country's manufacturing base and external trade.

In 2005, the transport, storage and communication services sub-sector contributed RM23.2 billion or 8.8 per cent of GDP. According to the Census on Transport and Communication 2004 undertaken by Department of Statistics, there were 3,816 establishments in the sub-sector, contributing RM77.9 billion in fixed assets and employing 217,671 workers. Within the transport component (excluding services allied to transport and post, courier and telecommunications), land transport services constituted the major sub-component, in terms of number of establishments (1,082), employment (60,289) and fixed assets (RM15 billion), and followed by maritime transport. The road haulage sub-component was the

Table 6.8:
Economic Indicators by Type of Transportation Services, including Storage and Communication

Transport Service	2003			
	Establishments (Number)	Employment (Persons)	Value-Added (RM million)	Size (Asset) (RM million)
Total	**3,816**	**217,671**	**25,723**	**77,902**
Maritime	**403**	**19,663**	**3,972**	**12,769**
Sea transport	348	18,318	3,903	12,702
Inland water transport	55	1,345	69	67
Land transport	**1,082**	**60,289**	**2,136**	**15,032**
Rail	4	6,916	198	12,412
Public bus transport	259	18,146	381	711
Road haulage	819	35,227	1,557	1,909
Air	**15**	**24,620**	**1,421**	**2,053**
Services allied to transport	**2,171**	**54,056**	**4,935**	**17,452**
Cargo handling/stevedoring	138	5,917	220	227
Storage and warehousing services	35	2,672	156	366
Highway operations services	16	5,049	1,882	9,811
Port operations services	9	9,976	1,582	5,733
Shipping and forwarding agencies services	750	14,754	787	445
Others[1]	1,223	15,688	308	870
Post and courier	**84**	**21,342**	**721**	**453**
Telecommunications	**61**	**37,701**	**12,538**	**30,143**

Source: Census on Transport and Communications, Department of Statistics, Malaysia
Note: [1] Car parking services and travel agencies and tour operator services

most labour intensive, with employment of 35,227 workers, followed by air (24,620) and maritime transport (18,318).

In 2005, the transportation component of the balance of payments registered a deficit, amounting to RM15.7 billion, compared with RM6.5 billion in 1996. This widening deficit reflected Malaysia's continued reliance on foreign transportation and logistics services.

Overall Freight Transport

The overall volume of freight transport in Malaysia by sea, air and rail had increased during the period 1990-2005. The port component handled the largest portion of freight traffic in 2005.

Table 6.9:
Freight Traffic by Port, Airport and Rail, 1990-2005

	Port[1]	Airport	Rail
	('000 tonnes)	('000 tonnes)	('000 tonnes)
2005	252,620	1,006.8	4,031
2000	190,417	775.1	5,481
1995	147,378	482.0	5,249
1990	99,897	241.6	4,631

Sources: Ninth Malaysia Plan and Ministry of Transport
Note: [1]Includes Port Klang, Penang, Pasir Gudang, Kuantan, Bintulu, Tanjung Bruas, Kuching, Miri, Rajang, Kota Kinabalu, Lahad Datu, Sandakan, Tawau, Port Dickson, Kemaman, Teluk Ewa and Tanjung Pelepas. Data refer to only 17 main ports, which differ from data contained in Ninth Malaysia Plan, which cover all 24 ports.

Malaysian ports handle a variety of cargo, including palm oil, wood products, machinery, appliances and parts, textiles and clothing, rubber products, chemicals and chemical products. Port Klang handled the largest volume of cargo, mainly containerised, followed by Bintulu Port, which largely handled only one major commodity that is, liquefied natural gas. Other large ports in Malaysia include the Port of Tanjung Pelepas (PTP), Johor Port and Penang Port.

In 2005, total cargo throughput or the volume handled by Malaysian ports, for both exports and imports, including container and non-container cargo, was 252.6 million tonnes, comprising 135.1 million tonnes (53.5 per cent) for exports and 117.5 million tonnes (46.5 per cent) for imports. In 2005, containerised cargo contributed 139.2 million tonnes (55.1 per cent) of the total throughput. Non-container trade, which includes all commodities that are carried as bulk as well as general cargo, contributed 113.4 million tonnes of total throughput in 2005.

Air freight cargo comprises mainly high value and time sensitive cargo, such as electronics and ICT products, biotechnology, medical products and perishable items, such as fresh fruits and flowers. Electronics and ICT products are mainly exported by air through Penang Airport (60 per cent) and Kuala Lumpur International Airport (40 per cent). The volume of air cargo trade totalled 1 million tonne in 2005.

It is estimated that only about 7 per cent of the seaborne traffic is transported via rail. In terms of inland movements, railway carries less than 1 per cent of the cargo generated by the economy. Railway freight contributed 4 million tonnes to the total cargo volume in 2005.

In 2005, a total of 71 projects were approved for the transport sub-sector. These projects are involved in maritime transport, aviation, and highway construction and maintenance. Total approved investment was higher in 2005, at RM11 billion, compared with RM9.3 billion in 2004 (51 projects). The bulk of investments approved in 2005 were domestic investments (RM10.9 billion or 99.6 per cent), while foreign investments amounted to RM41.5 million.

OUTLOOK

The increase in services activities and investments in Malaysia is expected to be translated into benefits for the economy as a whole. These include increase in employment opportunities, enhancement and upgrading of knowledge and skills in the various services sub-sectors and levels, access to foreign markets, and spin-offs into other sectors of the economy, including procurement of goods and value-added services. The increase in the number of regional establishments which cater to the needs of MNCs in both manufacturing-related services and services activities will strengthen Malaysia's position as a major trading nation in the region.

The promotion of the services sector is being intensified. MITI and its agencies are collaborating with the various ministries and regulatory agencies to identify specific sectors for promotion, formulate promotional programmes and activities, and develop specific investment incentives. An initial contact point for investors has been established at MIDA to assist investors in services in a similar way as investors in the manufacturing sector. Statistics on investment in the various services sub-sectors in Malaysia are being collated to develop a comprehensive database on services investments. The database could assist in the formulation of specific policies and incentives to promote identified services.

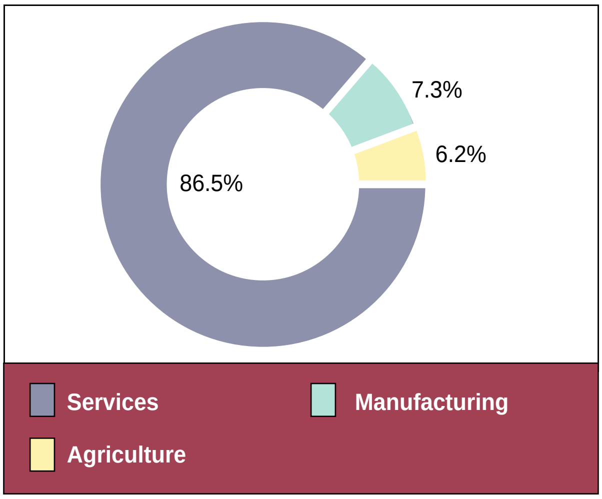
With the increasing pace of trade and investment liberalisation at the multilateral and regional levels and the prospects for increased economic benefits through bilateral cooperation, including free trade arrangements in services between Malaysia and its trading partners, it is essential for Malaysia's service suppliers to strategise in order to enhance their competitiveness to meet the challenges of services liberalisation, as well as to take advantage of trade and investment opportunities created in the services sector in other countries.

Chapter 7 Development Of Small And Medium Enterprises

OVERVIEW

As at December 2005, there were 518,996 small and medium enterprises (SMEs) or 99.2 per cent of total establishments. Of this, 449,004 (86.5 per cent) SME establishments were in the services sector, 37,866 (7.3 per cent) in the manufacturing sector and 32,126 (6.2 per cent) in the agriculture sector.

Chart 7.1:
Profile of SMEs by Sector



Source: Small and Medium Industries Development Corporation

The significant increase in the number of SME establishments in the manufacturing sector in 2005 to 37,866, compared with 18,271 in 2004 was due partly to the new definition of SMEs adopted by the National SME Development Council.

In the services sector, the majority of SMEs were in wholesale and retail, accounting for 55.3 per cent of total establishments, followed by restaurants (14 per cent), transport and communication (6.2 per cent), financial intermediaries (4.3 per cent) and professional services (2.5 per cent).

Table 7.1:
Distribution of SMEs in Services Sector, 2005

	No. of SME Establishments	Share (%)
Total	**449,004**	**100.0**
Wholesale and retail	248,221	55.3
Restaurants	63,013	14.0
Selected services[1]	43,626	9.7
Transport and communication	27,980	6.2
Financial intermediaries	19,108	4.3
Professional services	11,120	2.5
Real estate activities	8,779	2.0
Business/management consultancy services	8,352	1.9
Health[2]	7,759	1.7
Education	7,618	1.7
Hotel	2,275	0.5
Computer services	1,095	0.2
Telecommunications	58	neg.

Source: Department of Statistics, Malaysia
Note: [1] Include rental services, advertising, research and development, business activities (labour recruitment, building cleaning, packaging services, and duplication services), recreation, cultural and sporting activities (motion picture projection, recreation clubs).
[2] Include hospital, medical, dental and veterinary services, herbalists, homeopathy, and foot reflexology.
neg. - negligible

In the manufacturing sector, the majority of SMEs were in textiles and apparel (23.2 per cent), followed by food and beverages (15 per cent) and metal and metal products (12.4 per cent).

Contribution of SMEs to the Manufacturing Sector

In 2005, SMEs contributed 29.6 per cent or RM81.7 billion to the total manufacturing output of RM276 billion, 25.9 per cent to value-added and 31.1 per cent to total employment. Compared with the performance in 2004, the contribution of SMEs in terms of output has increased by 8.6 per cent, value-added (9.2 per cent) and employment (2.5 per cent).

The higher contribution by SMEs in the manufacturing sector was attributed to the strong growth in both output and added value of four major sub-sectors, namely chemicals and chemical products, food and beverages, metal and metal products, and rubber and plastics products. Chemicals and chemical products recorded the highest growth

Box 7.1: Adoption of Standard Definition for Small and Medium Enterprises

The National SME Development Council at its second meeting on 2 December 2004, had approved the adoption of a standard definition for Small and Medium Enterprises (SMEs). The standard definition is intended to facilitate the identification of SMEs for the purpose of providing assistance through support programmes from the various ministries and agencies responsible for the development of SMEs.

Generally, the definition of SMEs is divided into:

i) Manufacturing, manufacturing-related services and agro-based companies with full-time employees not exceeding 150 or with annual sales turnover not exceeding RM25 million; and
ii) Services, primary agriculture and ICT enterprises with full-time employees not exceeding 50 or with annual sales turnover not exceeding RM5 million.

SMEs are further categorised into micro, small and medium enterprises as each of these categories requires different treatment and support assistance, depending on their levels of growth.

	Manufacturing, manufacturing-related services and agro-based companies	Services, primary agriculture and information and communication technology enterprises
Micro	Annual sales turnover not exceeding RM250,000 or full time employees not more than five.	Annual sales turnover not exceeding RM200,000 or full time employees not more than five.
Small	Annual sales turnover between RM250,000 and RM10 million or full time employees between five and 50.	Annual sales turnover between RM200,000 and RM1 million or full time employees between five and 20.
Medium	Annual sales turnover between RM10 million and RM25 million or full time employees between 50 and 150.	Annual sales turnover between RM1 million and RM5 million or full time employees between 20 and 50.

Box 7.2: Census on Establishments by Department of Statistics, Malaysia in 2005

In 2005, the Department of Statistics, Malaysia, undertook a Census on Establishments to form the basis for a comprehensive database on SMEs in the country. The Census was sent to approximately 1.7 million establishments and data collection was implemented through postal survey and face-to-face interviews.

Preliminary result of the Census (December 2005) indicated that a total of 523,132 establishments could be segregated into services, manufacturing and agriculture sectors. The services sector is the largest with 451,516 establishments (86.3 per cent), followed by the manufacturing sector with 39,219 establishments (7.5 per cent) and agriculture sector with 32,397 establishments (6.2 per cent). In the services sector, 99.4 per cent or 449,004 establishments, are SMEs, while for the manufacturing sector, out of 39,219 companies, a total of 37,866 or 96.5 per cent are SMEs.

Continued...

Profile of Establishments based on the Census on Establishments by Department of Statistics, Malaysia, 2005				
Size	**Manufacturing**	**Services**	**Agriculture**	**Total**
Micro	20,952	360,912	29,985	411,849
Small	14,955	78,917	1,618	95,490
Medium	1,959	9,175	523	11,657
Total SMEs	**37,866**	**449,004**	**32,126**	**518,996**
Large	1,353	2,512	271	4,136
Total Establishments	**39,219**	**451,516**	**32,397**	**523,132**
% of Total Establishments	**7.5**	**86.3**	**6.2**	**100.0**

Source: Department of Statistics, Malaysia

Table 7.2:
Distribution of SMEs in Manufacturing Sector, 2005

Sub-Sector	No. of SME Establishments	Share (%)
Total	**37,866**	**100**
Textiles and apparels	8,779	23.2
Food and beverages	5,664	15.0
Metal and metal products	4,686	12.4
Publishing, printing and reproducing of recorded media	2,806	7.4
Furniture	2,286	6.0
Rubber and plastics products	2,166	5.7
Wood and wood products	2,052	5.4
Non-metallic mineral products	1,650	4.4
Machinery and equipment	1,390	3.7
Electrical and electronics	1,077	2.8
Chemicals and chemical products	1,047	2.8
Transport equipment	699	1.9
Paper and paper products	677	1.8
Leather products	497	1.3
Tobacco products	193	0.5
Medical, precision and optical instrument	167	0.4
Recycling	167	0.4
Petroleum products	75	0.2
Manufacturing not elsewhere classified	1,788	4.7

Source: Department of Statistics, Malaysia

of 18 per cent and 19.9 per cent, respectively for output and added value.

New Initiatives

In 2005, the Government introduced three new grant schemes for SMEs to enhance their product packaging, design and labelling capabilities, develop and promote *halal* products and enhance marketing skills of employees in SMEs:

- Grant for Enhancing Product Packaging, Design and Labelling Capabilities of SMEs, with a total allocation of RM100 million;

- Grant for Enhancing Marketing Skills of SMEs (RM50 million); and

- Grant for Development and Promotion of *Halal* Products (RM10 million).

Table 7.3:
Contribution by SMEs in Manufacturing Sector

Indicator	2005	2004	Growth (%)
Output			
(RM billion)	81.7	75.2	8.6
Share (%)	29.6	29.3	
Value-Added			
(RM billion)	16.6	15.2	9.2
Share (%)	25.9	25.5	
Employment			
(Persons)	394,670	384,935	2.5
Share (%)	31.1	31.0	

Computed from Annual Survey of Manufacturing Industries, Department of Statistics, Malaysia

ISSUES AND CHALLENGES

The SMEs are still dependent on the domestic market. Based on a survey undertaken by Small and Medium Industries Development Corporation (SMIDEC), SMEs exported only 20.7 per cent of their total output in 2005, compared with 26 per cent in 2004.

In general, SMEs are still faced with issues of:

- market access;
- advancement of technology;
- innovation and creativity;
- access to financing;
- access to information; and
- human resource development.

The Government has given greater focus to various planning and policy initiatives for the development and promotion of SMEs. In view of the significant presence of SMEs, as well as their role as major a contributor to economic development, the National SME Development Council was established to facilitate the process of inter-ministry and inter-agency coordination in the implementation of comprehensive policies and programmes for the development of SMEs.

In 2005, the National SME Development Council endorsed the National SME Development Blueprint 2006 to promote the development of competitive and resilient SMEs in all sectors towards increasing their contributions to the economy. The Blueprint includes a total of 245 programmes, covering both capacity building programmes and greater access to financing, for implementation by various ministries and agencies.

Out of the 245 programmes, a total of 27 programmes will be implemented by the Ministry of International Trade and Industry (MITI) and its agencies, with a budget allocation of RM233.1 million. The objective of these programmes is to enhance the viability and competitiveness of SMEs in the manufacturing and services sectors. Focused development areas include provision of enabling infrastructure, marketing and promotion, technology development, and awareness and outreach, as well as access to financing.

PROGRAMMES FOR SME DEVELOPMENT

In line with Government initiatives in addressing issues faced by SMEs, SMIDEC has implemented various developmental programmes to assist SMEs in market accessibility, capacity building and technology improvement, as well as enhancing their competitiveness.

Market Access

The Industrial Linkage Programme (ILP), which was incepted in 1997, is being implemented by SMIDEC to facilitate SMEs in achieving the required competencies to become reliable and competitive suppliers of parts and components as well as services.

The ILP was also extended to incorporate the resource-based sector, specifically the food processing and consumer products sub-sector. SMIDEC has collaborated with foreign-based hypermarket chains in identifying and linking Malaysian SMEs which have the capability and capacity to become their suppliers. In 2005, a total of 108 SMEs in the food and non-food sub-sectors were recommended by SMIDEC as suppliers to hypermarket chains. Of these, 31 SMEs have been appointed as suppliers to these hypermarkets, with total sales valued at RM2.1 million. Six of them have progressed to become suppliers to the hypermarket chains in the global network.

As at December 2005, a total of 1,088 SMEs from various sectors were registered under the ILP, out of which 415 SMEs or 38.1 per cent were linked to multinational corporations (MNCs) and large companies. To date, this linkage programme has realised actual total sales of RM335 million.

SMEs were also given assistance in exploring market opportunities and expanding market network through participation in international trade fairs and exhibitions. Through business matching sessions, held in conjunction with SMIDEC's Annual Showcase - SMIDEX 2005 and the ASIAN SME Convention, a total of RM88.4 million in potential sales was generated. Potential sales of RM8.4 million were also recorded through a mini product display, jointly organised with an MNC.

SMEs were also encouraged to undertake productivity and quality improvement activities, apart from acquiring related certifications to facilitate market access. Technical briefings in various certifications were conducted, namely the Hazard Analysis Critical Control Point (HACCP), British Retailers' Consortium Standard and Good Manufacturing Practice (GMP). In 2005, a total of 100 SMEs successfully achieved certifications under these schemes.

Assistance was given to SMEs to conform to automotive standard and certification, namely the ISO/TS 16949, which is a prerequisite for SMEs in the automotive sub-sector intending to become global suppliers. SMIDEC, in collaboration with the national car manufacturers and the respective automotive associations, had undertaken a project for 60 SMEs to acquire this certification.

Human Resource Development

Malaysian SMEs continued to face a challenging business environment, which required employees of SMEs to constantly improve their skills at both the technical and managerial levels. In 2005, a total of 1,361 employees of SMEs participated in skills upgrading programmes held at 21 Skills Development Centres. Of this, a total of 1,017 or 74.7 per cent were from the manufacturing sector and 344 (25.3 per cent) from the services sector.

The five well-received training courses among companies in the manufacturing sector were footwear technology, ICT, industrial engineering, radiographic interpretation, and safety and health. In the services sector, SMEs participated in training courses on enhancement of marketing skills, which included modules on effective selling, management, customer account management, customer care, customer relationship management and excellent customer service.

In the area of capacity building, SMIDEC collaborated with the Automotive Federation of Malaysia and Japan External Trade Organisation to implement the technical experts programme for the automotive industry. The technical experts provided assistance in the form of technical consultancy services and human resource development, particularly related to utilising continuous improvement approach to enhance productivity and quality. As at 2005, a total of 118 SMEs have benefited from this programme.

The SME Expert Advisory Services offers SMEs technical assistance and advisory services. As at December 2005, a total of 29 industry experts have been registered under the SME Expert Advisory Panel programme. Under this programme, the experts provide on-site advisory services, which include technology improvement, conformance with international standards, such as HACCP and GMP, productivity improvement, automation, maintenance of machinery and equipment, materials technology, process improvement and ICT.

Advancement of Technology

In 2005, a series of workshops on enhancing the capabilities of SMEs, through technology matching, was initiated to assist them in adopting the latest technologies to enhance their products and processes, as well as to inform them on research findings that are available for commercialisation. Through participation at these workshops, SMEs are able to upgrade their product and process capabilities.

The application of ICT and adoption of latest technologies have created SMEs that are competitive, in terms of costs and quality, and at the same time be able to respond in real time to market demands and changes. The RosettaNet Standard Grant Scheme provides an interface for companies to communicate and conduct business electronically in sourcing for parts and components, as well as services, with their trading partners.

In addition, the Soft Loan Scheme for ICT has enabled SMEs to upgrade their engineering design and manufacturing capabilities, as well as acquire relevant software in the services sector. This Soft Loan Scheme assists SMEs to enhance their business processes through the utilisation of enterprise resource planning, computer-aided design and manufacturing, point of sales system, tracking system, automated store management system and inventory management system.

Benchmarking and Best Practices

The implementation of benchmarking activities was intended to measure SMEs' key performance indicators in a more efficient and systematic manner. The information gathered through this exercise was used by SMEs to assess their level of achievement and competitiveness in relation to their peers in the same sectors. SMIDEC collaborated with the National Productivity Corporation (NPC) to provide benchmarking and sharing of best practices for SMEs.

As different Communities of Practice of SMEs would require different sets of measurement parameters, a total of four separate Communities of Practice were established for the benchmarking programmes. These included Enterprise 50 winners, SMIDEC grant recipients, retailers and women entrepreneurs. A total of RM1 million was allocated to undertake the benchmarking and best practices activities.

Regional Cooperation Programmes

SME Programmes under ASEAN

In January 2005, Malaysia participated in the ASEAN-Japan Workshop on SME Development through Regional Trading House in Medan, Indonesia. The objective of the workshop was to provide opportunities and sharing of ideas in enhancing the role of SMEs in strengthening export market access by establishing a trading house.

Under the ASEAN-China Cooperation Fund, Malaysia participated in a workshop on 'Empowerment of Small Medium Enterprises through Technological Capacity Building' in July 2005 in Bandung, Indonesia. The workshop was held with the objective of sharing best practices in policies and incentives available to facilitate technology transfers to SMEs.

Following the directive by Leaders at the Eight ASEAN+3 Summit, the People's Republic of China organised the 'First High Level Seminar on Promoting SME Development and Investment in East Asia', in Beijing, from 27-28 October, 2005. Malaysia presented two papers at the seminar, namely 'The Role of SMEs in Malaysia's Economy' and 'SME Financing in Malaysia'.

The Beijing Initiative, an outcome of the seminar, was adopted as a framework to improve cooperation in SME development among the participating countries. Work programmes outlined under the Initiative included improving the investment and financing environment for SMEs in the East Asia region, exploring and establishing investment financing schemes, as well as strengthening the promotion of economic, trade and cooperation among SMEs in East Asia.

The Initiative agreed that the 'High Level Seminar on Promoting SME Development and Investment in East Asia' be held on an annual basis. Highlights of the Initiative included proposals to:

- establish a mechanism for regular communication and negotiations;
- explore new fields of cooperation, enrich cooperation content and enhance higher levels and modes of cooperation, as well as share knowledge and experiences to promote the growth of SMEs;
- set up and improve multi-level investment and financing system for SMEs; and
- further explore the development of regional infrastructural initiatives to promote ASEAN+3 SMEs, such as the establishment of SME Regional Development Fund and SME Consultancy Service Centre.

SME Programmes under APEC

The 21st Meeting of the SME Working Group and the SME Ministerial Meeting held in August 2005, endorsed the Daegu Initiative on SME Innovation Action Plan. The Initiative is aimed at assisting APEC economies to identify factors that can be improved upon to accelerate innovation and cooperation, and institute efficient measures to facilitate SME innovation, through voluntary reviews, information sharing and recommendations among peers. Seven areas were given emphasis:

- developing human resources and technology through industry, educational and research institutions;
- facilitating access to expert assistance and consulting services;
- enhancing availability of capital to innovative SMEs;
- networking and clustering for innovative SMEs;
- establishing appropriate legal and regulatory structures;
- establishing a market consistent economic environment; and
- developing methodologies to effectively measure processes in the implementation of innovation programmes for SMEs.

In 2005, Malaysia participated in various programmes implemented under the APEC SME Working Group. Among the capacity building programmes were:

- APEC Symposium on 'Industrial Clustering for SMEs', held in Taiwan, in March 2005. Participants were able to share best practices in the development of clustering for SMEs in their economy. Inputs from the resource persons had been compiled into the Best Practices Guidelines for Industrial Clustering;
- Workshop for SME Programme Managers on Reducing SMEs' Compliance Cost, held in Brunei Darussalam, in July 2005. The workshop focused on APEC's overall efforts in addressing standards-related issues which tend to hinder intra-APEC trade;
- Seminar on 'Enhancing the Business Environment for Micro-Enterprises in the Asia-Pacific Region', held in Hanoi, in August 2005. Participants were able to share experiences on supporting policies for micro-enterprises, as well as propose policies and mechanisms to enhance the business environment for such enterprises;
- Workshop on 'Best Practices on Mentoring Systems: Key to Reducing APEC SME Loan Default', held in Bangkok, in July 2005. Workshop participants exchanged best practices on APEC economies'

mentoring systems, with particular attention on reducing loan defaults among SMEs in APEC economies;

- Workshop on 'Micro and Small Enterprise Financing: A Tool for Mainstreaming the Informal Sector', held in Peru, in July 2005. Workshop participants analysed various aspects of formalisation, including the regulatory framework and how it can affect the financing of micro, small and medium enterprises in APEC economies; and

- Seminar on 'Need and Availability of Micro-Finance Service for Micro-Enterprise: Bringing Multi-Level Good Practices into Local Context', held in Bali, in August 2005. The seminar explored micro-finance services, both on the demand and supply sides, based on a study conducted in 2004-2005 in the five APEC economies, namely Malaysia, Thailand, the Philippines, Mexico and Indonesia.

SME Programmes under United Nations Conference on Trade and Development

In 2005, Malaysia participated in the 'Expert Meeting on Enhancing Productive Capacity of Developing Country Firms through Internationalisation', organised by the United Nations Conference on Trade and Development (UNCTAD). The objective of the meeting was to examine the emerging trends of internationalisation through outward foreign direct investments, particularly with regard to SMEs, and identify policy measures for investors from developing countries to retain their competitiveness through investing abroad. Participants were also able to share information and best practices in facilitating and supporting SMEs to internationalise their operations.

Bilateral Cooperation Programmes

Since 1998, SMIDEC, in collaboration with the Small Business Corporation of the Republic of Korea, has been administering technical and managerial training programmes for SMEs. The programme helped to enhance participants' knowledge in business processes practised by Korean SMEs, as well as upgrade management skills of senior managers in production technology. As at 2005, a total of 133 Malaysian SMEs have benefited from this programme, including 10 in that year.

The Technical Expert Programme with Japan External Trade Organisation was implemented to assist automotive component manufacturers to improve efficiency, reduce wastage and enhance preventive maintenance of machinery. As at end 2005, a total of 70 automotive companies have benefited from this programme.

In addition, SMIDEC has also collaborated with the Department of International Cooperation, Ministry of Economic Affairs, Taiwan, to conduct a training course in Taiwan on 'Plastic Mould Design and Making for SMEs'. The objective of the programme was to improve capacity, as well as upgrade technology and equipment of local SMEs, particularly in the mould and die industry. This programme benefited 18 participants from Malaysia.

Resulting from the First Malaysia-Thailand Joint Trade Council Meeting held in May 2005, Ministers of both countries agreed to embark on close collaborative efforts in SME development. SMIDEC has been given the task to cooperate with the Office of SMEs Promotion, Thailand, and both parties have agreed to sign a Memorandum of Understanding on this collaboration.

The proposed areas of cooperation include:

- exchanging of information on policies and support programmes in relation to SME development;

- facilitating the establishment of business contacts, linkages and networking;

- co-organising meetings, seminars and trade exhibitions to promote investments and joint ventures;

- exchanging study visits for capacity building purpose; and

- cooperating in the area of research and development.

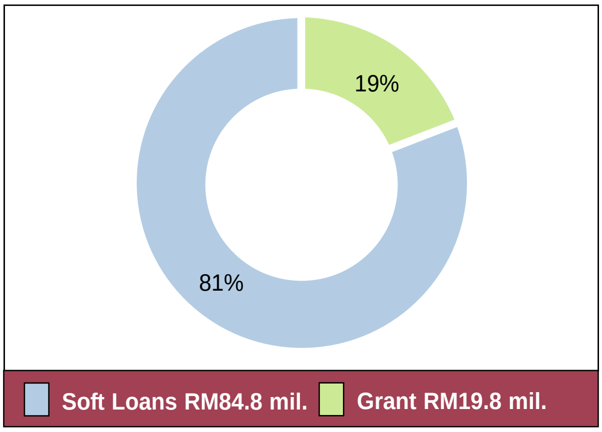
Collaboration in SME development, particularly in the area of capacity building, was discussed at the First Malaysia - Uzbekistan Joint Trade Council Meeting, held in October 2005. Recognising the strength of Uzbekistan in the production of cotton, efforts are being made to encourage Malaysian textile manufacturers to consider forming strategic alliances to source for raw materials from Uzbekistan.

PERFORMANCE OF FINANCIAL ASSISTANCE SCHEMES FOR SMEs

Financial Assistance Schemes for SMEs

The Government continues to provide financial assistance, in the form of grants and soft loans, to enhance the competitiveness of SMEs. In 2005, the number of approvals for grants and soft loans increased by 48.4 per cent to 1,465, valued at RM104.6 million, compared with 987 approvals, valued at RM42.9 million in 2004. Of the 1,465 approvals, 1,316 were for grants, amounting to RM19.8 million, while 149 were for soft loans, valued at RM84.8 million. The increase in the number of loans and grants approved was the result of promotional programmes undertaken by SMIDEC in creating awareness among SMEs on the development and financial assistance offered.

Chart 7.2:
Approval of Soft Loans and Grants, 2005



Sources: Small and Medium Industries Development Corporation and Malaysian Industrial Development Finance Berhad

Table 7.4:
Approval of Soft Loans by State, 2005

State	Approvals	RM million
Total	**149**	**84.8**
Selangor	54	33.2
Perak	15	6.1
Pulau Pinang	13	10.5
Pahang	12	5.8
Sarawak	11	4.8
Kuala Lumpur	10	5.1
Johor	9	5.8
Sabah	8	5.1
Terengganu	8	4.5
Melaka	3	0.7
Negeri Sembilan	3	1.6
Kelantan	2	1.5
Kedah	1	0.1
Perlis	nil	nil

Source: Malaysian Industrial Development Finance Berhad

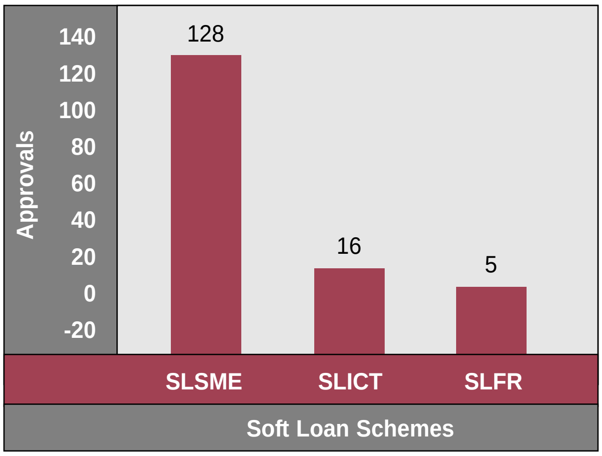
Soft Loan Schemes

Three soft loan schemes offered to SMEs are Soft Loan for SMEs, Soft Loan for Factory Relocation and Soft Loan for ICT. These schemes are managed by the Malaysian Industrial Development Finance Berhad (MIDF).

In 2005, a total of 149 loans, valued at RM84.8 million, were approved. In terms of approvals by state, Selangor obtained the highest, with a total of 54 loan approvals, amounting to RM33.2 million, followed by Perak (15 approvals, valued at RM6.1 million) and Pulau Pinang (13 approvals, valued at RM10.6 million).

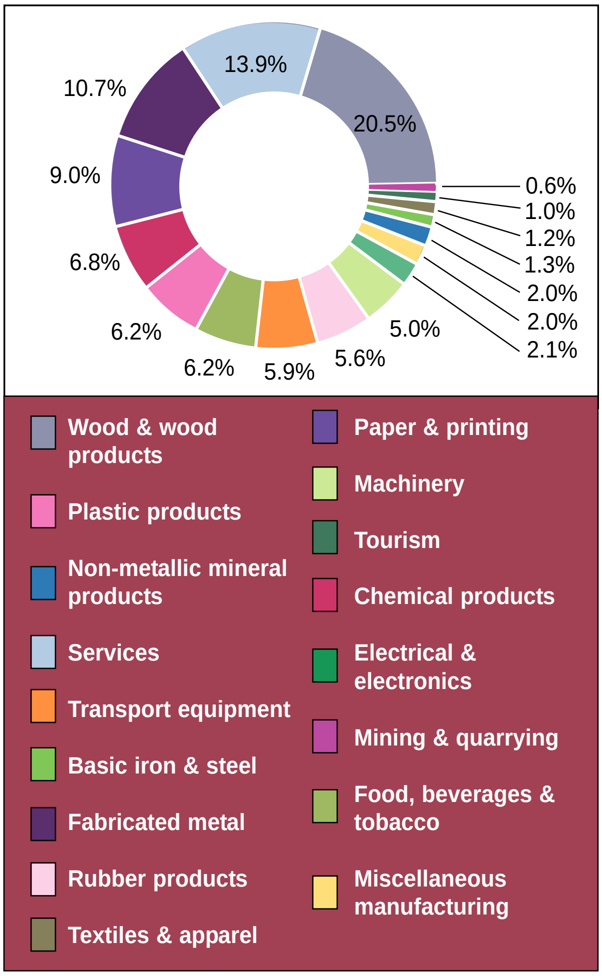
The Soft Loan for SMEs was introduced to assist existing as well as new start-up companies to finance projects, fixed assets and for use as working capital. In 2005, a total of 128 approvals were given, with loans amounting to RM77.5 million. Among the major recipients financed under the soft loan scheme in 2005 were the wood and wood

Chart 7.3:
Approval of Soft Loans, 2005



Source : Malaysian Industrial Development Finance Berhad
Note : SLSME: Soft Loan for Small and Medium Enterprises
SLICT : Soft Loan for ICT Adoption
SLFR : Soft Loan for Factory Relocation

Chart 7.4:
Approval of Soft Loans by Sector, 2005



Source: Malaysian Industrial Development Finance Berhad

products sub-sector (RM15.8 million), and the services sector (RM9.8 million). In the services sector, the hotel sub-sector was approved the highest amount of loan, valued at RM2.9 million, followed by engineering services (RM1.5 million) and warehousing (RM1.5 million).

To encourage SMEs to relocate their operations from non-designated industrial areas to approved industrial sites, SMEs are provided with Soft Loan for Factory Relocation. In 2005, a total of RM4.5 million in loans was disbursed for factories to relocate their operations.

The Soft Loan for ICT Adoption was introduced to assist SMEs in acquiring software and designing software, for example, computer-aided design and manufacturing. A total of 16 approvals were given, with loans amounting to RM2.8 million.

In 2005, the top three recipients of soft loans under these three loan schemes were wood and wood products, with a value of RM16.8 million, followed by services sector, including professional services, distributive trade and logistics, totalling RM11.8 million, and fabricated metals, RM9.3 million.

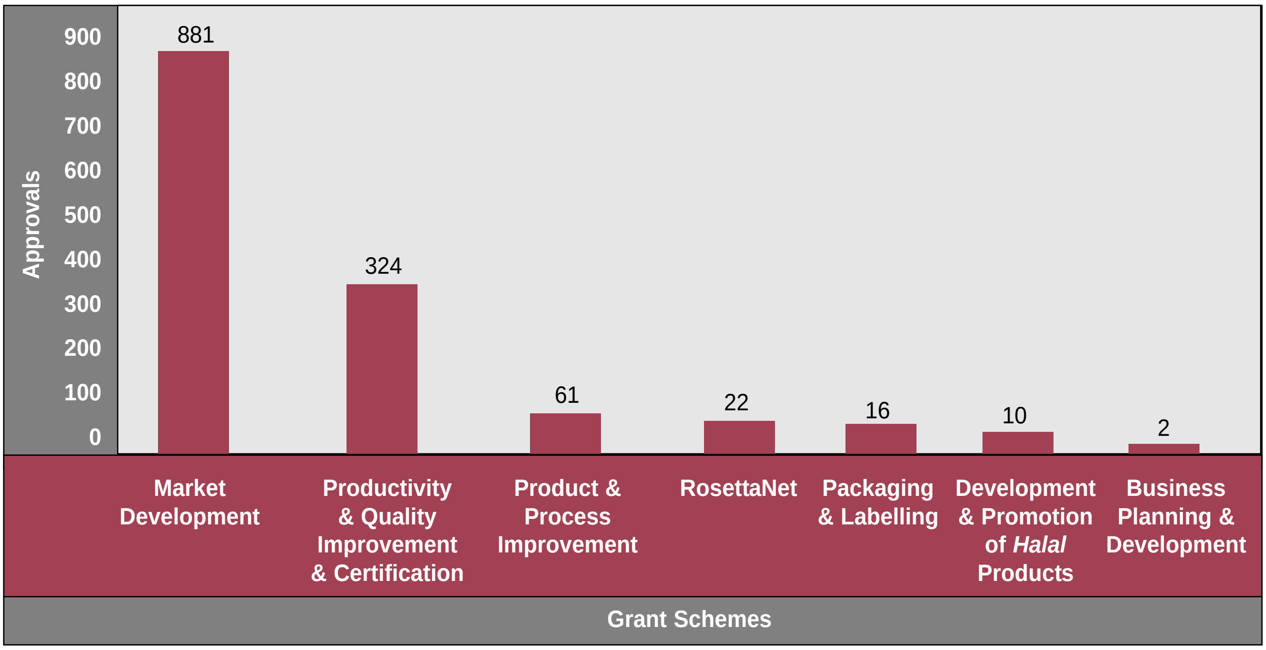
Collaboration with Financial Institutions

In addressing the financial needs of SMEs, SMIDEC has signed a Memoranda of Understanding with Bank Islam, Bank Muamalat and SME Bank to provide new financial packages to SMEs. In addition, joint advisory services in financial support facilities, technical advisory, training and management counselling are available to SMEs.

Grant Schemes

In 2005, a total of 1,316 projects for financial grants, valued at RM19.8 million, were approved. Out of these, 66.9 per cent or 881 projects amounting to RM6 million were approved under the Market Development Grant. This was followed by 324 projects under the Productivity and Quality Improvement and Certification

Chart 7.5:
Approval of Grant Schemes, 2005



Source: Small and Medium Industries Development Corporation

Table 7.5:
Approval of Grant Schemes by State, 2005

State	Approvals	RM million
Total	**1,316**	**9.7**
Johor	474	4.1
Selangor	237	7.2
Negeri Sembilan	131	1.3
Kedah	107	1.2
Kelantan	91	0.8
Melaka	57	0.6
Pulau Pinang	49	1.6
Perak	43	0.7
Kuala Lumpur	43	1.5
Pahang	30	0.3
Perlis	24	0.2
Sarawak	18	0.2
Terengganu	8	0.1
Sabah	4	0.1

Source: Small and Medium Industries Development Corporation

Grant, valued at RM7.7 million, and 61 projects, amounting to RM4.8 million, under the Product and Process Improvement Grant.

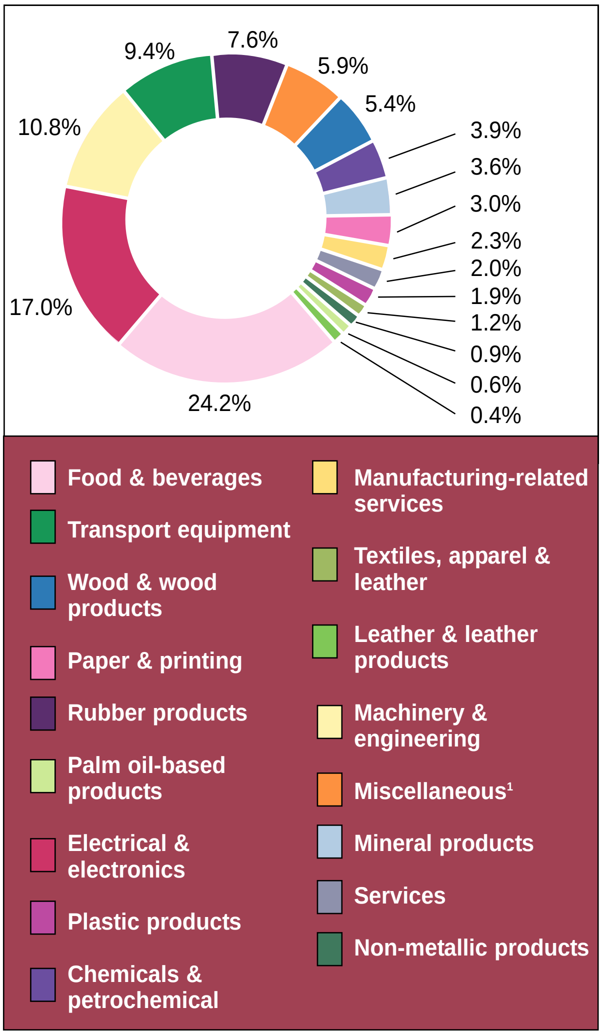
In terms of approvals by state, Johor recorded the highest uptake in 2005, with 474 projects (36 per cent), followed by Selangor, 237 projects (18 per cent), and Negeri Sembilan, 131 projects (9.9 per cent).

The food and beverages sub-sector recorded the highest approval of grants, valued at RM4.6 million, followed by E&E (RM3.3 million), and machinery and engineering (RM2.1 million). For the services sector, a total of 31 SMEs under the wholesale and retail sub-sector were given grants, amounting to RM200,000 in 2005, particularly for the purchase of equipment and consultancy services.

Special Assistance Scheme for Women Entrepreneurs

The Special Assistance Scheme for Women Entrepreneurs was introduced in 1999 to enable women entrepreneurs to have greater access to financing. In 2005, total loans and grants amounting to RM8.5 million were approved to women entrepreneurs under this scheme. Of this amount, a total of RM1.5 million was approved for various grant schemes, and RM7 million were approved as soft loans.

Chart 7.6:
Approval of Grant Schemes by Sector, 2005



Source: Malaysian Industrial Development Finance Berhad
Note: [1] Miscellaneous includes pharmaceuticals, medical products, accessories for textiles apparel, jewellery, and sport goods and equipment

OUTREACH PROGRAMMES

Promotion Programmes

SMIDEC has undertaken a series of promotion programmes to create awareness of the development and financial assistance available to SMEs. In 2005, a total of 33,474 participants had benefited from 166 conventions, workshops, seminars and briefing sessions organised and participated by SMIDEC.

The ASIAN SME Convention 2005, held in August 2005 attracted 1,103 participants from ASEAN countries, the Republic of Korea, the People's Republic of China and India. In conjunction with the convention, pre-arranged business matching sessions were organised and potential sales of RM42.5 million were recorded.

In 2005, three Domestic Investment Seminars were held in Kota Kinabalu, Kuching and Melaka. The seminars, which were organised in collaboration with the Malaysian Industrial Development Authority (MIDA), attracted a total of 1,800 participants.

During the year, SMIDEC conducted 85 workshops and technical briefings throughout the country. These initiatives, which attracted a total of 9,986 participants, provided information to SMEs on related topics, such as financial assistance and management, as well as promotion of the three new financial schemes, namely the Grant for Development and Promotion of *Halal* Products, Grant for Enhancing Product Packaging Design and Labelling Capabilities of SMEs and Grant for Enhancing Marketing Skills of SMEs.

SMIDEC also participated as resource speaker in 77 seminars and workshops organised by other organisations to disseminate information on development and financial programmes for SMEs. A total of 20,585 participants benefited from these sessions.

SME Information and Advisory Centre

Since its establishment in July 2003, a total of 415,028 visitors accessed the Virtual Centre (www.smidec.gov.my), of which, 251,079 visitors were recorded in 2005. The Centre provides information on SME programmes, news and events, as well as company registration.

The Business Advisory Services, conducted throughout the year, attracted a total of 2,222 companies, compared with 834 in 2004. The Business Advisory Services provides an alternative avenue for SMEs to get information on policies, incentives, programmes and financial assistance available for them. Most of the enquiries received were on financial assistance, programmes in enhancing productivity and quality of SMEs, as well as programmes to upgrade the usage of ICT.

SMIDEC Annual Showcase (SMIDEX 2005)
During the year, SMIDEX 2005 was held in collaboration with the Malaysian International Chamber of Commerce and Industry (MICCI). The event comprised trade exhibitions, product presentations and business matching sessions. A total of 226 companies participated in the event, which attracted 4,928 trade visitors. The business matching sessions, organised during the showcase, generated potential sales of RM45.9 million.

Enterprise 50 Award Programme
The Enterprise 50 Award continued to attract interest among companies from various sectors. This Award recognises the achievements of homegrown companies, which are well positioned for the future.

In 2005, the number of nominations received increased from 112 to 182. Nominations from SMEs accounted for 74 per cent of total nominations, compared with 64 per cent in 2004. A total of 19 SMEs, or 38 per cent emerged as winners of the Enterprise 50 Award. Of these, 10 companies were from the services sector, and nine from the manufacturing sector.

OUTLOOK

The continued growth and sustainability of SMEs in the economy will be the focus of the Government in 2006. Endorsement and implementation of programmes, as outlined in the National SME Development Blueprint 2006, emphasises the further commitment of the Government.

In addition to the strengthening of existing support programmes, new approaches will also be introduced to ensure more effective outreach programmes to benefit all sectors of the economy. These approaches include extending the coverage of the support programmes to micro enterprises and start-ups, with an increase in the quantum of the financial assistance. Programmes for specific sub-sectors or focus groups will also be formulated.

Chapter 8 Productivity - Manufacturing And Services Sectors

OVERVIEW

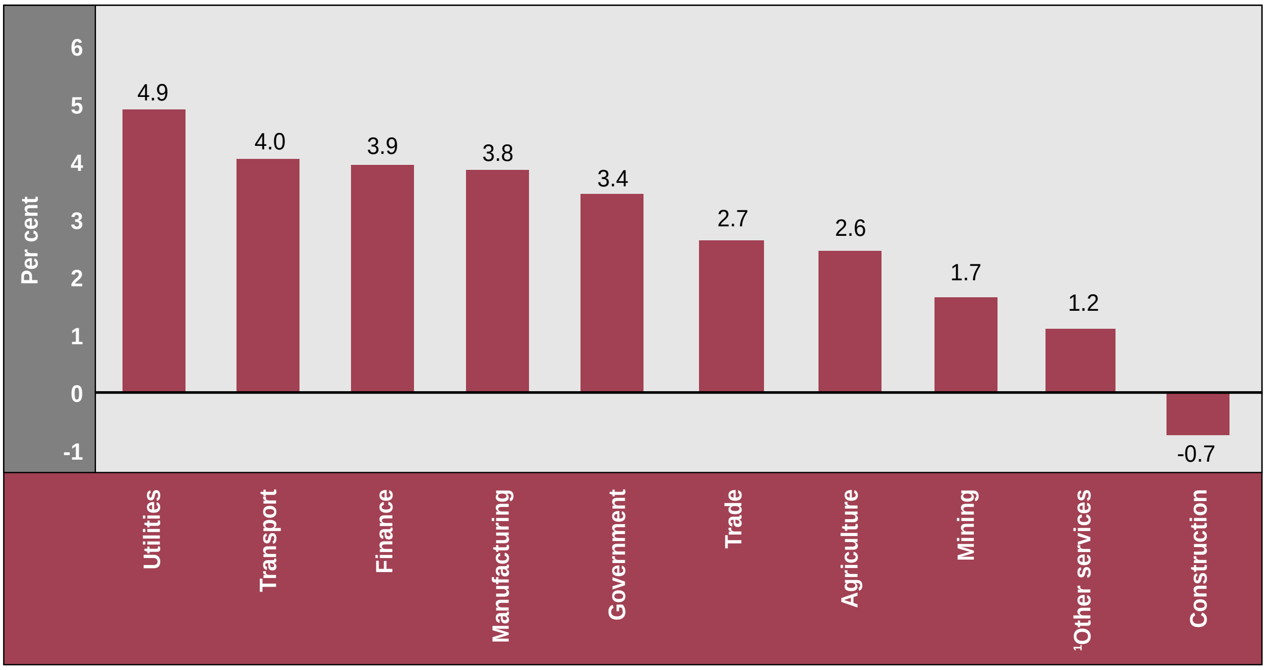
In 2005, Malaysia registered a productivity growth of 3 per cent to RM26,255 from RM25,495 in 2004. Malaysia's productivity growth was higher than a number of Organisation of Economic Cooperation Development (OECD) and Asian countries, such as the United States of America (USA), Denmark, Canada, Norway, Germany, Japan, the Republic of Korea, Taiwan and Singapore.

In terms of Total Factor Productivity (TFP), which measures the synergy and efficiency of the utilisation of both capital and labour, the economy achieved a TFP growth of 1.6 per cent for the period 1996-2005. A growth in TFP indicates more efficient management and utilisation of resources. The main sources of TFP growth were education and training, which contributed 30.6 per cent to TFP growth, followed by demand intensity (29.6 per cent), capital structure (17.4 per cent), economic re-structuring (12.2 per cent) and technical progress (10.2 per cent).

The manufacturing sector remained an important sector in the economy in 2005, accounting for 31.4 per cent of the country's Gross Domestic Product (GDP). The sector recorded a productivity growth of 3.8 per cent, attributed to strong domestic and external demand.

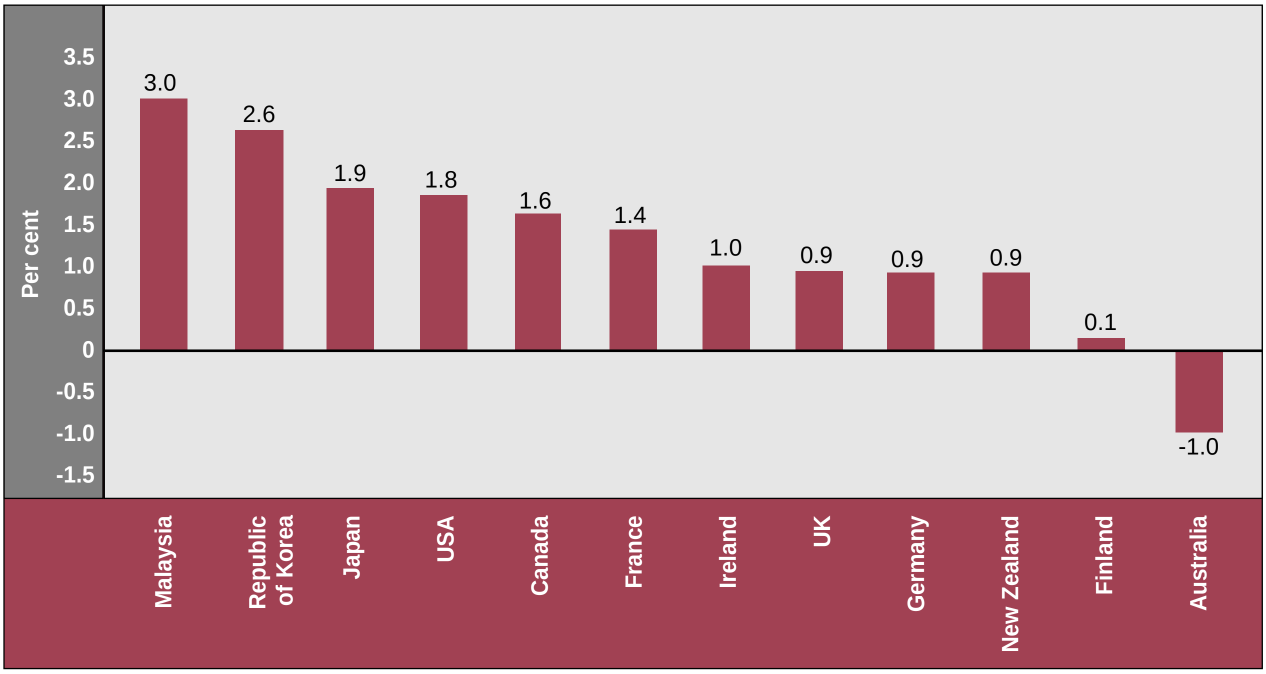
The services sector (excluding Government services) registered a productivity growth of

Chart 8.1:
Productivity Growth by Major Economic Sector, 2005



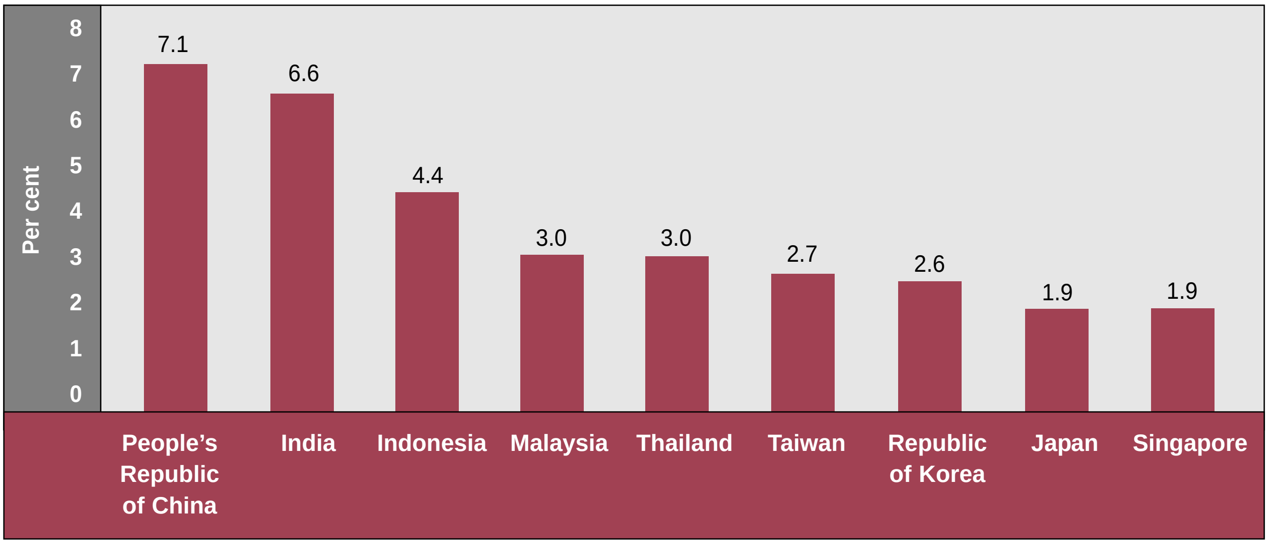
Computed from Economic Report, Ministry of Finance, Malaysia and Economic Planning Unit, Malaysia
Note: [1]Other services include community, social and personal services, product of private non-profit services to household as well as domestic services of household. Among the activities included in this sub-sector are sewage and refuse disposal; activities of organisation whose members interest centre on the development and prosperity of a particular line of business or trade; and provision of personal services.

Chart 8.2:
Productivity Growth for Selected OECD Countries, 2005



Computed from Economic Report, Ministry of Finance, Malaysia, various issues
OECD Economic Outlook, December 2005, Vol. 78,
National Accounts of OECD Countries, Detailed Tables 1992-2003
Country Data, The Economist Intelligence Unit
Market Indicators and Forecast, The Economist Intelligence Unit

Chart 8.3:
Productivity Growth for Selected Asian Countries, 2005



Computed from Economic Report, Ministry of Finance, Malaysia, various issues
Key Indicators 2005, Asian Development Bank
Country Data, The Economist Intelligence Unit
Market Indicators & Forecast, The Economist Intelligence Unit
Directorate-General of Budget, Accounting & Statistics, Executive Yuan, Republic of China
World Economic Outlook, September 2005

3.3 per cent. The utilities sub-sector achieved the highest productivity growth of 4.9 per cent, attributed to the ability of the sub-sector to meet increased demand from industrial, commercial and domestic customers. Measures undertaken by the service providers to improve operational efficiency also contributed to the performance.

INTERNATIONAL COMPARISON OF PRODUCTIVITY PERFORMANCE

Malaysia's productivity growth of 3 per cent was higher than selected OECD countries, such as Australia, Finland, New Zealand, Germany, the United Kingdom (UK), France, Canada, the USA, Japan and the Republic of Korea. These countries recorded a productivity growth ranging from -1 per cent to 2.6 per cent. Among selected Asian countries, Malaysia's productivity growth was higher than Singapore (1.9 per cent), Japan (1.9 per cent), the Republic of Korea (2.6 per cent) and Taiwan (2.7 per cent). Malaysia needs to continuously improve productivity growth to achieve higher productivity levels.

In terms of productivity level, Malaysia's productivity level is relatively lower, compared with selected OECD and Asian countries. These industrialised countries, which normally have higher capital intensity, greater innovation, more intense research and development (R&D) activities and better quality management systems, recorded higher productivity levels. Nevertheless, Malaysia's productivity level at US$11,300 was higher than Thailand's productivity level at US$4,305, the People's Republic of China (US$2,272), Indonesia (US$1,952) and India (US$1,242).

Among selected Asian countries, the manufacturing sector of the Republic of Korea registered a productivity growth of 17.4 per cent in 2005. The Republic of Korea's performance was due to its manufacturing effectiveness and efficiency, such as increased utilisation of ICT, greater emphasis on innovation and enhanced R&D activities. Malaysia, Taiwan and Singapore registered

Table 8.1:
Productivity Level and Growth for Selected Countries, 2005

Country	Productivity Growth (%)	Productivity Level (at 2000 constant prices) US$
People's Republic of China	7.1	2,272
India	6.6	1,242
Hong Kong	5.0	60,299
Indonesia	4.4	1,952
Malaysia	**3.0**	**11,300**
Thailand	3.0	4,305
Taiwan	2.7	35,856
Republic of Korea	2.6	27,909
Japan	1.9	77,061
Singapore	1.9	52,426
USA	1.8	77,346
Canada	1.6	49,308
France	1.4	57,677
Ireland	1.0	62,936
UK	0.9	51,882
Germany	0.9	50,789
Finland	0.1	55,698
Australia	-1.0	45,545

Computed from Economic Report, Ministry of Finance, Malaysia, various issues
OECD Economic Outlook, December 2005, Vol. 78
National Accounts of OECD Countries, Detailed Tables 1992-2003
Country Data, The Economist Intelligence Unit
Market Indicators & Forecast, The Economist Intelligence Unit

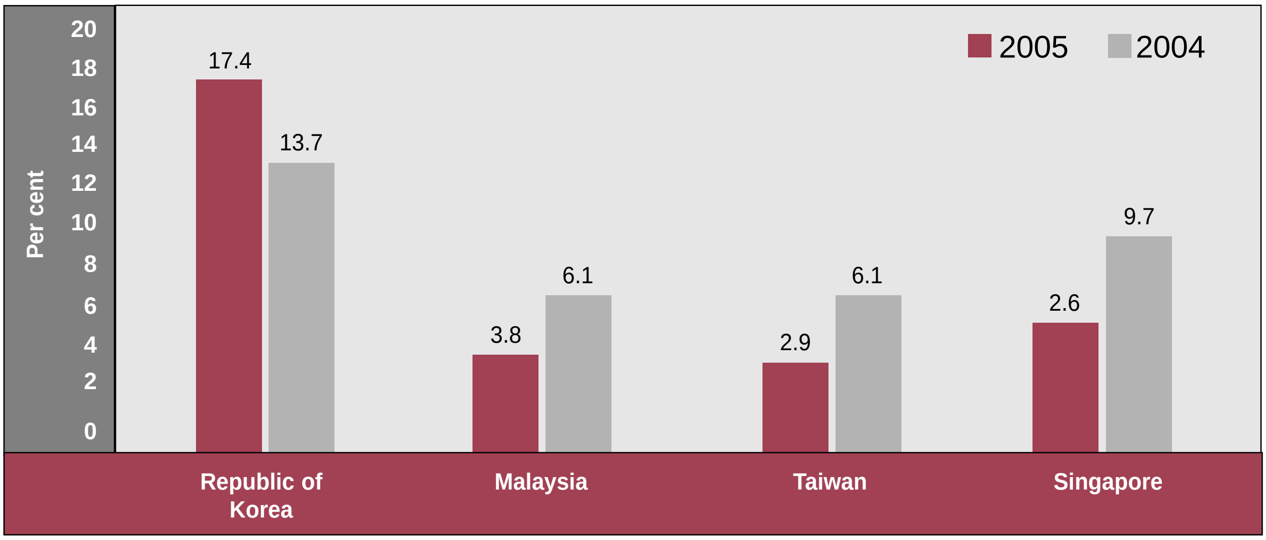
lower productivity growth, compared with the previous year. The soft demand for E&E products had led to a slower productivity growth of Malaysia's manufacturing sector.

Malaysia's selected services sectors, finance, trade and transport together recorded a productivity growth of 3.7 per cent. This was higher than the services sector's growth of Taiwan at 1.3 per cent, but lower than the Republic of Korea's growth at 11.6 per cent. The high productivity growth in the Republic of Korea was due to better performance in its knowledge-intensive industries, particularly in the business service and finance sectors.

PRODUCTIVITY PERFORMANCE OF MANUFACTURING SECTOR

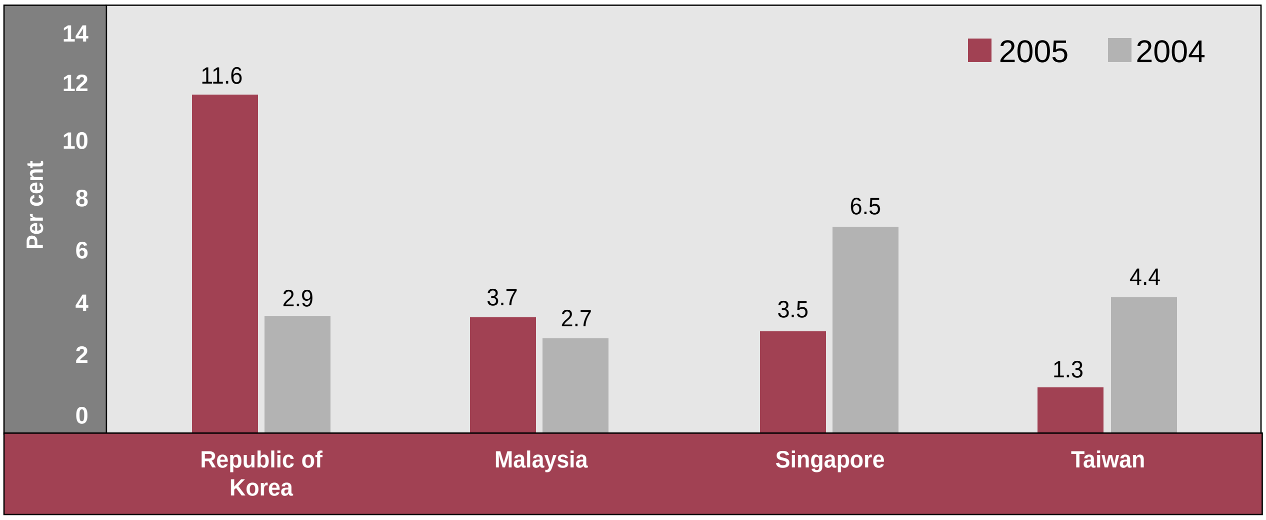
Productivity level in the manufacturing sector, as measured by Sales Value per Employee, increased to RM459,960 in 2005

Chart 8.4:
Productivity Growth of Manufacturing Sector in Selected Asian Countries, 2005



Computed from Economic Report, Ministry of Finance, Malaysia, various issues
Directorate-General of Budget, Accounting & Statistics, Executive Yuan, Republic of China
Ministry of Trade and Industry, Singapore
The Bank of Korea; Korea National Statistical Office

Chart 8.5:
Productivity Growth of Selected Services Sector in Selected Asian Countries, 2005

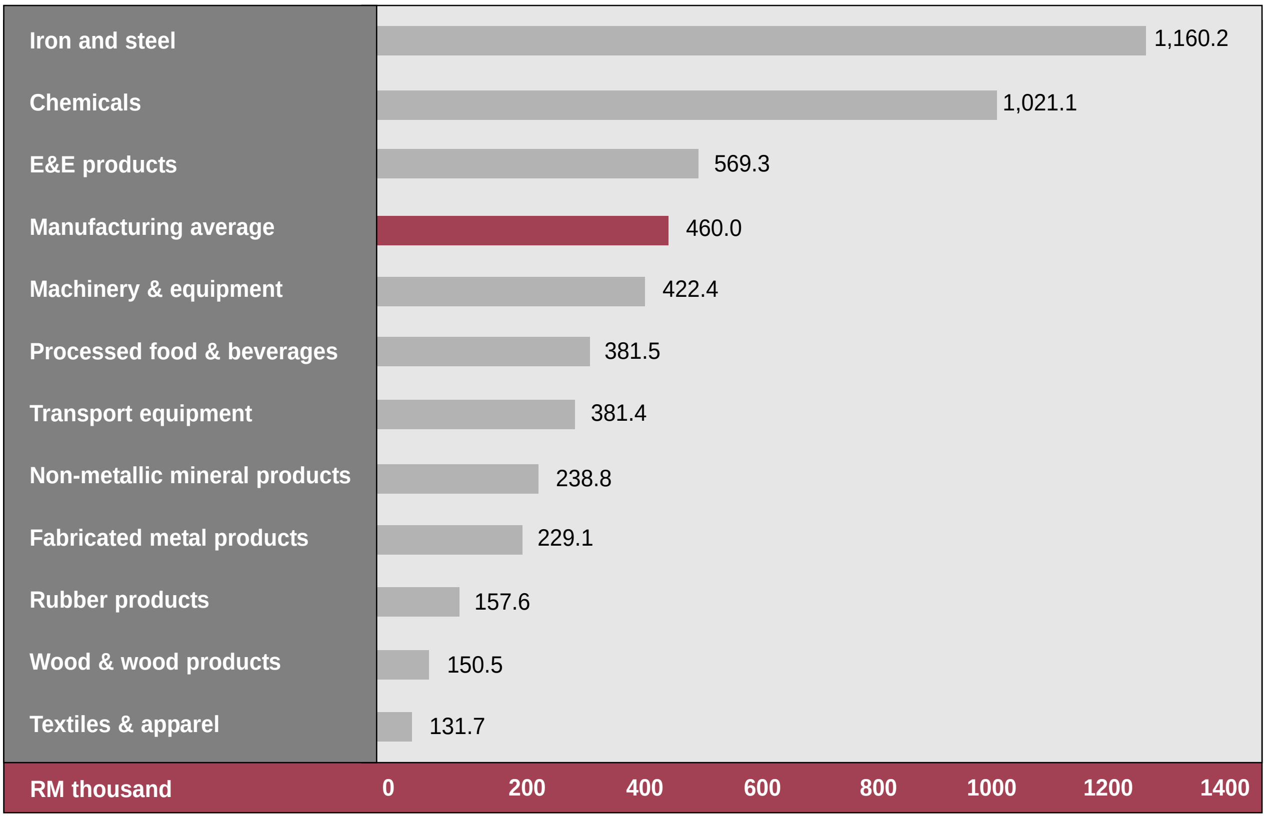


Computed from Economic Report, Ministry of Finance, Malaysia, various issues
Directorate-General of Budget, Accounting & Statistics, Executive Yuan, Republic of China
Ministry of Trade and Industry, Singapore
The Bank of Korea; Korea National Statistical Office

from RM402,980 in 2004. Capital-intensive industries, such as iron and steel, and chemicals, registered the highest productivity levels at RM1,160,200 and RM1,021,070 respectively, which were significantly higher than the manufacturing average of RM460,000. The sub-sectors registered high capacity utilisation attributed to increase in demand from both domestic and external markets.

The sales value of the manufacturing sector in 2005 increased by 18.4 per cent to RM459.3 billion, compared with RM388 billion in 2004. The high capacity utilisation rate of more than 80 per cent and sustained domestic and external demand, contributed to the increase in sales value. In terms of contribution to total output, the E&E industry was the leading sector, registering a contribution of 41.5 per cent to the manufacturing sector. This was

Chart 8.6:
Sales Value per Employee of Manufacturing Industries, 2005



Complied by National Productivity Corporation, based on the Monthly Manufacturing Survey, Department of Statistics, Malaysia

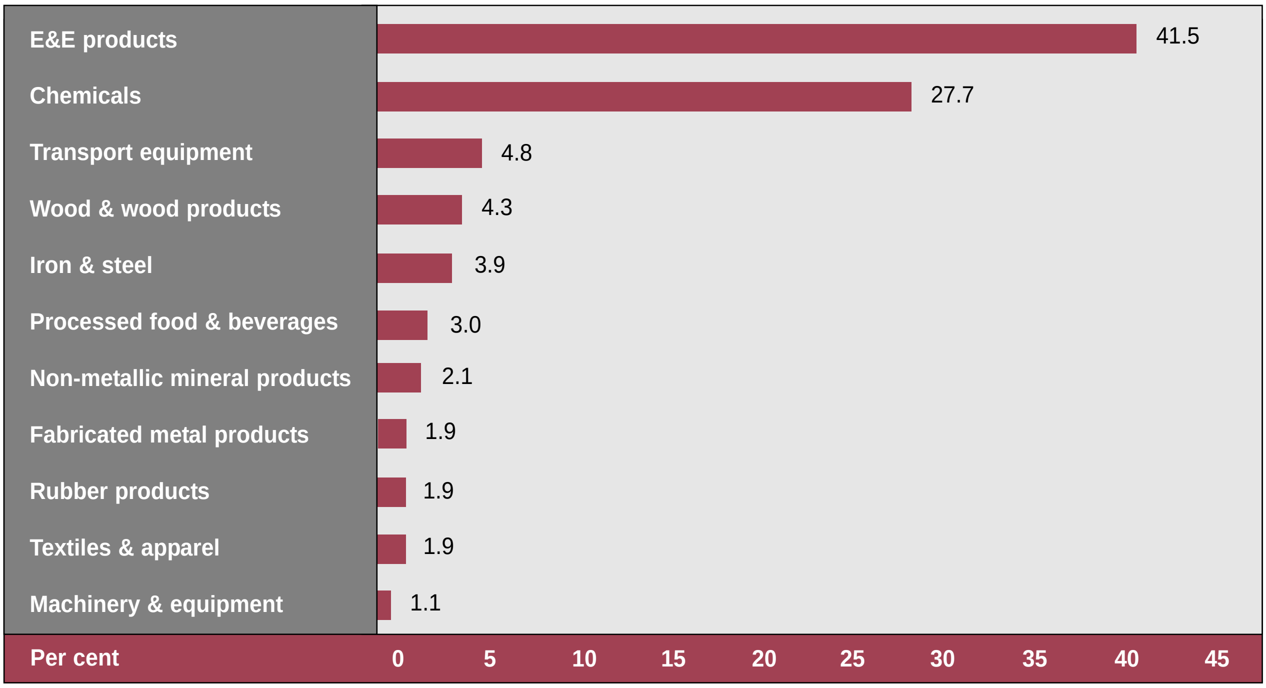
attributed to the uptrend in the global demand for semiconductors. The chemicals industry contributed 27.7 per cent. Increased output was driven mainly by favourable demand for industrial gases, basic chemicals, refined petroleum products and plastic products. Both the E&E and chemical industries together contributed 69.2 per cent to total manufacturing output in 2005.

Malaysia's manufacturing sector recorded an average increase of 14.1 per cent in Sales Value per Employee in 2005. Among the industries that recorded high Sales Value per Employee were iron and steel (31.8 per cent), chemicals (23.6 per cent), transport equipment (13.2 per cent) and fabricated metal (10.7 per cent). High capacity utilisation in these industries was a result of enhanced domestic and external demand.

The manufacturing sector continued to maintain its labour cost competitiveness. Competitiveness in terms of labour cost indicates the industries' efficiency in producing products at the lowest labour cost. High labour cost competitiveness is observed when the productivity of the sector grows faster than the increase in its Labour Cost per Employee, resulting in a decrease in its Unit Labour Cost. Labour cost competitiveness as reflected in the decline of 9.6 per cent in Unit Labour Cost, indicates that the manufacturing sector has become more efficient in generating output. Growth of Sales Value per Employee by 14.1 per cent compared with 3.2 per cent growth in Labour Cost per Employee contributed to Malaysia's improved competitiveness.

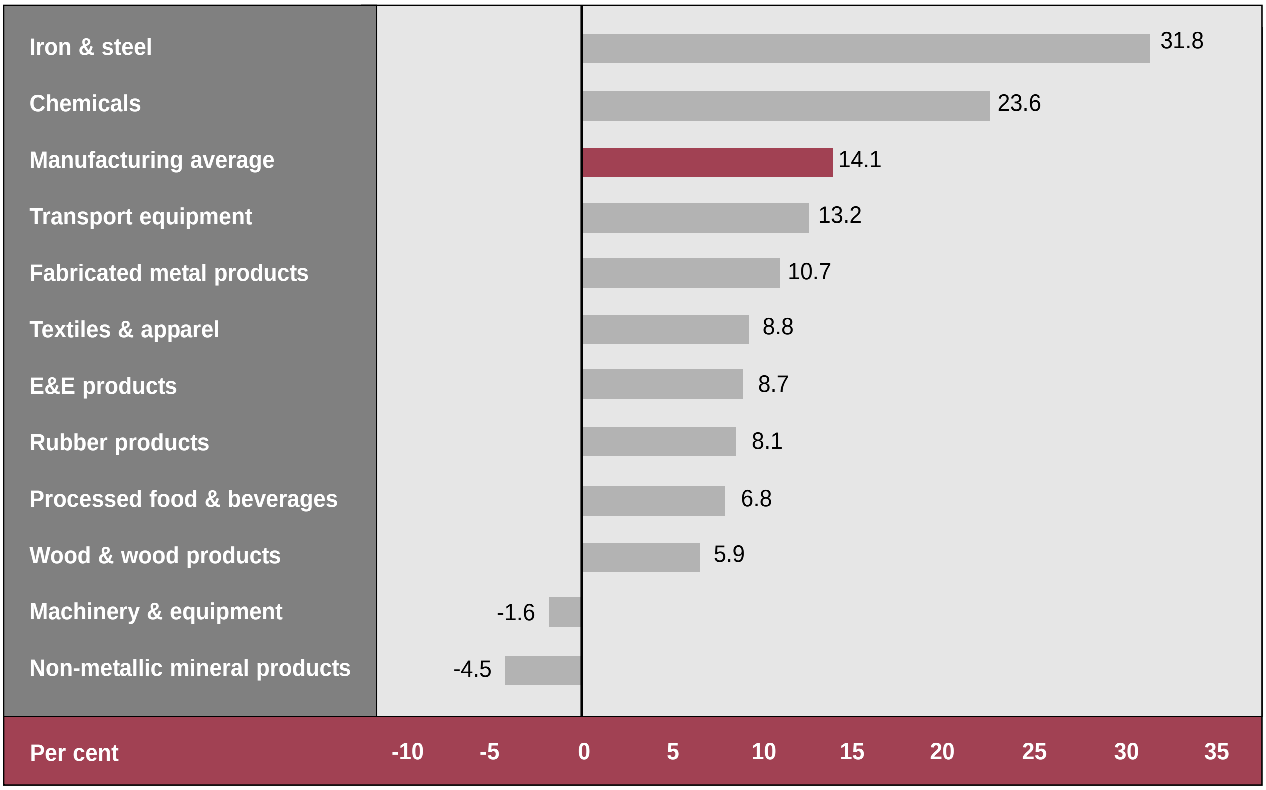
With the exception of non-metallic mineral products, and processed food and beverages, other industries in the manufacturing sector recorded declines in Unit Labour Cost, and thus these industries were able to sustain their labour cost competitiveness.

Chart 8.7:
Contribution of Sub-Sectors to Total Manufacturing Sales Value, 2005



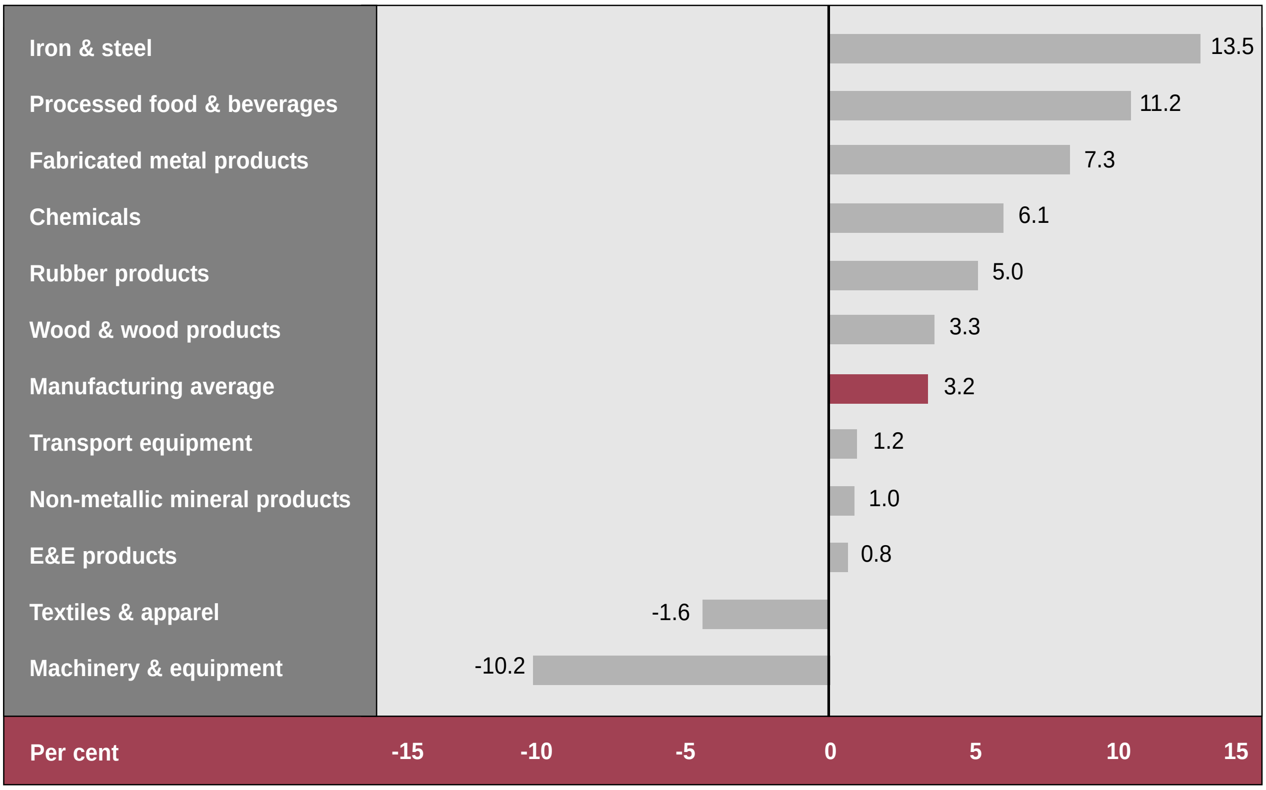
Complied by National Productivity Corporation, based on the Monthly Manufacturing Survey, Department of Statistics, Malaysia

Chart 8.8:
Growth in Sales Value per Employee of Manufacturing Industries, 2005



Complied by National Productivity Corporation, based on the Monthly Manufacturing Survey, Department of Statistics, Malaysia

Chart 8.9:
Growth in Labour Cost per Employee of Manufacturing Industries, 2005



Complied by National Productivity Corporation, based on the Monthly Manufacturing Survey, Department of Statistics, Malaysia

TOTAL FACTOR PRODUCTIVITY OF MANUFACTURING SECTOR

For the period 1996-2005, TFP grew by an average annual rate of 2.4 per cent, contributing 35.6 per cent to manufacturing sector's output growth of 6.6 per cent. Capital and labour contributed 35.3 per cent and 29 per cent, respectively.

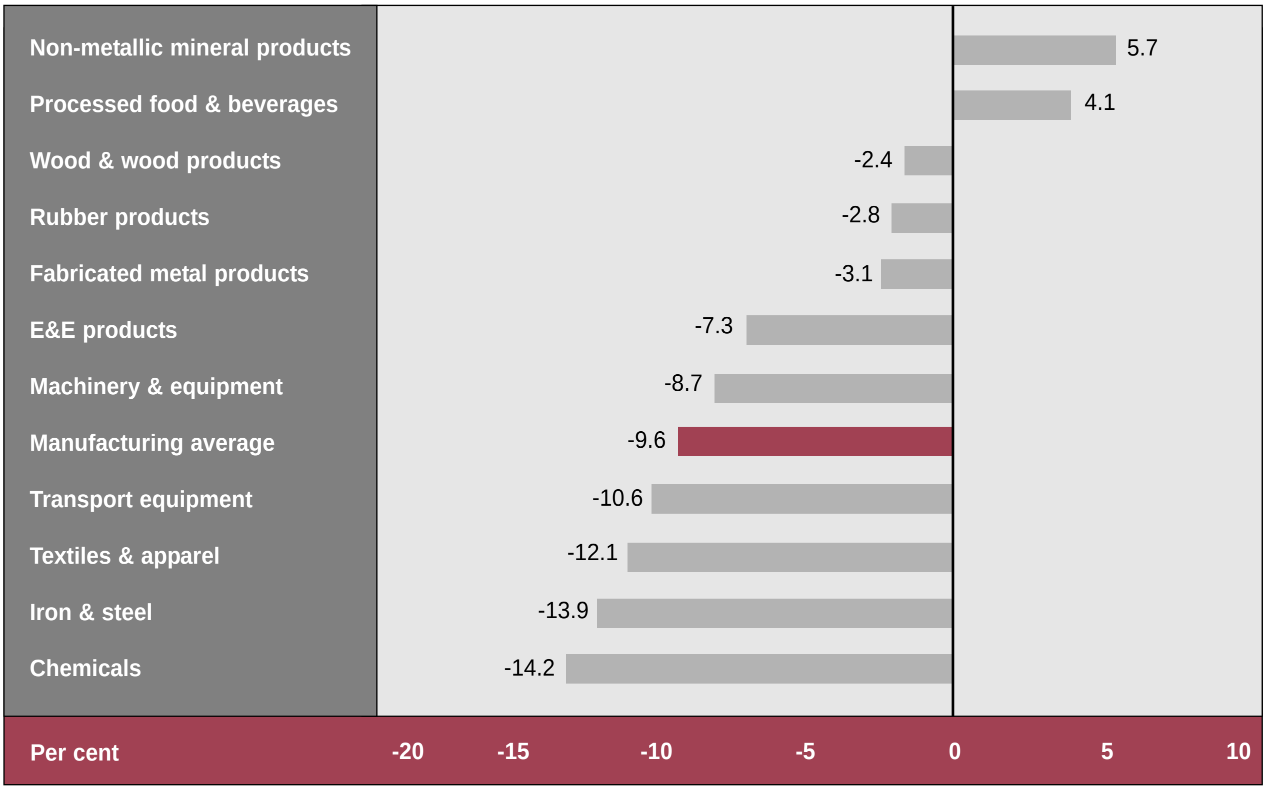
During the period 1996-2005, capital structure was the major contributor to TFP growth, accounting for 44 per cent. This shows that the industry has shifted to high technology capital investments, such as the adoption of computer-aided design and manufacturing, precision machining and other computer-integrated manufacturing technologies. With continuous R&D and innovation activities, as well as the potential development of new emerging technologies, the capital structure component will continue to be a significant source of TFP growth.

Quality of labour contributed 36 per cent to TFP growth in the manufacturing sector. This reflects that continuous education and training of the workforce has shifted skills and knowledge to a higher level.

Demand intensity contributed 18 per cent to TFP growth. The manufacturing industries have been utilising better marketing and branding strategies and developing new products and services to improve domestic and external demand. More of such activities to generate demand are required.

Technical progress contributed 2 per cent to TFP growth. To further enhance TFP growth, productivity and quality improvement programmes, such as quality assurance, standardisation, total quality management, good manufacturing practices, benchmarking and best practices, need to be emphasised.

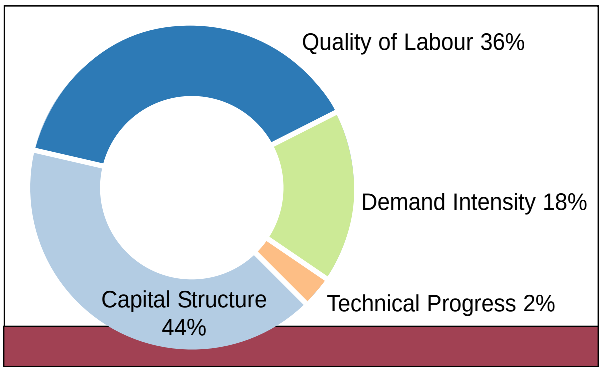
Chart 8.10:
Changes in Unit Labour Cost of Manufacturing Industries, 2005



Complied by National Productivity Corporation, based on the Monthly Manufacturing Survey, Department of Statistics, Malaysia

Among the manufacturing sub-sectors, chemicals and chemical products recorded the highest TFP growth at 4.3 per cent, followed by machinery and equipment (4.1 per cent), non-metallic mineral products (4.1 per cent) and E&E (4 per cent). These industries have been implementing TFP improvement programmes, such as investing in high technology, developing human capital, adopting innovative marketing strategies and implementing productivity and quality initiatives.

Chart 8.11:
Contribution to TFP Growth, 1996-2005



Source: National Productivity Corporation

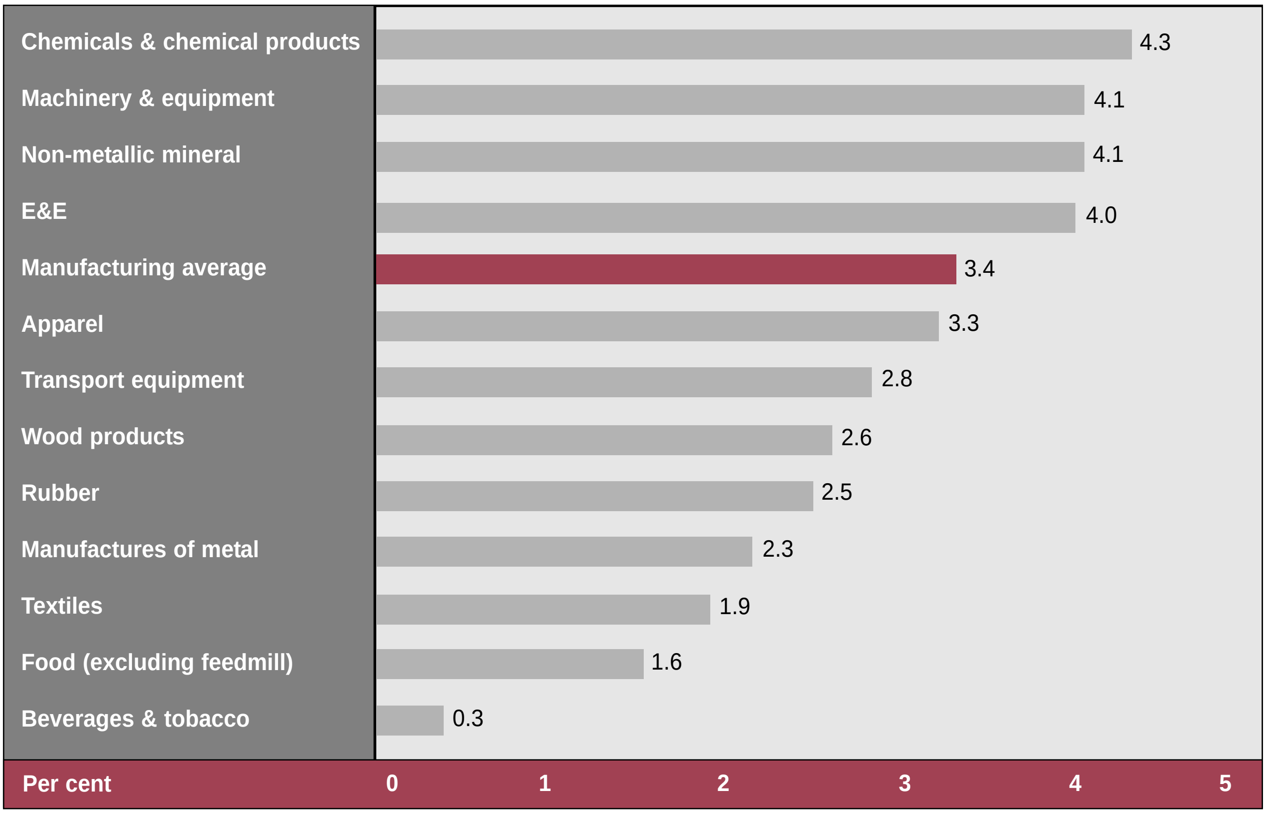
PRODUCTIVITY PERFORMANCE OF THE SERVICES SECTOR

The services sector comprises:

- transport (transport, storage and communication);
- finance (finance, insurance, real estate and business services);
- commerce and trade (wholesale, retail, hotels and restaurants);
- utilities (electricity, gas and water services); and
- other services (community, social and personal services).

Productivity in the transport sub-sector grew by 4 per cent, attributed to an increase

Chart 8.12:
TFP Growth of Manufacturing Sub-Sectors, 1996-2005



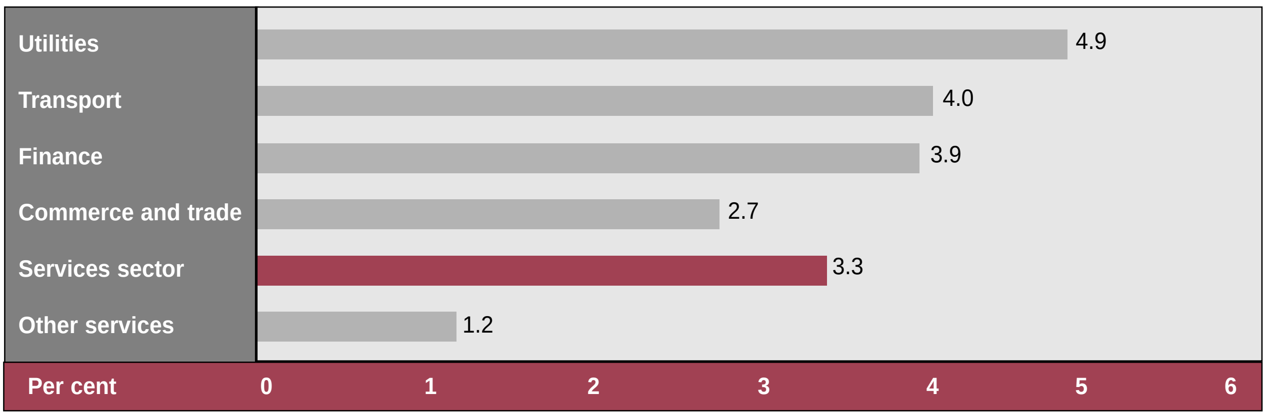
Complied by National Productivity Corporation, based on the Monthly Manufacturing Survey, Department of Statistics, Malaysia

in transport services, especially with the introduction of value-added services, intensified support facilities, increased flight frequencies and destinations, as well as improved transport infrastructure. In the telecommunications industry, the increase in subscribers of cellular phones, broadband and internet services contributed to productivity growth.

The productivity of the finance sub-sector grew by 3.9 per cent. The productivity growth in the sub-sector was attributed to the low interest rate regime, which contributed to the expansion in the loans market.

Productivity in the commerce and trade sub-sector grew by 2.7 per cent, attributed to increase in demand for retail and tourism

Chart 8.13:
Productivity Growth of Services Sector, 2005



Computed from Economic Report, Ministry of Finance, Malaysia, Economic Planning Unit, Malaysia and Department of Statistics, Malaysia services. In the retail industry, major retail chains have registered significant growth in sales, increase in the number of foreign retailers, convenience stores, especially in major urban centers. Further, internet shopping has also gained wider popularity among users. In the tourism industry, although a number of foreign countries issued travel advisories and warnings during the post-tsunami period, tourist arrivals and receipts of foreign earnings remained stable.

TOTAL FACTOR PRODUCTIVITY OF THE SERVICES SECTOR

During the period 1996-2005, the services sector registered an average annual TFP growth of 1.6 per cent. This TFP growth contributed 26.1 per cent to the output growth of 6 per cent, while capital and labour contributed 34.8 per cent and 39.1 per cent, respectively.

Among the services sub-sectors, finance recorded the highest TFP growth of 1.9 per cent, attributed to the Government's efforts in strengthening the capacity and capability of domestic financial institutions. The efforts include enhancing structural and operational efficiencies, introduction of financial innovations and attracting international financial institutions.

In the transport sub-sector, TFP grew by an average annual rate of 1.7 per cent. This growth was attributed to an increase in transport services and supported by higher external trade and domestic economic activities, particularly in the tourism and communication industries.

During the same period, TFP of the utilities sub-sector also grew by an average annual rate of 1.7 per cent. This performance was attributed to improved operational efficiency and stronger demand for electricity from the commercial, industrial and household consumers.

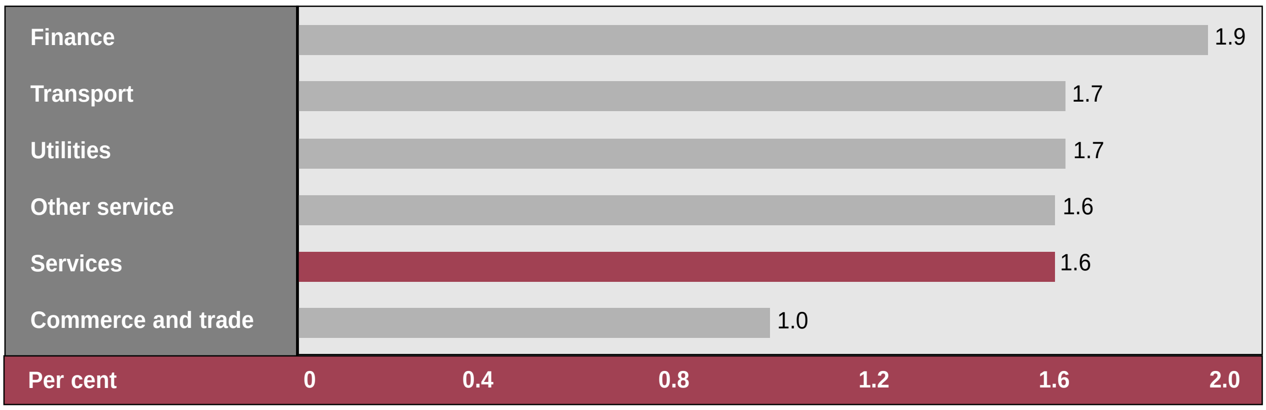
For the commerce and trade sub-sector, TFP grew by an average annual rate of 1 per cent. The relatively low growth of TFP in this sub-sector was attributed to dependence on labour for the industries' main operations.

OUTLOOK

The economy is expected to achieve a productivity growth of more than 3.3 per cent in 2006. Growth will be led by the private sector, while the public sector will continue to assume a supporting role in productivity improvement. Productivity growth requires continued strengthening of human resource capabilities, nurturing creativity and innovation, as well as bridging the gap between industry needs and availability of skills.

Sustained improvements in productivity at industry levels are crucial to enhance competitiveness of the economy. This will

Chart 8.14:
TFP Growth of Services Sub-Sectors, 1996-2005



Computed from Economic Report, Ministry of Finance, Malaysia, Economic Planning Unit, Malaysia and Department of Statistics, Malaysia require industries to improve, among others, on the ability to rationalise cost and integrate work processes, as well as utilise higher technology and improve management systems. Training and retraining of employees need to be continuously undertaken to upgrade knowledge and skills for better performance. Industries should adopt a comprehensive approach to sustain labour cost competitiveness. Among the initiatives is for industries to intensify the adoption of the performance-based remuneration system, for example, the Productivity-Linked Wage System, which will ensure that wage increases commensurate with improved performance and productivity.

Chapter 9 World Trade Organisation

OVERVIEW

The focus of the World Trade Organisation (WTO) in 2005 was to have a successful outcome of the Sixth Ministerial Conference to put negotiations of the Doha Development Agenda back on track. This was all the more important due to the failure of the Fifth Ministerial Conference in Cancun in 2003 to reach any decision on the Doha Development Agenda. Another setback at the Sixth Ministerial Conference would have derailed negotiations at the multilateral level.

Malaysia participated actively in the Sixth Ministerial Conference, that was held from 13-18 December 2005 in Hong Kong, to ensure that the outcomes would accommodate Malaysia's export interests and provide for flexibility to promote its strategic industries. The need to incorporate developmental aspects into the negotiations was also stressed by Malaysia and other developing countries.

Besides the focus on the Sixth Ministerial Conference, the WTO carried out its regular work on accession negotiations, trade policy reviews, dispute settlement proceedings and monitoring implementation of WTO obligations.

DOHA DEVELOPMENT AGENDA

July Package

In order to facilitate progress in the Doha Development Agenda negotiations, the WTO General Council adopted a July Package on 1 August 2004 that included:

- Framework for Establishing Modalities in Agriculture on reduction of domestic subsidies, elimination of export subsidies and substantial improvement in market access;

- Framework for Establishing Modalities in Non-Agriculture Market Access (NAMA) on elements related to unbound tariffs, sectoral liberalisation and flexibilities for developing countries;

- modalities for Negotiations on Trade Facilitation to improve and strengthen Article V (freedom of transit of goods), Article VIII (fees and formalities connected to importation and exportation) and Article X (publication and administration of trade regulations);

- completion of work in the Doha Development Agenda mandate to operationalise the special and differential treatment (S&D) provisions in WTO Agreements; and

- continuation of work in Services on market access and rules, including the submission of initial offers as soon as possible, and revised offers by May 2005.

The Sixth Ministerial Conference adopted the Ministerial Declaration that provided further direction towards the conclusion of negotiations on the Doha Development Agenda in 2006. Besides the Sixth Ministerial Conference, five informal mini-ministerial meetings were held in Davos, Kenya, Paris, Dalian and Zurich to provide further impetus to the negotiations and ensure a successful outcome for the Doha Development Agenda.

Ministerial Declaration

The Sixth Ministerial Conference was faced with the task of reaching agreement on a range of issues that would shape the final agreement of the Doha Development Agenda. The WTO's 149 Members adopted the Ministerial Declaration on 18 December 2005. Consensus on key areas under the Doha Development Agenda was achieved in all areas, including Agriculture, NAMA, Services and Trade Facilitation.

Agriculture

Agriculture negotiations in 2005 focused on the formula for tariff reductions, reductions in domestic support and deadline for the elimination of export subsidies.

The Sixth Ministerial Conference managed to set a deadline for Members to establish modalities or procedures for tariff reductions for Agriculture by 30 April 2006, and for members to submit comprehensive draft schedules for tariff reductions based on these modalities by 31 July 2006.

On market access, Members reaffirmed the objective of achieving substantial reductions in tariffs, with specific protection for developing countries. It was agreed that there would be four bands for structuring tariff reductions. However, Members would still have to negotiate details, including relevant thresholds for each band, range of tariff reductions from lowest to highest tiers and flexibilities in the formula. Developing countries were given the flexibility to self-designate an appropriate number of lines as Special Products based on agreed criteria and the right to have recourse to a Special Safeguard Mechanism based on import quantity and price triggers. However, there are concerns that the provision of too much flexibility accorded in Agriculture may negate efforts to improve market access through tariff reductions.

The Sixth Ministerial Conference agreed on three bands for the reduction of trade-distorting domestic support. All developed countries would make substantial reductions in domestic support, with countries having higher levels of support undertaking deeper reductions. The European Union (EU), which has the highest level of permitted support, would be in the top band, while the United States of America (USA) and Japan would be in the middle band. Developing countries and other developed countries would be in the third band.

The major achievement on Agriculture by the Sixth Ministerial Conference, was the agreement by all Members on the parallel elimination of all forms of export subsidies by the end of 2013 for developed countries, and the introduction of disciplines on all export measures. The disciplines would be in the form of certain criteria for the use of export subsidies that could otherwise result in unfair competition. Developing countries will be given an additional five years after the end date to eliminate their export subsidies. This significant development will enable exporters in Malaysia to take full advantage of the opportunity to compete for markets in third countries.

The agriculture sector in Malaysia, however, must continue to be cost-effective, upgrade production processes and ensure that products are competitive to fully capitalise on market opportunities that would no longer be distorted when export subsidies are eliminated.

It was agreed that S&D treatment for developing and least-developed countries (LDCs) would be an integral element in all the three pillars of domestic support, market access and export competition. This would include lesser cuts and longer implementation period for developing countries and LDCs.

Non-Agriculture Market Access

Negotiations in 2005, focused on extensive technical details, with Member countries submitting various proposals, mainly on the three core elements of NAMA modalities: formula for tariff reduction, flexibilities for developing countries and the treatment of unbound tariffs. While developed countries and certain developing countries continued to push for ambitious tariff cuts and sectoral initiatives, many developing country Members persistently articulated concerns over attempts by developed countries to link flexibilities given to developing countries with the level of liberalisation to be undertaken.

Since the adoption of the July 2004 framework, Members have focused on negotiations on non-tariff barriers that involve identifying, categorising and examining notified non-tariff barriers. It was also noted that Members are developing bilateral, vertical and horizontal approaches to the non-tariff barriers negotiation. While major countries are keen to address the non-tariff barriers on a sector-specific approach, developing Member countries have concerns that this may lead to elimination of measures established for developing strategic industries. Some developing countries reiterated that measures outside the mandate of the NAMA negotiations, should not be discussed.

The Sixth Ministerial Conference set a deadline of 30 April 2006 for the establishment of modalities for non-agricultural products. It was agreed that the Swiss formula would be adopted to reduce tariffs, whereby higher tariffs would be reduced more steeply compared with lower tariffs. The Swiss formula was first introduced during the agriculture negotiations of the Uruguay Round from 1986-1994. To address unbound tariffs, the Ministers agreed to adopt a mark-up approach to establish base rates, where certain percentages would be added to the applied rates of unbound tariffs before any reduction are made. This approach would address Malaysia's concerns over low applied tariffs, including zero rate tariffs. Currently, Malaysia's unbound tariff lines account for 37 per cent of total tariff lines, comprising mainly products in the sub-sectors of iron and steel, automotive and chemicals. In reducing tariffs, Malaysia wants some degree of flexibility to allow for the promotion of its strategic industries and preservation of national developmental objectives.

Services

The Services negotiations gained renewed momentum following agreement at the Sixth Ministerial Conference to strengthen the mandate of its negotiations. While negotiations on Agriculture and NAMA have often been given more attention, negotiations on the liberalisation of Trade in Services are being pursued more intensively in light of its potential as a source of growth and foreign investment.

The Sixth Ministerial Conference agreed to strengthen the current bilateral request-offer approach. Under this approach, an interested Member can make a request to another Member to liberalise its services sector. The outcomes of these negotiations would be extended to all other Members. The current approach would be strengthened through:

- adoption of specific liberalisation objectives in the four modes of supply in order to guide Members when undertaking new and improved commitments;

- revision of most favoured nation (MFN) exemptions granted under market access and national treatment provisions and the use of economic needs tests to determine foreign participation; and

- adoption of a plurilateral approach to improve offers by bringing together a group of Members with mutual interests in a sector to agree on common goals for liberalisation in that sector.

The approach adopted would provide direction to the services negotiations, in that Members have clearer objectives to guide them when negotiating services commitments. While the current bilateral request-offer approach remains the main approach to services liberalisation, it would be strengthened by the plurilateral approach. Members interested in the liberalisation of a certain services sub-sector could agree on certain commonalities in the services commitments.

In providing finality to the negotiations, several deadlines were adopted:

- submission of plurilateral requests for sectoral negotiations by the end of February 2006;

- submission of a second round of revised offers by July 2006; and

- submission of final draft schedules of commitments by 31 October 2006.

The Sixth Ministerial Conference agreed to further clarify and intensify negotiations on rules pertaining to emergency safeguard measures, government procurement and subsidies. Malaysia is keen for an agreement on emergency safeguard measures to safeguard the domestic industry in the event of a surge in imports.

Malaysia made a revised offer in December 2005. Under the revised offer, technical adjustments were made to the financial services and new commitments in a number of sectors, including professional services.

Trade Facilitation

Negotiations on Trade Facilitation continued to further strengthen and improve:

- Article V of GATT 1994 on freedom of transit of goods;

- Article VIII of GATT 1994 on fees and formalities connected with importation and exportation; and

- Article X of GATT 1994 on publication and administration of trade regulations.

A total of 60 submissions by Members have facilitated the understanding of existing measures and policies with regard to the three Articles. Discussions have also focused on the identification of needs and priorities on technical assistance and capacity building for developing countries to implement trade facilitation measures.

Malaysia shared its experience on Article VIII of GATT 1994 as a contribution towards better understanding of Customs practices and procedures in simplifying import and export formalities and documentation. The International Monetary Fund (IMF), Organisation for Economic Cooperation and Development (OECD), United Nations Conference on Trade and Development (UNCTAD), World Customs Organisation (WCO) and World Bank also contributed monetary and technical assistance for capacity building programmes to assist developing country members.

S&D treatment for developing countries and LDCs remained a crucial issue in the negotiations. The S&D treatment would not only be limited to longer transition periods, but would also take into account the capacities of developing countries and LDCs to implement commitments in the new Agreement.

The Sixth Ministerial Conference agreed that to allow for a timely conclusion of text-based negotiations on all aspects of the mandate, there was a need to move into a focused drafting mode. Malaysia supports the need to establish new rules for trade facilitation that will lead to faster and more efficient clearance of goods at borders. However, the rules should not be too onerous on developing countries in undertaking binding obligations.

OTHER DOHA DEVELOPMENT AGENDA ISSUES

The Sixth Ministerial Conference adopted a development package which includes strengthening the S&D treatment provisions for LDCs and amendments to Trade-Related Aspects of Intellectual Property Rights (TRIPs) and Public Health.

Special and Differential Treatment

The African Group, LDCs and like-minded developing countries have forwarded 88 proposals on:

- improving preferential access to industrialised countries' markets;

- making mandatory the flexibility for exemptions in the implementation of WTO-specific rules; and

- improving and making mandatory the existing provisions on technical and financial assistance to assist developing countries implement multilateral rules and benefit from negotiated rights.

The Sixth Ministerial Conference agreed to strengthen S&D treatment provisions so that developed and developing countries declaring themselves in the position to do so would provide duty-free and quota-free market access to all products originating from LDCs. Flexibilities would be given to developing countries to phase-in their commitments and coverage of goods. The Committee on Trade and Development in Special Session and relevant WTO bodies will continue work to strengthen S&D treatment provisions in WTO agreements to make them more precise, effective and operational.

Trade-Related Aspects of Intellectual Property Rights

There was no significant progress with regard to TRIPs in 2005. The Sixth Ministerial Conference reaffirmed the amendment to the TRIPs Agreement that allows WTO Members with insufficient or no manufacturing capacity to make effective use of compulsory licensing to manufacture pharmaceutical products in another Member country that has the capacity to do so. The issuance of compulsory licensing would be subject to strict conditions set by the WTO.

The issue of compulsory licensing was given prominence due to worldwide recognition of the need to address the problem of access to affordable medicines when faced with public health problems, such as the AIDS/HIV epidemic. The amendment to the TRIPs Agreement would provide security for a permanent solution to the needs of the affected countries.

Members continued negotiations on a multilateral system of notification and registration of geographical indications for wines and spirits. This is to enhance current provision for the protection of geographical indications to allow Members to restrict the use of names of geographical location for products originating from a specific location. Geographical location refers to indications which identify goods as originating from the territory of a Member or region where quality, reputation or characteristic of the goods are essential to its geographical origin. However, there is a divergence of views on the procedures, the legal effects and costs of establishing such a system. Malaysia will support a simple system that does not impose legal obligations on non-participants and is not burdensome to implement.

Trade and Environment

Negotiations on trade and environment in 2005 focused on:

- relationship between existing WTO rules and specific trade obligations set out in Multilateral Environmental Agreements (MEAs);

- procedures for regular information exchange between MEA Secretariats and the relevant WTO committees, and the criteria for granting of observer status; and

- reduction or elimination of tariffs and non-tariff barriers on environmental goods and services.

There was no substantial progress in the negotiations due to disagreements between Members on all these issues.

World Trade Organisation Rules

The negotiations on Rules cover anti-dumping, subsidies and countervailing measures as well as regional trade agreements.

Anti-Dumping

Malaysia supports the strengthening of anti-dumping rules such as increasing the *de minimis* level, formulation of guidelines and termination of sunset review provisions and the lesser duty rule, which takes into account the needs of the developing countries.

Negotiations on Rules continued with proposals and discussions on issues relating to evidence of dumping, determination of injury, access to non-confidential information and sunset reviews.

In 2005, Malaysia initiated an anti-dumping case on polyethylene terephthalate against Taiwan, Indonesia, the Republic of Korea and Thailand. The date of imposition of anti-dumping duties was 23 October 2005.

Subsidies and Countervailing Measures

Malaysia is supportive of clarifying the provisions on the Subsidies and Countervailing Measures Agreement. The Sixth Ministerial Conference took note of issues that had been discussed by Members, such as definition of a subsidy, meaning of specificity under the Subsidies and Countervailing Measures Agreement, prohibited subsidies, serious prejudice, export credits and guarantees and allocation of benefits over time.

Fisheries Subsidies

Negotiations on fisheries subsidies intensified on proposals relating to clarification of disciplines, definitions and coverage, non-actionable and prohibited subsidies, approach to be taken that is 'top-down approach' or positive listing of prohibited fisheries subsidies and S&D treatment.

Regional Trade Agreements

Members considered two substantive areas regarding systemic issues and development aspects of Regional Trade Arrangements (RTAs). The systemic issues touched on the transparency element of 'substantially all trade', 'transition periods', 'other regulations of commerce' and 'development aspects'. The main proponents of these issues were the EU and Australia.

The proliferation of RTAs poses challenges to the multilateral trading system and increases the need to address these systemic issues. Discussions were intensified on the definition of ‘substantially all trade’, where a paper by the People's Republic of China was submitted to address the issues of:

- different levels of economic development of the parties;
- different tariff levels of structure of the parties;
- different trade and industrial structure of the parties; and
- sensitive sectors of the parties that the RTA may affect.

The Sixth Ministerial Conference agreed that Rules negotiations are to be finalised by the end of 2006.

Dispute Settlement Understanding

The Dispute Settlement Understanding Special Session continued with negotiations on the procedural aspects of the dispute settlement mechanism. Proposals were circulated on issues pertaining to:

(i) Time Saving
Improvement of timeframes in the dispute settlement process from current nine to 12 months for panel establishment, and another six to nine months for appellate proceedings. Shorter panel proceedings would allow the complaining party to receive redress in a shorter time.

(ii) Panel Composition
Proposal includes the establishment of a roster and the composition of panel which should not be less than 20 persons.

(iii) Transparency
To make WTO dispute more transparent deriving from the *amicus curea* (friends of the court), which will allow the public to observe all substantive panel, Appellate Body and arbitrator meetings, except those dealing with confidential information.

(iv) Sequencing Issue
This issue is related to Article 21.5 of 'Understanding on Rules' and 'Procedures Governing the Settlement of Disputes' on surveillance of

implementation of recommendations and rulings which involves the sequencing of retaliation and compliance procedures. This issue has continued to be discussed by Members with different views between the Group of Six (including Malaysia) and the USA, the EU, Japan and the People's Republic of China, on which parties can initiate Article 21.5 of the Dispute Settlement Understanding. Malaysia is of the view that both parties, the complainant or the defending party, can initiate this Article.

The Permanent Representative of Malaysia to the WTO, H.E. Ambassador Muhamad Noor Yacob, has been elected as Chairperson to the Dispute Settlement Body following a consensus decision taken at the General Council on 8 February 2006.

Dispute Settlement Understanding Cases

Byrd Amendment

In the case concerning the Continued Dumping and Subsidy Offset Act of 2000 (the Byrd Amendment), the EU planned to impose €28 million worth of annual sanctions on the USA for its failure to comply with the WTO ruling pertaining to illegal anti-dumping rules applied under the Byrd Amendment in the USA. The Byrd Amendment allows the US producers to receive anti-dumping and countervailing duties from foreign competitors. However, in 2003, the WTO found that this was inconsistent with the USA's trade obligations. In November 2004, the WTO gave the European Commission, Canada and their co-complainants the authority to retaliate. The USA has informed the WTO that it is taking steps to repeal the Byrd Amendment.

Measures Affecting Trade in Large Civil Aircraft

In June 2005, the Dispute Settlement Body heard the first request by both the USA and the EU for the establishment of a panel for measures affecting large civil aircraft (the Boeing-Airbus dispute). The USA claims that France, Germany, the United Kingdom (UK), Spain and the EU provide subsidies which benefit Airbus. A total of 49 countries, including Malaysia, were requested to reply to questionnaires on the subsidy effects of Boeing and Airbus sales. This request is allowed under Annex V of the Subsidies and Countervailing Measures Agreement of the WTO.

Hormones Dispute Case: Continued Suspension of Obligations in the European Union

The EU still maintains its ban on imports of hormone-treated beef from the USA and Canada, despite a Dispute Settlement Body decision in 1998 that the EU's decision to ban the imports is unjustified as there is no scientific evidence to show that the beef can pose a public health risk. In 1999, with the authorisation of the WTO, the USA and Canada imposed penalties in the form of additional duties on European exports and these amounted to more than US$100 million a year. On 17 February 2005, the EU attempted to convince the WTO panel that it should not be punished for maintaining the ban as it had constituted enough evidence that the hormones were unsafe. This was the first time that a dispute involving a complaint was brought by the defending party and made public at the WTO in September 2005.

Internet Gambling Case

This is the fourth WTO dispute case involving the General Agreement on Trade in Services (GATS), but is the first where the basic structure of the GATS and several of its important provisions have come up for interpretation. Antigua and Barbuda raised the dispute in March 2003 and had held unsuccessful consultations with the USA. On Antigua's request, the Dispute Settlement Body set up a panel on 12 June 2003. The Panel concluded that the USA's Schedule under GATS includes specific commitments on gambling and betting services and the term 'sporting' was interpreted as to not include gambling and betting services. By maintaining such a measure, the USA had failed to accord services and service suppliers of Antigua treatment no less favourable than that provided for under the terms agreed and specified in its Schedule. In August 2005, the Appellate Body upheld the Panel's finding that the USA's Schedule of Commitments included gambling and betting services, and gave the USA until 3 April 2006 to implement its recommendation over the USA's restrictions on internet gambling and betting services. The arbitrator decided that this was a reasonable period as Antigua and Barbuda, the complainants, are developing countries. The USA had earlier sought for a 15-month period to change its law.

Anti-Dumping Duties on Imports of Certain Paper from Indonesia

On 4 June 2004, Indonesia requested consultations with the Republic of Korea concerning the imposition of definitive anti-dumping duties by Republic of Korea on the imports of business information paper and uncoated wood-free printing paper from Indonesia and certain aspects of the investigation leading to the imposition of such duties. In response to Indonesia's request on 16 August 2004, a panel was established on 27 September 2004. The Dispute Settlement Body adopted the Panel's Report on the case on 28 November 2005. The Panel agreed with Indonesia that the Republic of Korea had acted inconsistently with some of the provisions of the Anti-Dumping Agreement and on the issue of disclosure of confidential information during the investigation.

ACCESSION TO THE WORLD TRADE ORGANISATION

As at 31 December 2005, there were 149 Members of the WTO. Saudi Arabia acceded to the WTO on 11 December 2005, while three Working Parties have been established to consider the applications for accession by Iran, Montenegro and Serbia. The first meeting of the Working Party on Montenegro and Serbia was held in October 2005, while the Working Party for Iran has yet to commence its proceedings.

As a result of negotiations, Saudi Arabia agreed to undertake a series of important commitments to further liberalise its trade regime and accelerate its integration in international trade. Among the commitments undertaken by Saudi Arabia are:

- WTO agreements will be applied uniformly throughout Saudi Arabia's Customs territory;
- review of fees charged for the authentication of trade documents and to bring it into conformity with WTO rules within two years of accession;
- elimination of any non-tariff measures that cannot be justified under WTO rules while maintaining the right to restrict the importation and exportation of certain goods and services;
- elimination of export subsidies on agriculture products;
- to ensure that its producers and distributors of natural gas liquids operate on the basis of normal commercial considerations; and
- full implementation of TRIPs, Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) Agreements.

Countries that are currently negotiating accession to the WTO are Algeria, Andorra, Azerbaijan, Bahamas, Belarus, Bhutan, Bosnia Herzegovina, Cape Verde, Ethiopia, Kazakhstan, Lao PDR, Lebanon, Libya, Montenegro, the Russian Federation, Samoa, Serbia, Seychelles, Sudan, Tajikistan, Ukraine, Uzbekistan, Vanuatu, Viet Nam and Yemen.

In 2005, Malaysia participated actively in the accession process to negotiate for improved market access for its exports, especially with Algeria and the Russian Federation. Accession negotiations in the WTO provide an opportunity to seek concessions without having to undertake any reciprocal offers. As most of these countries are either new or potential markets for Malaysia, inputs from the private sector are essential to help identify areas or issues of interest to be pursued in the negotiations.

TRADE POLICY REVIEWS

The Trade Policy Review mechanism is a periodic review of individual WTO Members' trade policy regimes and practices. In 2005, the trade regimes of 15 members were examined under the Trade Policy Review mechanism. They were Bolivia, Ecuador, Egypt, Guinea, Liechtenstein, Mongolia, Nigeria, Paraguay, the Philippines, Qatar, Romania, Sierra Leone, Switzerland, Tunisia, and Tobago and Trinidad.

TECHNICAL ASSISTANCE

In 2005, Malaysia participated in 12 technical assistance programmes organised by the WTO. The programmes primarily involved areas of negotiations on agriculture, non-agriculture market access and services. Two technical assistance programmes were conducted in Malaysia:

- Regional Training Workshop on Multilateral Negotiations on Agriculture, held from 26-27 January 2005; and

- WTO National Seminar on Non-Agriculture Market Access, from 18-20 April 2005.

OUTLOOK

The Sixth Ministerial Conference provided the framework and direction for the key negotiating areas. In order to achieve a successful completion of the Doha Development Agenda in 2006, all Members must adopt a pragmatic approach, and which could involve political compromises on issues that are sensitive to both developed and developing countries. Given the intensive pace of negotiations during the Sixth Ministerial Conference, where all members were keen to bring the negotiations back on track, there are expectations that the Doha Development Agenda can be concluded in 2006.

Chapter 10 Asean Economic Cooperation

OVERVIEW

The Eleventh ASEAN Summit (Eleventh Summit), held in Kuala Lumpur from 12-14 December 2005, achieved significant progress towards deepening commitments to enhance economic integration within the region and with Dialogue Partners. The decisions made and agreed at the Eleventh Summit include the advancement of the liberalisation of the services sector by five years to 2015 and to further fast track the integration of the tourism and air travel services sectors under the implementation of Phase II of the Priority Integration Sectors.

To facilitate and promote intra-ASEAN trade and services, ASEAN members at the Eleventh Summit signed the Agreement on the ASEAN Harmonised Electrical and Electronics Equipment Regulatory Regime and the ASEAN Mutual Recognition Arrangement (MRA) on Engineering Services in 2005.

As part of the trade facilitation measures, ASEAN reaffirmed its commitment by signing the Agreement to Establish and Implement the ASEAN Single Window, which allows for single channel clearance of goods for ASEAN countries. ASEAN 6 (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand) have committed to establish the ASEAN Single Window by 2008, while Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV) by 2012. An ASEAN Task Force on ASEAN Single Window was established in 2005 to expedite work to realise the ASEAN Single Window.

On extra-ASEAN relations, measures were taken to strengthen linkages with the +3 countries (People's Republic of China, Japan and Republic of Korea), India, the Russian Federation and Australia-New Zealand. The Eleventh Summit saw the signing of key Agreements with these countries, including:

- The Kuala Lumpur Declaration on East Asia to formalise the establishment of a forum for dialogue on broad strategic political and economic issues of common interest and concern between ASEAN and its six dialogue partners (People's Republic of China, Japan, Republic of Korea, India, Australia and New Zealand);

- The Kuala Lumpur Declaration on ASEAN +3 Cooperation to provide the political momentum towards building an East Asian community;

- The Joint Declaration of the Heads of State/Government of ASEAN and the Russian Federation on Progressive and Comprehensive Partnership to enhance ASEAN-Russian Federation in a multidimensional manner; and

- The ASEAN-Korea Framework Agreement on Comprehensive Economic Cooperation.

The holding of the First East Asia Summit in December 2005 is seen as a key step towards strengthening cooperation on a much broader level, with ASEAN taking the lead. This paves the way, in the long term, for more integrated economic cooperation linkages with the +3 countries, India, Australia-New Zealand and the Russian Federation.

The sub-regional initiatives within ASEAN also received greater attention with the convening of the First Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) Summit, Second Brunei-Indonesia-Malaysia-Philippines - East ASEAN Growth Area (BIMP-EAGA) Summit and the CLMV Summit on 11 December 2005 in Kuala Lumpur, in conjunction with the Eleventh Summit.

These Summits recognised that enhancing economic development in these sub-regions would complement the economic integration process of ASEAN. It will also contribute towards sustaining economic activities within the less developed sub-regions in ASEAN.

In relation to the 11 Priority Integration Sectors, a Consultative Meeting, involving both the public and private sectors of ASEAN countries, convened in Jakarta on 8-9 July 2005, to speed up the implementation of the various measures identified in the Roadmaps for the 11 Priority Integration Sectors. The meeting:

- reviewed some of the timelines and measures in the areas of standards, customs, trade in services and investment;

- established several product working groups on standards to implement standard-related measures in the Roadmaps;

- posted on the ASEAN website (www.aseansec.org) a compilation of non-tariff barriers within the region; and

- established alternative Rules of Origin to a number of products such as textiles and apparel, wheat flour, wood and wood-based products, aluminum products and iron and steel products.

To achieve greater integration in the implementation of various measures under the priority sectors, ASEAN is also expected to adopt a work plan for the implementation of Phase II of the 11 Priority Integration Sectors in early 2006. In this regard, member countries are required to revise the respective Roadmaps, taking into account improvements to the existing measures and the addition of new measures, widening the scope of product coverage as well as reviewing of timelines.

In narrowing the development gap between ASEAN 6 and the newer member countries, ASEAN 6 continued to assist CLMV through the programmes of Initiative for ASEAN Integration (IAI). To date, ASEAN 6 contributed US$4.5 million to implement various capacity building programmes, especially in the area of human resource development. Funding assistance amounting to US$16.3 million was also provided by ASEAN's Dialogue Partners and donor countries for the IAI programmes.

TRADE

Intra-ASEAN Trade

In 2005, intra-ASEAN trade involving five member countries, namely Indonesia, Malaysia, the Philippines, Singapore and Thailand, increased by 16.2 per cent to US$250.7 billion from US$215.7 billion in 2004.

Intra-ASEAN exports of these countries increased by 14.9 per cent to US$133.5 billion in 2005 from US$116.2 billion in 2004. Indonesia registered the highest intra-ASEAN exports growth of 21.1 per cent, followed by Malaysia (15.4 per cent), Singapore (14.7 per cent), Thailand (14 per cent) and the Philippines (4.5 per cent).

Intra-ASEAN imports in 2005 by these five member countries were valued at US$117.2 billion, an increase of 17.7 per cent from US$99.5 billion in 2004. Indonesia recorded a significant increase of 45.8 per cent, followed by Thailand (36.6 per cent), Singapore (11.4 per cent), Malaysia (7.5 per cent) and the Philippines (3.4 per cent).

ASEAN Free Trade Area

Common Effective Preferential Tariff

As at 1 January 2005, Malaysia had transferred all completely built-up (CBU) and completely knocked-down (CKD) motor vehicles, which were previously not offered for preferential tariff concession, into the Common Effective

Table 10.1:
Intra-ASEAN Trade, 2005

Country	Exports				Imports			
	2005 (US$ mil.)	2004 (US$ mil.)	Change		2005 (US$ mil.)	2004 (US$ mil.)	Change	
			US$ million	%			US$ million	%
Total	**137,827.8**	**118,934.7**	**18,893.1**	**15.9**	**123,290.1**	**104,467.4**	**18,822.7**	**18.0**
Singapore	49,862.0	43,459.0	6,403.0	14.7	41,698.0	37,436.9	4,261.1	11.4
Malaysia	36,633.3	31,742.1	4,891.2	15.4	28,152.3	26,195.4	1,956.9	7.5
Thailand	24,136.7	21,170.0	2,966.7	14.0	21,634.5	15,834.6	5,799.6	36.6
Indonesia	15,738.8	12,994.3	2,744.5	21.1	17,039.4	11,685.9	5,353.5	45.8
Philippines	7,146.3	6,837.9	308.4	4.5	8,637.3	8,355.9	281.4	3.4
Viet Nam	2,364.8[1]	1,688.9[1]	675.9	40.0	4,306.1[1]	3,549.8[1]	756.3	21.3
Brunei Darussalam	1,357.0[1]	427.7[1]	929.3	217.3	630.8[1]	314.1[1]	316.7	100.8
Myanmar	486.2[1]	544.6[1]	-58.4	-10.7	395.7[1]	526.2[1]	-130.5	-24.8
Lao PDR	59.9[1]	39.6[1]	20.3	51.3	147.3[1]	225.0[1]	-77.7	-34.5
Cambodia	42.8[1]	30.6[1]	12.2	39.9	648.7[1]	343.6[1]	304.4	88.6

Source: ASEAN Secretariat
Note: [1]The figures are for the period of January-June in 2005 and 2004

Preferential Tariff (CEPT) Scheme. The CBU motor vehicles were included in the CEPT at 20 per cent, while the CKD motor vehicles were phased-in at zero duty. On 19 October 2005, Malaysia reduced the duties on some of the CBUs to 15 per cent, and the CEPT rates for two CBU public transportation vehicles (motor buses) were reduced to 5 per cent effective 16 January 2006. With the announcement of the National Automotive Policy, Malaysia further reduced the CBU CEPT rates to 5 per cent effective 22 March 2006.

Malaysia has also transferred eight rice products into the CEPT. With this transfer, Malaysia has phased-in 99.3 per cent of its products into the CEPT. The remaining 0.7 per cent of Malaysia's products, comprising alcoholic beverages, and arms and ammunition, are permanently excluded from the Scheme.

ASEAN 6 has included 98.5 per cent of its products into the CEPT, of which 98.9 per cent of them have duties ranging from 0 to 5 per cent. This includes the transfer of products previously placed in the Highly Sensitive List and Temporary Exclusion List in January 2005.

The CLMV countries also fulfilled their obligations by transferring products into the CEPT Scheme for tariff concessions. Beginning 2005, these countries have included 87.8 per cent of their products into the CEPT, of which 71.1 per cent products have duties ranging from 0 to 5 per cent.

Under the e-ASEAN initiatives, ASEAN 6 and the CLMV are required to eliminate tariffs on ICT products in three tranches, beginning 2003

Table 10.2:
Products in the Inclusion List of CEPT for ASEAN 6

Country	Total Products	Products in the Inclusion List	
		No. of Products	%
Average			98.5
Singapore	10,705	10,705	100.0
Thailand	11,030	11,030	100.0
Philippines	11,059	11,013	99.6
Malaysia	12,130	12,043	99.3
Indonesia	11,153	11,028	98.9
Brunei Darussalam	10,702	9,924	92.7

Source: ASEAN Secretariat
Based on ASEAN Harmonised Tariff Nomenclature

to 2010. In 2005, ASEAN 6 has eliminated duties on 487 ICT products under the third tranche, while the CLMV is finalising its schedule for ICT products offered for tariff elimination. Malaysia has eliminated tariffs on 219 ICT products, including 45 products in 2005.

Given the satisfactory performance of tariff liberalisation under the CEPT, ASEAN's work programme in 2006 will mainly focus on addressing the non-tariff measures to facilitate and enhance intra-ASEAN trade.

Products of member countries, which are listed under the General Exclusion List of the CEPT and permanently excluded from preferential tariff concession, are currently being reviewed, and the review is expected to be completed by end 2006. This is to ensure that products excluded are justified for reasons of protection of human, animal, health and security, and protection of artistic and historic value in accordance with provisions under the CEPT Agreement.

Similarly, the classification criteria for non-tariff measures have been developed and ASEAN is currently developing a work programme to eliminate non-tariff measures.

To further promote intra-ASEAN trade, continuous improvements were made to the Rules of Origin and procedures of trading under the CEPT. A guideline to implement Cumulative Rules of Origin was adopted. For the purpose of calculating the 40 per cent value-added content, member countries can now cumulate inputs within the region (not for the purpose of enjoying tariff concession) with a minimum threshold of 20 per cent local/regional value content compared with the existing '40 per cent local/regional value content all-or-nothing approach'.

Product Specific Rules for textiles and apparel, wheat flour, wood and wood-based products, aluminum products and iron and steel were also developed and adopted for implementation in 2005. ASEAN exporters and manufacturers can now chose to comply, either with the 40 per cent local/regional value content or respective Product Specific Rules, to benefit from the preferential tariff concessions of the CEPT Scheme. Using Product Specific Rules, exporters/manufacturers will have to prove that their manufactured goods have undergone substantial transformation to qualify for tariff concessions.

To further reduce the impediments to intra-ASEAN trade, ASEAN is exploring the possibility of establishing an ASEAN Trade Facilitation Committee to pursue trade facilitation agenda in a concerted manner.

Exports under CEPT Scheme

Malaysia's exports under the CEPT in 2005 increased by 28.4 per cent to RM11.1 billion,

Table 10.3:
Malaysia's Exports under CEPT

Export Destination	2005			2004	
	RM million	Share (%)	Change (%)	RM million	Share (%)
Total	**11,060.2**	**100.0**	**28.4**	**8,616.1**	**100.0**
Thailand	4,645.4	42.0	27.1	3,654.8	42.4
Indonesia	2,465.1	22.3	75.7	1,403.2	16.3
Philippines	1,812.1	16.4	27.8	1,417.9	16.5
Viet Nam	1,393.2	12.6	-1.2	1,409.9	16.4
Singapore	716.3	6.5	0.5	712.7	8.3
Myanmar	15.6	0.1	22.8	12.7	0.1
Brunei Darussalam	10.6	0.1	165.0	4.0	neg.
Cambodia	1.9	neg.	111.1	0.9	neg.
Lao PDR	neg.	neg.	neg.	neg.	neg.

Source: Ministry of International Trade and Industry
Note: neg. - negligible

compared with RM8.6 billion in 2004. Exports to almost all ASEAN countries recorded increases, with exports to Indonesia recording an increase of 75.6 per cent. Exports to Viet Nam, however, recorded a slight decrease of 1.2 per cent.

In 2005, Thailand remained Malaysia's largest export destination, with a market share of 42 per cent of Malaysia's total export under CEPT. Total export to Thailand was RM4.6 billion, compared with RM3.6 billion in 2004, followed by Indonesia (RM2.5 billion), the Philippines (RM1.8 billion), Viet Nam (RM1.4 billion) and Singapore (RM700 million).

Table 10.4:
Malaysia's Main Exports Items under CEPT in 2005

Product Category	RM million	Share of Total Exports Under CEPT (%)
Total	**11,060.2**	**100.0**
Plastics	1,530.5	13.8
E&E products	1,279.3	11.6
Organic chemicals	1,103.6	10.0
Articles of iron and steel	943.6	8.5
Machinery equipment	819.1	7.4
Rubber and rubber products	698.9	6.3
Vegetable fats and oils	547.7	5.3
Iron and steel	364.7	3.3
Automotive products	337.6	3.1
Footwear	284.9	2.6

Source: Ministry of International Trade and Industry

Malaysia's major export products under the CEPT include plastic products (13.8 per cent), electrical and electronics (E&E) products (11.6 per cent), organic chemicals (10 per cent), articles of iron and steel (8.5 per cent) and machinery equipment (7.4 per cent).

Malaysian exporters and manufacturers continued to take advantage of the tariff concessions under the CEPT. In 2005, a total of 94,626 Form D (Certificate of Origin under the CEPT) were issued, compared with 83,319 Form D in 2004, an increase of 13.6 per cent.

ASEAN Integration System of Preferences

The ASEAN Integration System of Preferences (AISP) is a scheme where ASEAN 6 gives unilateral import duty exemption to products of export interests to CLMV. As at December 2005, ASEAN 6 have offered duty exemption on 2,857 products to CLMV. Myanmar is the biggest preference-receiving country with 1,637 products, followed by Cambodia (477 products), Lao PDR (359 products) and Viet Nam (320 products).

In 2005, Malaysia had eliminated duties on 231 additional products as requested by CLMV, with Cambodia as the biggest preference-receiving country with 91 products, followed by Lao PDR (71 products), Viet Nam (67 products) and Myanmar (2 products).

To date, Malaysia has offered duty exemptions on 783 products covering fruits and vegetables, chemicals and chemical products, rubber products, wood and wood-based products, paper and paper products, E&E, plastic products, footwear, furniture, and textiles and apparel.

Various initiatives are currently being undertaken by ASEAN to further promote the utilisation of AISP among CLMV. This includes standardising the issuance of the Legal Enactment (to effect the duty exemption) by ASEAN 6 based on open-ended basis, instead of yearly expiration dates and harmonisation of the Rules of Origin in accordance with the 40 per cent local/regional value content implemented under the CEPT.

INVESTMENT

Investment Flows

In line with the increase in global FDI inflows in 2004, FDI inflows into ASEAN increased by 38.9 per cent to US$25.7 billion, from US$18.5 billion received in 2003. The increase in FDI into ASEAN has outpaced the increase in global FDI, indicating that ASEAN remains a preferred destination for investors despite international challenges, such as the emergence of the People's Republic of China and India as attractive investment destinations, and international terrorism. FDI inflows were mainly to Singapore (62.6 per cent), Malaysia (18 per cent), Viet Nam (6.3 per cent), Thailand (5.5 per cent) and Indonesia (3.9 per cent).

In 2004, the leading investor in ASEAN was the United States of America (USA) with investments valued at US$5.1 billion, followed by Japan (US$2.5 billion), the Netherlands (US$2.2 billion), the United Kingdom (US$1.7 billion) and Singapore (US$1.2 billion).

ASEAN Outward Investments

In 2004, total ASEAN outward investments increased by more than two-fold to US$13.6 billion from US$5.7 billion in 2003. Outward investments were mainly from Singapore, which accounted for 78.3 per cent of ASEAN's total outward investment.

Malaysia's gross investment overseas in 2004 increased by almost three times to RM28.3 billion from RM10.6 billion in 2003. Major investment destinations were Singapore (RM2.5 billion), Hong Kong (RM1.1 billion), Chad, Central Africa (RM1 billion), the USA (RM800 million) and Thailand (RM700 million).

Intra-ASEAN Investment

In 2004, intra-ASEAN investment amounted to US$2.4 billion, an increase of 5.7 per cent from US$2.3 billion in 2003. Singapore remained the leading source of outward intra-ASEAN investment, accounting for 50 per cent share (US$1.2 billion), followed by Malaysia (US$600.8 million), Indonesia (US$269.1 million) and the Philippines (US$190.7 million).

Table 10.5:
Intra-ASEAN Investment Flows, 2004

Source Country	Host Country (US$ million)										
	Brunei Darussalam	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Viet Nam	Total
Total	**24.6**	**31.9**	**31.7**	**7.8**	**980.1**	**12.3**	**116.2**	**649.3**	**336.0**	**242.9**	**2,432.6**
Singapore	3.7	2.8	(78.8)	0.2	965.5	5.9	115.5	nil	82.0	121.3	**1,218.0**
Malaysia	19.6	25.8	111.3	2.3	nil	neg.	0.2	331.6	64.0	46.0	**600.8**
Indonesia	0.6	nil	nil	nil	4.4	2.1	nil	260.9	nil	1.0	**269.0**
Philippines	0.7	nil	nil	nil	0.3	nil	nil	6.7	183.0	nil	**190.7**
Thailand	neg.	3.3	(0.8)	4.2	9.8	4.2	0.2	36.2	nil	74.6	**131.7**
Brunei Darussalam	nil	nil	nil	nil	0.1	nil	0.3	3.9	2.0	nil	**6.3**
Myanmar	nil	nil	nil	nil	nil	nil	nil	5.8	nil	nil	**5.8**
Viet Nam	nil	nil	nil	1.1	nil	nil	neg.	2.6	2.0	nil	**5.7**
Cambodia	nil	nil	nil	nil	nil	nil	nil	0.5	3.0	nil	**3.5**
Lao PDR	nil	nil	nil	nil	nil	nil	neg.	1.1	nil	nil	**1.1**

Source: FDI Database, ASEAN Secretariat
Notes: (1) Data compiled from respective ASEAN Central Banks and Central Statistics Offices. Unless otherwise indicated, the figures include equity and inter-company loans.
(2) Cambodia figures are estimated figures.
(3) Figures for Brunei Darussalam, Cambodia, Malaysia, Myanmar, Singapore and Viet Nam include reinvested earnings.
(4) Figures for the Philippines and Singapore for 2004 are preliminary.
(5) ( ) Indicates net outflows which include disinvestments of equity and repayment of inter-company loan.
(6) neg. - negligible

Malaysia emerged as the major recipient of intra-ASEAN investment with US$980.1 million in 2004, an increase of almost four-fold from US$251.1 million in 2003. About 98.5 per cent of the investments into Malaysia were from Singapore (US$965.5 million), followed by Thailand (US$9.8 million) and Indonesia (US$4.4 million). Other major host countries for inward intra-ASEAN investment flows were Singapore (US$649.3 million), Thailand (US$336 million) and Viet Nam (US$242.9 million).

Malaysia's intra-ASEAN investment outflows in 2004 were mainly to Singapore (US$331.6 million), Indonesia (US$111.3 million) and Thailand (US$64 million). The investments were mainly in real estate, financial services, manufacturing and plantation sectors.

ASEAN Investment Area

ASEAN continues to enhance its effort to attract FDI inflows into the region. To further enhance the investment environment in ASEAN, various measures were undertaken in 2005 under the ASEAN Investment Area (AIA) initiative. Among the measures included are improvements to the Temporary Exclusion List and Sensitive List. In 2005, Cambodia and Myanmar indicated improvements to their Temporary Exclusion List/Sensitive List. Malaysia has already made improvements to its Sensitive List by phasing-out some restricted sectors in line with its liberalisation of the equity policy in the manufacturing and manufacturing-related services sectors in 2004. Among the sectors that were phased-out from the Sensitive List included paper packaging, plastic packaging (bottles, films and sheets, bags), plastic injection moulded components, metal stamped products and electroplated products.

Apart from the liberalisation initiatives, ASEAN continued to undertake facilitation and cooperation programmes to promote investments. In 2005, ASEAN convened consultations with Japan and the EU to exchange information on investment regimes and other investment-related issues. ASEAN also embarked on capacity building programmes for ASEAN officials involved in investment negotiations with ASEAN Dialogue Partners. In addition, under the AIA Framework, the publication of the 'Statistics on Foreign Direct Investment in ASEAN, Seventh Edition 2005' in CD-ROM was undertaken. This publication provides investors and policy makers with a better understanding of FDI development in ASEAN.

Among activities that ASEAN is currently undertaking is the study on 'AIA Plus Strategy: Building on FTA Agreements,' which focuses on Australia and New Zealand. This study, which is expected to be completed in 2006, will facilitate ASEAN in the negotiations with Australia and New Zealand. Other programmes that are in progress include capacity building workshops for Investment Promotion Agencies, and ASEAN publications, which include 'Facts and Figures: Cost of Investing and Doing Business in ASEAN' and 'ASEAN Investment Map’, which will enhance transparency and facilitate investments into ASEAN.

ASEAN Industrial Cooperation Scheme

ASEAN Industrial Cooperation (AICO) Scheme is aimed at promoting resource sharing by ASEAN based companies through industrial cooperation scheme. Since its implementation in 1996, many companies, particularly those in the automotive sector, have benefited from preferential market access given under this scheme.

The attractiveness of the AICO Scheme was further enhanced with the formalisation of a Protocol in April 2004, which requires Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore and Thailand to accord zero tariff for approved arrangements by January 2005, and Viet Nam by January 2006. In addition, the annual waiver of 30 per cent national equity requirement has been extended until 31 December 2006.

As at 11 October 2005, a total of 133 projects were approved by ASEAN countries, involving arrangements in the areas of automotive products (89.5 per cent), E&E products (5.3 per cent) and food processing (3.8 per cent). As at December 2005, Malaysia has approved a total of 65 projects, mainly in the automotive, agriculture, food processing and E&E sectors, valued at US$387 million.

SERVICES

The current fourth round of services negotiations under the ASEAN Framework Agreement on Services (AFAS) commenced in January 2005 and is scheduled to be completed by the end of 2006. The fifth package of liberalisation commitments to be made under this round is targeted to be completed by 2006. Noting the liberalisation of services sector holds tremendous potential and a source of new growth, the ASEAN Leaders endorsed the decision of the ASEAN Economic Ministers to fast track the liberalisation of the sector to 2015 instead of 2020. Due to the complexity involved in services liberalisation, the Leaders also agreed that some flexibility be allowed to member countries in meeting the commitments.

To enable liberalisation of the services sector within ASEAN to be carried out in a more expeditious manner, the ASEAN Economic Ministers endorsed new parameters and targets for services liberalisation under this fourth round as follows:

- no restrictions for commitments under Mode 1 (cross-border supply) and Mode 2 (consumption abroad), unless for specific reasons where a member country cannot do so. In such cases the member country is required to provide due reasons; and

- for Mode 3 (commercial presence), the modality for equity liberalisation has been divided into two groups:

  - for the three priority sectors, namely tourism, healthcare and e-ASEAN, foreign equity participation targets shall be with flexibility as follows: 49 per cent by 2006, 51 per cent by 2008 and 70 per cent by 2010; and

  - for the non-priority sectors, the targets with flexibility shall be as follows: 30 per cent in 2006, 49 per cent in 2008, 51 per cent in 2010 and 70 per cent in 2015.

In addition to these targets, the Mode 3 liberalisation will also address elimination of other limitations in the form of conditionalities on market access and national treatment. Commitments for Mode 4 (movement of natural persons) under the fourth round will be further improved, compared with current levels of commitments. Roadmaps are being developed for the liberalisation of the services sector until 2015.

The MRA Agreement on Engineering Services, signed by the ASEAN Economic Ministers on 9 December 2005, allows for free movement of engineering services professionals within the region and promotes information exchange to encourage best practices on standards and professional qualifications in ASEAN. This arrangement is expected to benefit ASEAN companies, particularly those involved in cross-border construction projects. Other MRAs being negotiated include:

- MRAs on Architectural Services, Accountancy Services and Land Surveying;

- MRAs on Nursing Services and Medical Practitioners;

- MRA for IT Professionals; and

- MRA for Tourism Professionals.

SECTORAL COOPERATION

Agriculture

Various measures have been undertaken by ASEAN to strengthen cooperation in the agriculture sector. Among others, was the adoption of the Strategic Plan of Action for the ASEAN Cooperation in Food, Agriculture and Forestry (2005-2010) in 2004. The documents endorsed in 2005 were:

- Strategic Plan of Action for the Commodity Sectors of Palm Oil, Rubber, Cocoa and Pepper;
- Revised Manual of ASEAN Rules and Procedures for the Registration of Animal Vaccines; and
- Criteria for Accreditation of Livestock Establishments for Sheep and Goats for Breeding and Slaughter, Ducks for Slaughter and Cattle Slaughterhouses for the Production of Frozen or Chilled Beef.

ASEAN has also endorsed 104 new ASEAN harmonised maximum residue limits on 12 pesticides for various fruits, vegetables and cash crops. To date, a total of 599 maximum residue limits for 42 pesticides has been adopted. ASEAN has also agreed to establish an ASEAN Animal Health Trust Fund, with pledged contribution in cash by all member countries. The ASEAN Animal Health Trust Fund would facilitate the collection and management of contributions and assist in addressing animal diseases of economic and public health importance, including the avian influenza, foot and mouth disease and classical swine fever.

To prevent, control and eradicate the spread of avian influenza disease in the region, ASEAN has adopted a Regional Framework for Control and Eradication of Highly Pathogenic Avian Influenza. The Framework covers eight strategic areas to be addressed and implemented over a period of three years (2006-2008).

ASEAN and +3 countries (People's Republic of China, Japan and Republic of Korea) are in the process of developing an Agreement on Rice Reserve to support the implementation of the Pilot Project on East Asia Emergency Rice Reserve Programme. A full-fledged system on rice reserve will be considered after the completion of the Pilot Project and will be implemented on a voluntary basis.

On fisheries, ASEAN endorsed the Regional Guidelines on the Code of Conduct for Responsible Fisheries and adopted a five-year programme on Sustainable Fisheries for Food Security.

A total of 12 new agriculture training projects, seminars and workshops have been endorsed for implementation in 2006. The projects, among others, will focus on capacity building, research and development on agriculture database, sustainable forest management and early warning system for agricultural hazards.

Transport

In 2005, ASEAN continued to focus on improving cross-border transport infrastructure and connectivity, promoting safe and secure transportation and increased air accessibility.

ASEAN adopted the Framework Agreement on Multimodal Transport, which will further facilitate the door-to-door delivery of goods using various modes of transport under a single transport document. The Agreement was signed by ASEAN Transport Ministers on 17 November 2005. The Agreement also provides a common policy framework for further specialisation of freight forwarders and multimodal transport operators, which will reduce the cost of doing business.

ASEAN has also finalised Protocol 1 on Designation of Transit Transport Routes and Facilities of the Framework Agreement on Facilitation of Goods in Transit, which was signed on 16 December 1998. Member countries are finalising their Transit Transport Routes for the Protocol and it is expected to be signed by September 2006. The Protocol will be implemented based on 'ASEAN-X Formula' (participation of a minimum of six countries) as agreed at the Ninth ASEAN Transport Ministers Meeting on 24 October 2003.

Besides Protocol 1, five out of the nine implementation Protocols to the Framework Agreement have been concluded. These Protocols cover the types and quantity of road vehicles, technical requirements of vehicles, ASEAN Scheme of compulsory motor vehicle third-party liability insurance, sanitary and phytosanitary measures and dangerous goods.

The remaining three Protocols are on designation of frontier posts, railway borders and interchange stations, and Customs transit system.

To accelerate the integration of air travel as one of the 11 Priority Integration Sectors, ASEAN has agreed to increase cargo tonnage to 250 tonnes weekly and provide additional designated points for air freight services beginning 2006. This is realised through the adoption of a Protocol to Amend the ASEAN Memorandum of Understanding on Air Freight Services, which was signed in 2002. ASEAN is also expected to finalise the ASEAN Multilateral Agreement on the Full Liberalisation of Air Freight Services by the end of 2006.

ASEAN is currently developing an ASEAN Multilateral Agreement on Air Services and a conceptual framework to establish a single aviation market. Member countries are also currently considering to further improve the measures for passenger air services liberalisation as stipulated under the Roadmap for Integration of the Air Travel. This includes accelerating the timeline for liberalisation and expanding the coverage of destinations to all ASEAN countries. ASEAN is also expected to conclude and sign the Fifth Package of Commitments on Air Transport Services in 2006.

Key developments in 2005 related to the ASEAN Transport Action Plan (2005-2010), include:

- finalisation of the Roadmap on Integrated and Competitive Maritime Transport in ASEAN;

- identification of two pilot ports for developing an integrated Port Safety, Health and Environmental Protection Management System;

- funding by the Asian Development Bank of US$3.5 million to implement Phase II of ASEAN Road Safety Programme and US$40 million to rehabilitate the Cambodian Railway Network;

- mobilising US$2.3 million to implement eight transport projects under the Initiative for ASEAN Integration Work Plan. Six projects have been completed and the remaining two projects are on-going;

- implementation of the feasibility study on the Saigon-Loc Ninh Missing Link in Viet Nam and completion of the feasibility study on the spur line connecting Nam Tok-Three Pagoda Pass-Thanphyuzayat (Myanmar-Thailand Border) by 2006; and

- harmonisation of road signage design and placement for the ASEAN Highway Network.

Finance

Cooperation in finance made significant progress, particularly in advancing the integration efforts under the Roadmap for Financial and Monetary Integration of ASEAN. Comprehensive measures have been developed in four areas, namely financial services liberalisation, capital market development, capital account liberalisation and currency cooperation.

The Third Round of Negotiations on financial liberalisation was concluded in December 2004, and the Protocol to implement the Third Package of Commitments was signed by the ASEAN Finance Ministers on 6 April 2005.

The Fourth Round of Negotiations was also launched under the new positive list approach, at the beginning of 2005 and will be concluded by 2007. The guideline to implement the positive list approach under the Fourth Round has also been finalised.

To create an inter-linked ASEAN securities market by 2010, ASEAN has set up a Task Force to explore various models of alliance and linkage including cross-listing, cross-trading access or cross-exchange products. In addition, priority areas have been identified to narrow the gaps in technology, platforms and market practices and strengthening standards of investor protection and surveillance.

To strengthen cooperation in the capital market, the ASEAN Capital Market Forum, comprising representatives of ASEAN securities' regulators, has been held on a regular basis to discuss, among others, the harmonisation of relevant standards. This includes disclosure standards, distribution rules, accounting and auditing standards and cross-recognition of qualifications of capital market professionals.

In order to further facilitate trade integration and promote greater financial stability, ASEAN is exploring the possibility of adopting a regional exchange rate arrangement. In addition, ASEAN central banks and monetary authorities have increased the value of the existing ASEAN Swap Arrangement from US$1 billion to US$2 billion to provide short-term liquidity support.

To enhance the effectiveness of the Chiang Mai Initiative, which was initiated to further enhance ASEAN+3 finance cooperation, ASEAN has agreed, among others, to transfer one-way swap to two-way swaps on a voluntary basis, expand the network to include Brunei Darussalam and CLMV and minimise the timeframe for swap activation process.

As at June 2005, a total of 17 bilateral swap arrangements totalling US$47.5 billion have been concluded. ASEAN is also exploring possible routes towards multilateralising the Chiang Mai Initiative and to promote active usage of the East Asian local currencies.

Information and Communication Technology

In an effort to progressively integrate the e-ASEAN sector by 2010, ASEAN member countries adopted the Hanoi Agenda on promoting online services and applications to realise e-ASEAN.

The Hanoi Agenda aims to accelerate the development of online services and applications and boost electronic transactions among citizens, businesses, industries and governments in the ASEAN region. It is also intended to provide a platform for regional integration efforts to ensure synchronised institutional and legal framework to support a more rapid, substantive and effective development of the ICT sector in ASEAN. ASEAN countries also adopted the ASEAN ICT Focus Plan 2005-2010 to serve as an overall guiding document for concerted and collective cooperation in building the information society and enhancing the region's connectivity and competitiveness.

An ASEAN ICT Fund was also established to effectively bridge the digital divide in ASEAN and provide counterpart funding for joint projects or activities with the private sector, ASEAN dialogue partners and other international organisations. An ASEAN ICT Centre has also been established at the ICT Unit at the ASEAN Secretariat.

'ASEAN Connect' (www.ASEANconnect.gov.my), a comprehensive web portal that collates all essential information and data about all ASEAN initiatives and activities in ICT, was launched in 2005. It contains a list of key indicators on convergence, telecommunication equipment trade, conformity assessment procedures, digital divide and infrastructure.

Tourism

Noting the importance of the tourism sector in generating economic growth of the region, the liberalisation of the air travel sector will be fast-tracked in Phase II of the implementation of the priority integration sectors. New measures to be incorporated in the roadmap for the integration of the tourism sector include:

- development of criteria for places to be classified as ASEAN Tourism Heritage sites;

- development of an ASEAN tourism portal and comprehensive marketing plan for the Visit ASEAN Campaign;

- organisation of an ASEAN Tourism Investment Forum on a regular basis to explore tourism investment opportunities;

- organisation of capacity building programmes for local tourist guides;

- development of plans to encourage maritime travel; and

- development of an ASEAN Crisis Communication Framework and Action Plan.

To further promote intra-ASEAN travel, the implementation of the fourth phase of the Visit ASEAN Campaign in 2006 will include the production of ASEAN posters, exchange of audio video promotional materials, production of audio video promotional of ASEAN leaders and improvement to the existing ASEAN tourism website. ASEAN will also conduct studies on the Impact Assessment of Visit ASEAN Campaign.

ASEAN is currently developing an MRA for Tourism Professionals which is expected to be finalised by August 2006. ASEAN will also implement a project on Developing Common Tourism Course Curriculum for ASEAN Countries, starting January 2006. It will address the identification of a common ASEAN Tourism Curriculum and establishment of a regional Qualification Framework and Recognition System.

In the area of tourism standard, criteria and requirements have been developed for eco-tourism, home-stay programme, local and food beverages services and public restrooms. Standards for hotel ratings, tour operators and tour guides will be developed by 2010. ASEAN will also develop definitions, performance indicators and implementation mechanism, as well as the establishment of a certification body for hotel standards and local food and beverages services.

Malaysia organised the ASEAN Tourism Investment Forum on 9 December 2005 in Kuala Lumpur, as part of a series of activities for the Eleventh Summit. The Philippines hosted the ASEAN Tourism Forum on 13-21 January 2006 to further promote the sector in the region.

FACILITATION MEASURES

Standards

In 2005, ASEAN completed the harmonisation of standards for 20 product groups, comprising 58 international standards of the International Organisation for Standardisation (ISO) and International Electro-Technical Commission, 72 standards for safety and 10 standards for Electromagnetic Compatibility. A total of 27 International Electro-Technical Commission standards have been identified for harmonisation by the end of 2007.

To facilitate the implementation of AFTA, priority integration sectors and the realisation of an ASEAN Economic Community, ASEAN has adopted a Policy Guideline on Standards and Conformance. The guideline contains principles for the implementation of measures in the area of standards and conformance for both regulated and non-regulated sectors in ASEAN. It also focuses on harmonisation of standards, implementation of relevant conformity assessment schemes and adoption of technical regulations.

ASEAN is expected to adopt technical regulations, conformity assessment and harmonise each respective national standards in accordance with the existing international standards. ASEAN is also expected to ensure the implementation of Post Market Surveillance System upon the implementation of respective sectoral MRAs.

In relation to the implementation of the ASEAN MRA for Electrical and Electronics Equipment, all member countries have notified their participation in recognition of test reports and seven countries, including Malaysia, have notified their acceptance of certification. In addition, seven testing laboratories and one certification body have been designated to provide services under the ASEAN MRA for Electrical and Electronics Equipment.

On 9 December 2005, ASEAN has also adopted the Agreement on ASEAN Harmonised Electrical and Electronics Equipment Regulatory Regime to enhance cooperation in the protection of human health, safety, property and environment in relation to trade in E&E equipment in ASEAN. The Agreement will also facilitate the MRA negotiations on conformity assessment between ASEAN and non-ASEAN countries.

Under this Agreement, ASEAN is expected to eliminate restrictions on trade in E&E equipment within the region. Member countries with existing national legislation regime on E&E equipment are required to develop a common regulatory regime and implement all the provisions in the Agreement by 2010 and transpose the agreed ASEAN common requirements into their national legislation. ASEAN countries are also required to identify and agree on standards for compliance. This is to ensure that only those E&E equipment complying with the agreed standards will have market access.

For cosmetics and pharmaceutical products, ASEAN is currently enhancing efforts to implement the ASEAN Harmonised Cosmetics Regulatory Regime and ASEAN Common Technical Dossiers by 2008. The harmonisation of labelling requirements and MRA for Good Manufacturing Practice (GMP) inspection for pharmaceuticals is being pursued.

ASEAN is also in the process of harmonising the technical requirements in the areas of prepared foodstuffs. This includes food labelling, Import-Export Certification and Registration Procedure, Food Fortification and Genetically Modified Organisms, as well as GMP Inspection and Certification. An ASEAN Common Food Control Requirement is also currently being developed.

Initial harmonisation of technical requirements have also being identified for traditional medicines and health supplements. This includes definitions and terminologies, labelling requirements and advertisement claims, product requirements and licensing, safety and quality requirements, testing methods and Post Market Surveillance System.

Customs

ASEAN continues to undertake concrete measures in realising Customs integration to promote economic growth.

On 9 December 2005, the ASEAN Economic Ministers signed the Agreement on ASEAN Single Window. The ASEAN Single Window is aimed at expediting Customs procedures relating to trade activities within the region by allowing for the establishment of a single channel clearance of goods for ASEAN 6 by 2008 and new members by 2012.

Some ASEAN countries are in the process of developing their national single window, which will be subsequently integrated into the ASEAN Single Window. ASEAN is currently in the process of finalising a separate Protocol, a technical framework to operationalise the implementation of the ASEAN Single Window, which is expected to be signed in 2006. A Steering Committee to monitor the implementation of the ASEAN Single Window will also be established.

To further harmonise and simplify Customs procedures within the region, ASEAN has adopted an ASEAN Customs Declaration Documents, containing 48 information parameters which will be implemented beginning 2006. These documents will also be implemented for trade with non-ASEAN countries. To operationalise the implementation of the ASEAN Customs Declaration Documents, a standard format, definitions and explanatory notes to the information parameters has been adopted. A review of the information parameters will be conducted in 2006 to allow for further improvements and adjustments. In addition, ASEAN has also developed and adopted an ASEAN Cargo Clearance Model beginning June 2005.

To further simplify the ASEAN Harmonised Tariff Nomenclature (AHTN) for better compliance and Customs control, as well as to address the technical transposition issue, the AHTN Review Committee has completed review on 83 of 97 Chapters of the AHTN. The Nomenclature has been implemented in ASEAN beginning 1 January 2004, and it will be extended to extra-ASEAN trade beginning 1 January 2007. AHTN is a harmonised Customs product classification implemented by all ASEAN member countries at eight-digit level.

In 2005, ASEAN finalised 15 specific programmes under the Strategic Plan of Customs Development, 2005-2010.

Indonesia-Malaysia-Thailand Growth Triangle

The Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT), established in 1993, received a significant boost with the holding of the First IMT-GT Summit Meeting in Kuala Lumpur on 11 December 2005. The Summit reviewed progress made and agreed that the IMT-GT has tremendous potential, which could lend to the deepening of integration within ASEAN. There are already progresses made in enhancing land, sea and air connectivity. To further enhance cooperation, the Summit agreed to:

- establish a socio-economic outlook of all member states and provinces in the IMT-GT, as well as database on all transactions in trade, investment and tourism activities in the sub-region;
- formulate IMT-GT roadmap for development to serve as basis for cooperation of each priority sector for the next five years, with assistance from the Asian Development Bank and ASEAN Secretariat;
- institutionalise meetings among Governors, Chief Ministers and the

***Table 10.6*:**
Country Coordinators for Specific Areas Under the Strategic Plan of Customs Development, 2005-2010

Programme	Country Coordinator
Customs Enforcement and Mutual Assistance	Brunei Darussalam
Customs Reform and Modernisation	Brunei Darussalam
Narrowing the Development Gap	Cambodia
Customs Valuation	Indonesia
Customs Post Clearance Audit	Indonesia
Customs Human Resource Development and Administration	Malaysia
International Partnership and ASEAN Customs	Malaysia
Public Security and Protection of the Society	Malaysia
Customs Clearance	Philippines
Tariff Classification	Singapore
Customs Transit	Singapore
Temporary Admission	Singapore
ASEAN e-Customs	Thailand
Origin Determination	Viet Nam
Partnership with Customs Stakeholders and the Trading Community	ASEAN Secretariat

Source: ASEAN Secretariat

private sector, led by the joint Business Councils, to address issues of common concern with their respective stakeholders; and

- streamline and coordinate the institutional arrangements between the public and private sectors.

The IMT-GT Leaders also welcomed the participation of ASEAN Dialogue Partners and international institutions as development partners.

Brunei-Indonesia-Malaysia-Philippines - East ASEAN Growth Area

The Second Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) Summit, held on 11 December 2005, endorsed the BIMP-EAGA Roadmap to Development (2006-2010) to enhance economic growth of the sub-region.

The roadmap covers broad based strategies in four priority areas:

- promote intra- and extra-ASEAN trade, investments and tourism;
- coordinate the management of natural resources for sustainable development of the sub-region;
- coordinate the planning and implementation of infrastructure projects; and
- strengthen the institutional structure and mechanism.

Since the First BIMP-EAGA Summit, efforts have been taken to improve airport and seaport infrastructure facilities within the sub-region, and other trade and investment initiatives. To attract investment to the sub-region, the ASEAN-Japan Centre sponsored the BIMP-EAGA Investment Promotion Seminar on 22 November 2005.

ASEAN-Mekong Basin Development Cooperation

The Seventh ASEAN Mekong Basin Development Cooperation (AMBDC) Meeting, held on 28 November 2005 in Kuala Lumpur, reviewed the progress made on the implementation of the AMBDC projects since its establishment in 1996.

To date, a total of 55 projects at a cost of US$183 million have been identified for implementation. Of these, only 31 projects, valued at US$11 million, have been implemented or are at various stages of implementation. The bulk of the projects relating to infrastructure projects have not been implemented due to funding constraints. To address this issue, member countries agreed that each country prioritise its list of projects and endeavour to provide in-country contribution.

The AMBDC countries also agreed to a set of criteria to facilitate project evaluation and funding support. The criteria include:

- projects must strengthen interconnections and economic linkages between the ASEAN member countries and the Mekong Riparian countries;
- projects must have regional content that would lead to synergies and complementarities;
- projects initiated should involve at least two countries in the Mekong Basin;
- projects should promote development within the Mekong Basin countries with the view to deepen integration;
- accord priority to the short-term needs of Mekong Basin countries; and
- projects which require donor country assistance should meet the regional content criteria.

Progress has been achieved in the Singapore-Kunming Rail Link, which is a flagship project under the AMBDC. To enhance private sector participation in the Singapore-Kunming Rail Link project, member countries have agreed that various outreach programmes need to be undertaken to create greater awareness among the private sector, potential investors and funding agencies.

Malaysia, as the current chair of AMBDC, has agreed to produce a video on the Singapore-Kunming Rail Link, especially on the missing links of the project and organise a high-level event on the Singapore-Kunming Rail Link to disseminate information and opportunities on this ASEAN project to relevant stakeholders in 2006.

REGIONAL LINKAGES WITH DIALOGUE PARTNERS

East Asia Summit

The First East Asia Summit held on 14 December 2005, marked the beginning of a process of enhancing collaboration among the ASEAN and the six major dialogue partners of the People's Republic of China, Japan, the Republic of Korea, India, Australia and New Zealand. The Grouping will be an open, inclusive, transparent and outward looking forum, and other countries which meet the membership criteria can join as members. It will serve as a forum for dialogue on broad strategic political and economic issues of common interest and concern, as well as to promote the overall economic development of the region.

ASEAN+3

To strengthen various mechanisms for the development of ASEAN+3 cooperation as well as economic linkages, the ASEAN+3 Leaders signed the Kuala Lumpur Declaration on the ASEAN+3 Summit on 12 December 2005. The Declaration reaffirmed the collective resolve of the Leaders to implement the short, medium and long-term measures contained in the East Asia Study Group Report.

In addition, the First and Second Meetings of the Expert Group on East Asia Free Trade Area (EAFTA) were held on 12-13 April 2005 in Beijing, the People's Republic of China, and 18-19 November 2005 in Jakarta, Indonesia, respectively. The Expert Group comprising academia are tasked to assess the feasibility of establishing an EAFTA as well as to conduct in-depth study on the economic and industrial structure of the East Asia region.

Cooperation was also enhanced in the areas of ICT, food security and energy. The Second ASEAN+3 Energy Ministers met on 13 July 2005 to identify ways to enhance cooperation in the wake of rising fuel prices. ASEAN and the +3 countries are also in the process of implementing the East Asia Investment Information Network, a portal to disseminate information on investment policies in the ASEAN and +3 countries.

ASEAN-China

In 2005, significant progress has been made towards strengthening economic cooperation between ASEAN and the People's Republic of China. The first tranche of tariff reduction under the ASEAN-China Free Trade Area was implemented on 20 July 2005.

Under the first tranche of tariff reduction/elimination, tariffs on 40 per cent of the products were reduced to 0 to 5 per cent by ASEAN 6 and the People's Republic of China. Subsequent tariff reduction/elimination will be undertaken under the second, third and fourth tranches in 2007, 2009 and 2010, respectively. Flexibility has also been accorded to 150 tariff lines, for which the duties will be eliminated by 2012.

Products under the sensitive track are further classified into Sensitive List and Highly Sensitive List. For products under the Sensitive List, the ASEAN 6 and the People's Republic of China are obliged to reduce duties to 20 per cent by 2012 and to 0 to 5 per cent by 2018. For products under the Highly Sensitive List, duties will be reduced to 50 per cent by 2015. ASEAN and the People's Republic of China will further review the Sensitive Track in 2008.

Box 10.1: ASEAN-China Free Trade Area

The ASEAN-China Free Trade Area in Goods commenced on 20 July 2005. Prior to the implementation of the ASEAN-China FTA, ASEAN and the People's Republic of China implemented the Early Harvest Programme. The Early Harvest Programme is an early tariff liberalisation programme on a selected range of products, comprising mainly unprocessed agricultural products and selected manufactured products.

The tariff reduction/elimination for the Early Harvest Programme began on 1 January 2004 for ASEAN 6, the People's Republic of China and Viet Nam, and 1 January 2006 for Cambodia, Lao PDR and Myanmar. In respect of ASEAN 6 and the People's Republic of China, tariffs for Early Harvest Programme products were eliminated on 1 January 2006. Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV) will eliminate duties on Early Harvest Programme products by 1 January 2010.

For Malaysia, the Early Harvest Programme comprises 590 products, of which 503 are unprocessed agriculture products, and 87 processed and manufactured products.

Malaysian exporters and manufacturers continued to benefit by exporting to the People's Republic of China under the Early Harvest Programme. A total of 3,780 Form E (Preferential Certificate of Origin under ASEAN-China FTA) were issued by Malaysia for exports to the People's Republic of China in 2005. The value of exports under this Preferential Certificate of Origin totalled RM540.3 million in 2005.

Tariff reduction/elimination under the ASEAN-China FTA is based on Normal Track and Sensitive Track (Sensitive List and Highly Sensitive List).

Duties on products listed in the Normal Track will be reduced/eliminated in four tranches, in 2005, 2007, 2009 and 2010 for ASEAN 6 and the People's Republic of China. Flexibility is accorded to a maximum of 150 products in the Normal Track for which the duties will be eliminated in 2012. In compliance with the additional thresholds set for Normal Track products, ASEAN 6 and the People's Republic of China have reduced the duties to 0 to 5 per cent range on 40 per cent of the products upon implementation on 20 July 2005. The coverage will be extended to 60 per cent of the products by 1 January 2007. Malaysia has placed 87.3 per cent of the products in the Normal Track, of which currently 71 per cent are already with duties ranging between 0 to 5 per cent.

The duties for products listed in the Sensitive List for ASEAN 6 and the People's Republic of China will be reduced to 20 per cent by 2012, and subsequently to 0 to 5 per cent by 2018. The duties for products in the Highly Sensitive List will be reduced to 50 per cent by 2015, with no further tariff cut commitments.

A review will be undertaken in 2008 for products in the Sensitive Track with the aim of further reducing the number of products placed in the Sensitive Track.

Since the implementation of the Trade in Goods Agreement, a total of 1,387 Form E was issued to Malaysian exporters and manufacturers for export purposes to the People's Republic of China in 2005. The value of these exports amounted to RM756.5 million.

Malaysia's exports under the ASEAN-China FTA are encouraging, given the fact that it has only been implemented for less than a year. More outreach programmes will be continue to be undertaken to promote ASEAN-China FTA to the Malaysian business community.

Major export products to the People's Republic of China under the Early Harvest Programme and Trade in Goods Agreement included chemical products (47.3 per cent), palm oil (15.2 per cent), stearic acid (10.4 per cent), rubber products (8.1 per cent) and detergents and soaps (7.4 per cent).

A total of 516 Form E (both under Trade in Goods Agreement and Early Harvest Programme) were received from the People's Republic of China, with imports valued at US$3.7 million in 2005. No import was recorded in 2004 from the People's Republic of China under the Early Harvest Programme.

Various measures are currently being undertaken to further promote trade between ASEAN and the People's Republic of China under the ASEAN-China FTA arrangement. This includes the usage of Product Specific Rules as an alternative rule to the 40 per cent local/ASEAN-China FTA value content in order to enjoy tariff concessions. Product Specific Rules have been adopted for 466 products covering food products, leather and fur products, and textiles and apparel. However, for wool and woven products (six tariff lines), Product Specific Rules have been adopted as an exclusive rule, and the 40 per cent local/ASEAN-China FTA value content is not applicable.

Table 10.7: Malaysia's Exports under the Early Harvest Products and Trade in Goods Agreement

Category	No. of Form E Issued	RM million
Total	**7,213**	**1,810.9**
Early Harvest Programme (2005)	3,780	540.3
Trade in Goods Agreement (20 July-December 2005)	1,387	756.5
Early Harvest Programme (2004)	2,046	514.1

Source: Ministry of International Trade and Industry

Continued...

Table 10.8:
Malaysia's Main Exports[1] under ASEAN-China Free Trade Area, 2005

Product Category	RM million	Share to Malaysia's Total Export under ASEAN-China Free Trade Area (%)
Total	**1,296.8**	**100.0**
Chemical products	613.1	47.3
Palm oil	196.7	15.2
Stearic acid	134.5	10.4
Rubber products	105.3	8.1
Detergents and soaps	95.9	7.4
Cocoa products	74.9	5.8
Fish and crustaceans	19.1	1.5
Mangosteen, watermelon and papaya	18.9	1.5
Cathode-ray tubes for television	13.2	1.0

Source: Ministry of International Trade and Industry
Note: [1]Malaysia's main exports under ASEAN-China FTA in 2005 included products under the Early Harvest Programme and Trade in Goods Agreement

Malaysia has placed 87.3 per cent of 10,591 products in the normal track and 6.5 per cent (418 products) in the sensitive track. Malaysia's sensitive products include swine, milk and cream, wood products, cement, chemical products, eggs, soap, rice, tobacco, footwear, ceramic products, automotive, and iron and steel. For Malaysia, a total of 0.6 per cent of products, comprising alcoholic beverages, arms and weapons, tobacco refuse and used tyres, are excluded from tariff liberalisation under ASEAN-China Free Trade Area. The remaining 5.6 per cent of Malaysia's products have been offered for earlier tariff reduction/elimination under the Early Harvest Programme. The tariffs for products under the Early Harvest Programme have been eliminated on 1 January 2006.

To further strengthen existing cooperation between ASEAN and the People's Republic of China, several projects and activities have been implemented in 2005, including ASEAN-China Training Course on Risk Management and Post Clearance Audit and ASEAN-China Workshop on Intellectual Property Rights, held in the People's Republic of China in May and September 2005, respectively.

With the view to strengthening cooperation in agriculture, three training projects were conducted for agriculture technicians from ASEAN and the People's Republic of China in 2005. These projects are Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) Methods, Workshop on Sustainable Development of Bamboo Industry and the Workshop on Development of Edible Mushroom Industry.

In the area of ICT, the First ASEAN-China ICT Week was held from 11-18 May 2005 in the People's Republic of China, followed by the ASEAN-China Ministerial Forum and the launching of the ASEAN-China IT Cooperation website.

The Fourth ASEAN-China Business Council Meeting was convened back-to-back with the Second ASEAN-China Business Summit and the Second ASEAN-China Expo from 19-22 October 2005, in Nanning, the People's Republic of China.

ASEAN-Japan

Negotiations on the ASEAN-Japan Comprehensive Partnership Agreement, which commenced in April 2005, are expected to be concluded within two years. Other economic cooperation measures and projects as envisaged in the ASEAN-Japan Plan of Action were also implemented.

Japan provided support in terms of dispatching automotive experts to a number of ASEAN countries, including Malaysia, under the ASEAN Economic Ministers - Minister of Economy and Industry Economic and Industrial Cooperation Committee. Japan is also providing technical support to the development of a roadmap for the integration of the automotive and electronics sector.

The ASEAN-Japan Centre conducted a design development project in 2005. A total of 112 ASEAN companies received technical support from Japanese experts. The Centre also dispatched 114 members on six investment missions to ASEAN countries. The Centre also organised an ASEAN Tourism Fair, which attracted 64,000 visitors. In addition, a total of 125 and 170 ASEAN trainees also attended training courses in the areas of Intellectual Property, and Standard and Conformity, respectively, organised by Japan.

The Third ASEAN-Japan Transport Ministers Meeting on 16 November 2005, adopted the ASEAN-Japan Transport Logistics Improvement Plan to improve and facilitate logistics services and infrastructure between ASEAN and Japan. The Meeting also adopted the Common Action Plan for the ASEAN-Japan New Air Navigation System.

Japan also extended assistance to the CLMV, amounting to US$4.7 million, in the areas of human resource development, transportation, energy, industrial relations and management programmes.

ASEAN-Korea

ASEAN-Korea relations were further enhanced with the signing of the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and the Republic of Korea at the Ninth ASEAN-Korea Summit on 13 December 2005, in Kuala Lumpur.

Under the Trade in Goods Agreement between ASEAN and the Republic of Korea, the first tranche of tariff reduction/elimination will commence in 2006, where the Republic of Korea will eliminate tariffs on 70 per cent of its products under the Normal Track, while ASEAN 6 will eliminate tariffs on 50 per cent of their products. The Republic of Korea will eliminate tariffs on all products by 1 January 2008, ASEAN 6 by 1 January 2010, Viet Nam by 2016 and Cambodia, Lao PDR and Myanmar by 2018, subject to certain flexibilities. For products listed under the Sensitive Track, a longer time frame for duty reduction/elimination will be accorded to ASEAN and the Republic of Korea.

Both ASEAN and the Republic of Korea signed the Agreement on Dispute Settlement Mechanism on 9 December 2005. The Agreement provides a mechanism to resolve disputes arising from the implementation of various commitments under the ASEAN Korea Framework Agreement.

Negotiations on trade in services and investment between ASEAN and the Republic of Korea will begin in early 2006, and are expected to be concluded by the end of 2006.

ASEAN and the Republic of Korea have also agreed to pursue cooperation in 19 areas, such as Customs procedures, trade and investment promotion, small and medium enterprises, human resource management and development, tourism, financial services, information and communication technology, energy, natural resources and agriculture, fisheries, livestock, plantation commodities and forestry.

ASEAN-India

Negotiations on the ASEAN-India FTA Agreement are still on-going. To date, ASEAN and India have reached agreement in the area of the general Rules of Origin to confer originating status for products under the ASEAN-India FTA. At the Fourth ASEAN-India Summit on 13 December 2005, the Leaders have tasked the Economic Ministers and officials to expeditiously conclude negotiations, and the implementation date for the FTA in Goods has now been deferred to 1 January 2007. Negotiations to liberalise the services and investment sectors will commence in 2006.

ASEAN-Australia and New Zealand

ASEAN and the Closer Economic Relations Countries (Australia and New Zealand) are currently negotiating a FTA covering trade in goods, services and investment.

The negotiations are still on-going with a major part of 2005 being spent on clarifying the issues to be addressed in the establishment of the FTA. To facilitate the negotiations, capacity building initiatives such as Seminars on Rules of Origin and Trade in Services were held on 28-29 July 2005 and 2-3 May 2005, respectively.

ASEAN-European Union

The Vision Group on ASEAN-EU Partnership was established in 2005 and has had two meetings. The Vision Group has been tasked by the ASEAN Economic Ministers and the EU Trade Commissioner to examine ways to enhance ASEAN-EU relations to a higher level, including the feasibility to have a region wide FTA. The Report of the ASEAN-EU Vision Group on Enhanced Partnership was tabled at the ASEAN Economic Ministers' Meeting on 16 May 2006 in the Philippines. The Report recommends the establishment of an ASEAN-EU FTA to foster and diversify trans-regional trade and investment flows and to deepen economic integration between the two regions in a sustainable manner.

ASEAN and EU will undertake domestic consultations before any decision can be made to launch an FTA. An announcement on this would be made during the 12th ASEAN Summit in the Philippines in December 2006.

The ASEAN-EU cooperation also continued to be strengthened through various projects implemented under the Trans-Regional ASEAN-EU Trade Initiative. The projects implemented were:

- First ASEAN-EU Investment Experts Meeting, 26 May 2005, Vientiane, Lao PDR;

- Trans-Regional ASEAN-EU Trade Initiative High-Level Policy Dialogue on EU Economic Integration, 15 June 2005, Brunei Darussalam;

- ASEAN-EU Workshop on Trade Facilitation and ASEAN-EU and Customs Experts Meeting, 19-21 July 2005, the Philippines;

- ASEAN-EU Electronics/Electrical Experts Meeting, July 2005, Brussels;

- ASEAN-EU Workshop on Investment, 14-15 November 2005, Thailand; and

- EU Consultations with ASEAN Working Group on Wood-based Products, 15-16 December 2005, Thailand.

ASEAN-Russian Federation

At the First ASEAN-Russia Summit held on 14 December 2005 in Kuala Lumpur, ASEAN and Russian Leaders signed the Joint Declaration of the Heads of State/Government of ASEAN and the Russian Federation on Progressive and Comprehensive Partnership. The Declaration provides the necessary foundation to expand the scope and quality of economic relations, which include developing mutual trade, investment and industrial linkages.

The ASEAN-Russian Federation Economic and Development Cooperation Agreement, signed by the Foreign Ministers, will pave the way for strengthening economic linkages. Both sides also reaffirmed to establish effective and mutually beneficial cooperation at the private sector level within the ambit of the ASEAN-Russian Federation Business Council established in 1998.

To strengthen economic linkages, the ASEAN-Russian Federation Business Forum was held on 13 December 2005 in Kuala Lumpur in conjunction with the First ASEAN-Russia Summit.

To enhance trade, a joint feasibility study on the possibility of a Free Trade Area will be undertaken in 2006.

ASEAN-Canada

ASEAN and Canada are now taking concrete steps to enhance cooperation. The ASEAN-Canada Senior Economic Officials Meeting was held in Toronto, Canada, from 3-4 May 2005 in conjunction with the ASEAN-Canada Business Seminar. This is a positive step towards revitalising economic cooperation between both parties. Prior to this, ASEAN-Canada economic relations were facilitated only under the existing Joint Cooperation Committee. The move also comes at an opportune time when ASEAN is now engaged in comprehensive economic partnership arrangements with a number of trading partners. ASEAN and Canada are now working on a comprehensive action plan for all fields. On economic cooperation, ASEAN is strengthening senior official level dialogue and collaboration on trade and investment, and increasing business community involvement in promoting two-way trade and investment relations.

ASEAN-United States of America

ASEAN and the USA signed a Joint Vision Statement on ASEAN-USA Enhanced Partnership on 17 November 2005. The Vision Statement calls on both parties, among others, to conclude the region-wide Trade and Investment Framework Agreement, promote greater private sector interaction, collaborate in all modes of transport and implement the Enterprise for ASEAN Initiatives to enhance trade and investment flows.

OUTLOOK

ASEAN is expected to register a growth of 5 to 5.5 per cent in 2006, compared with 5.2 per cent in 2005 and 6.1 per cent in 2004, notwithstanding the uncertainties surrounding oil prices and the impact of other trans-boundary diseases.

The various measures implemented to deepen the economic integration of the region are critical to sustain its economic growth. The promotion and liberalisation of the services sector is also expected to provide the necessary impetus to sustain and boost economic growth. Developments in the sub-regional growth areas within the region will also be important for ASEAN to maintain its growth track.

The implementation of the ASEAN-China FTA in Goods in July 2005 and the FTA in Goods with the Republic of Korea in 2006 will be a major boost to ASEAN's external trade relations. ASEAN will also be concluding services and investment agreements with these two countries. These agreements and those that are under negotiations, such as that with India, Australia and New Zealand, will continue to make ASEAN a more dynamic region for business.

Chapter 11 Development In Regional Groupings

OVERVIEW

Malaysia's participation in regional groupings, such as the Asia Pacific Economic Cooperation (APEC), Organisation of Islamic Conference (OIC), Group of Developing Eight (D-8) and Group of Fifteen (G-15), is to further efforts towards enhancing economic cooperation and promotion of trade and investment in the respective regions. These groupings also provide the fora to discuss issues of common interest and address emerging global issues affecting trade, investment and economic development.

Malaysia is the Chairman of the OIC from 2003-2006. Malaysia's main effort in 2005 as Chairman was to provide an economic dimension to the OIC to complement its political and social agenda.

In the other regional groupings, such as the European Union (EU), North America Free Trade Area (NAFTA) and Latin American Southern Cone Common Market (MERCOSUR), the main developments continue to focus on their engagement in Free Trade Agreements. These regional groupings have concluded a number of agreements and entered into new negotiations to diversify their trade and investment linkages with other countries. Malaysia also monitors and evaluates the impact of these free trade agreements on its trade and economic interests.

ASIA PACIFIC ECONOMIC COOPERATION

The work programme in APEC in 2005 was guided by the broad theme of 'Towards One Community: Meet the Challenge, Make the Change'. The theme reflected APEC's diverse membership and their willingness and commitment to cooperate for mutual economic development and shared prosperity within the Asia-Pacific region. Key elements of the work programme are advancing freer trade, fighting corruption, protecting innovation, enhancing human security, advancing the development of small and medium enterprises (SMEs) and undertaking APEC reform. Economic and technical cooperation continued to remain the overarching focus in all of APEC's activities.

The 17th APEC Ministerial Meeting and the 13th APEC Economic Leaders' Meeting held in November 2005 in Busan, the Republic of Korea, reaffirmed APEC's commitment to achieving trade and investment liberalisation and facilitation in the APEC region by 2010 for developed members and 2020 for developing members. APEC Leaders and Ministers reiterated their commitment in supporting the multilateral trading system as the key vehicle for achieving global trade liberalisation and improving economic development. In this regard, APEC called upon all World Trade Organisation (WTO) members to ensure the success and completion of the Doha Development Agenda by 2006.

Key APEC 2005 Initiatives

Mid-term Stock Take

APEC undertook a Mid-term Stock Take, a review to assess the progress made towards achieving the Bogor goals of free and open trade and investment no later than 2010 for developed members and 2020 for developing members. The Mid-term Stock Take also identified the actions needed to achieve these goals. In undertaking the Mid-term Stock Take, inputs were obtained from individual economies, APEC Business Advisory Council and independent experts and academicians.

In the Mid-term Stock Take, Malaysia stressed that besides liberalisation, emphasis should also be given to trade facilitation, including reducing the cost of doing business and enabling all economies to benefit from opportunities created by market opening measures. APEC should continue to focus on the wider goals of strengthening regional economic development and enhancing shared prosperity.

One of the key recommendations adopted at the 17th APEC Ministerial Meeting and 13th APEC Economic Leaders' Meeting was the implementation of the Busan Business Agenda, which focused on trade facilitation and addressing behind-the-border issues that impede trade and investment. The main features of the Busan Business Agenda include:

- reducing transaction costs by another 5 per cent from 2006-2010 (APEC has been undertaking measures to reduce transaction costs by 5 per cent from 2001-2006);
- reducing on-line piracy and trade in counterfeit and pirated goods, and strengthening intellectual property rights protection and enforcement; and
- addressing issues related to business regulation and related administrative procedures such as Customs procedures and alignment of standards.

Other recommendations endorsed include:

- support for multilateral trading system;
- strengthening APEC Collective and Individual Actions;
- promotion of High Quality Regional Trading Arrangements/Free Trade Agreements (RTAs/FTAs), including developing comprehensive model measures;
- adopting a more strategic approach to capacity building; and
- continued adoption of the Pathfinder Approach that allows for implementation of initiatives on a differentiated time schedule.

Regional Trading Arrangements/Free Trade Agreements

The work programme on RTAs/FTAs continued to focus on enhancing the effectiveness of FTAs as a vehicle for trade and investment liberalisation and facilitation. In this regard, APEC has developed model measures on trade facilitation in RTAs/FTAs.

Elements of the model measures on trade facilitation in RTAs/FTAs cover mainly Customs measures, which include transparency, impartial administration, consistency and predictability, quick release of goods, modernisation and paperless trading, fees and charges, confidentiality, express shipments, review and appeal, penalties and advance rulings.

The model measures are not mandatory but are indicative examples to provide members with a useful reference in negotiating RTAs/FTAs.

Malaysia contributed to the formulation of the model measures and stressed that the model measures should not be burdensome on member economies. Malaysia emphasised the need for FTAs to incorporate capacity building, technical assistance and cooperation to facilitate implementation. Malaysia also highlighted the importance of securing input and feedback from the private sector, to ensure that trade facilitation measures meet business needs.

Anti-Counterfeiting and Piracy Initiative

An important outcome of APEC's work programme in 2005 was the development of a set of model guidelines on anti-counterfeiting and piracy to:

- reduce trade in counterfeit and pirated goods;

- protect against unauthorised copies; and

- prevent sale of counterfeit goods over the internet.

Malaysia supports these guidelines as improved protection and enforcement of intellectual property rights (IPRs) would promote innovation and enhance business competitiveness.

Small and Medium Enterprises

The APEC work programme on SMEs in 2005 focused on advancing innovation. APEC adopted the Daegu Initiative on SME Innovation Plan which aims to assist APEC member economies identify factors that can be improved to facilitate and accelerate innovation of SMEs in the Asia Pacific region.

Malaysia agreed to the establishment of the APEC SME Innovation Centre in the Republic of Korea that would link SMEs with supporting organisations of member economies to further enhance innovation of SMEs. The Small and Medium Industries Development Corporation (SMIDEC) acts as the focal point for Malaysia. The Innovation Center in the Republic of Korea would serve as a foundation for sharing policy experiences to effectively enhance the innovation capacity of APEC SMEs. Malaysian SMEs can utilise the centre by exchanging information and best practices, as well as establishing networking with the SMEs in the APEC region.

Trade Facilitation

APEC's ongoing work on trade facilitation provides direct benefits to business through efficiency gains, increased transparency and greater consistency in regulations throughout the region.

APEC also developed a roadmap to further progress trade facilitation work in 2006. The roadmap includes key provisions to identify specific trade facilitation elements, common approaches, capacity building and efforts to collaborate with the business community to reduce transaction costs.

In 2005, APEC organised a workshop in Kuala Lumpur to enhance skills of trade officials in trade facilitation negotiations. The workshop aimed to improve awareness on trade regulations and fees and formalities applied on the movement of goods in line with the launching of multilateral negotiations on trade facilitation in the WTO.

Recognising the potential benefits from trade facilitation, in 2001 in Shanghai, APEC Leaders set the goal of reducing business transaction costs by an average of 5 per cent by 2006. The projected benefits from this reduction in the costs of doing business are estimated to be worth US$154 billion in Gross Domestic Product (GDP) for APEC member economies. Trade facilitation work in APEC comprises Customs procedures, standards, business mobility and e-commerce.

Within ASEAN, priority is also accorded towards implementing trade facilitation initiatives. Several ASEAN Mutual Recognition Arrangements (MRAs) were concluded in 2005. ASEAN is also working to establish and implement the ASEAN Single Window, which allows for a single channel clearance of goods for ASEAN 6 countries by 2008 and for the newer members of ASEAN by 2012. To further reduce impediments to intra-ASEAN trade, ASEAN is currently exploring the possibility of establishing an ASEAN Trade Facilitation Committee to pursue trade facilitation agenda in a concerted manner.

Anti-Corruption and Transparency

In 2005, APEC focused on developing a work programme to combat corruption and transparency, as mandated by APEC Leaders in 2004. APEC developed a matrix to catalogue, coordinate and facilitate capacity building efforts and assistance within APEC and international organisations on anti-corruption programmes.

APEC organised the First Anti-Corruption and Transparency Symposium in Seoul, the Republic of Korea, on 1 September 2005.

Box 11.1: Trade Facilitation Initiatives in APEC and ASEAN

Trade Facilitation Initiatives	Objectives	How it Facilitates Trade
STANDARDS		
ASEAN Mutual Recognition Arrangement for Engineering Services	• Signed on 9 December 2005. • To further strengthen the services initiatives in ASEAN. • To allow free movement of professionals in engineering services within the region. • To promote information exchange, encourage best practices and mutual recognition of professional qualifications in ASEAN.	• Recognition of qualifications and eligibility of professionals in the engineering services; and • Facilitates participation of Malaysian companies, in particular those involved in construction projects, in ASEAN countries, such as Cambodia, Lao PDR, Myanmar and Indonesia.
APEC Mutual Recognition Arrangement on Food	• Endorsed on 4 June 2003. • To exchange information on regulatory and procedural issues, standards and conformity assessments and inspection and certification requirements pertaining to trade in food. • Participating economies include Singapore, Thailand and Viet Nam.	• Promotes information sharing and transparency on food regimes among APEC economies.
ASEAN Mutual Recognition Arrangement for Electrical and Electronics Equipment	• Signed on 5 April 2002. • To enhance cooperation in the trade of electrical and electronics equipment in ASEAN, taking into account the health, safety and environmental aspects of electrical and electronics equipment.	• Development of a common regulatory regime and conformity assessment between ASEAN countries; and • Elimination of restrictions to trade caused by technical regulations.
APEC Mutual Recognition Arrangement on Electrical and Electronics Equipment	• Implemented in 1999. • To exchange information and recognise test reports and certificates of conformity issued by designated test facilities and conformity assessment bodies in other participating member economies with the objective of facilitating trade in regulated electrical and electronics equipment. • Participating economies include Australia, Brunei Darussalam, Chile, the People's Republic of China, Hong Kong, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, the Philippines, Russia, Singapore, Taiwan, Thailand and Viet Nam.	• Development of conformity assessment and elimination of restrictions to trade in electrical and electronics equipment.

continued ...

Trade Facilitation Initiatives	Objectives	How it Facilitates Trade
APEC Mutual Recognition Arrangement on Safety of Toys	• Implemented in 1998. • To exchange information pertaining to safety standards and test results of toys. • Participating economies include Australia, Brunei Darussalam, Canada, Chile, the People's Republic of China, Hong Kong, Indonesia, Japan, the Republic of Korea, Malaysia, Mexico, New Zealand, the Philippines, Russia, Singapore, Taiwan, Thailand and the USA.	• Provides information sharing and transparency on requirement for safety standards of toys among APEC economies.
APEC Mutual Recognition Arrangement on Telecommunications	• Endorsed in 1998. • To streamline the procedures for a wide range of telecommunications and telecommunications-related equipment. • Participating economies include Australia, Brunei Darussalam, Canada, the People's Republic of China, Hong Kong, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, Papua New Guinea, Peru, Singapore, Taiwan and the USA.	• By aligning telecommunications Standards, products can be brought into the market by up to six months earlier than before the MRA was implemented; and • Provides savings of at least 15 per cent of the cost to test and certify equipment.
CUSTOMS ASEAN Single Window	• Signed on 9 December 2005. • To ensure the expeditious clearance of imports through a single submission of data, single data processing and single customs release and clearance, in relation to trade activities within the region.	• Saves cost and time as it allows traders to lodge information to this single body to fulfil all import/export related regulatory requirements.
ASEAN Harmonised Tariff Nomenclature	• Implemented on 1 January 2004. • To harmonise Customs classification of products to facilitate export and import activities by member countries.	• Simplification of Customs procedures for traders.
APEC Customs and Trade Facilitation Handbook	• To enhance information sharing and transparency on Customs procedures among APEC economies.	• Provides information on Customs laws, regulations, administrative guidelines, rulings and contact information; and • Cooperative engagements each APEC Customs administration has with respective business sectors.

continued ...

Trade Facilitation Initiatives	Objectives	How it Facilitates Trade
BUSINESS MOBILITY APEC Business Travel Card	• Implemented since 1996. • To provide pre-clearance for frequent-travellers and businessmen. • Participating economies include Australia, Brunei Darussalam, Chile, the People's Republic of China, Hong Kong, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, Taiwan, Thailand and Viet Nam.	• Provides real savings in time, cost and convenience as there is no need to apply for individual visas or entry permits; and • Fast-tracked entry and exit through special APEC lanes at major international airports of participating economies.
PAPERLESS TRADING APEC PaperlessTrading Individual Action Plan	• Endorsed in 2002. • To provide a mechanism to track individual member economy's progress towards implementation of electronic data transfer to promote trade liberalisation.	• Provides information to business on paperless trading systems in APEC economies that enable trade-related documents on goods and services to be submitted online to a Government authority.
INVESTMENT APEC Investment Regime Guidebook	• To provide information on: - regulatory framework and investment facilities; - investment promotions and incentives; - summary of international investment agreements or codes to which an APEC member is a party; and - an assessment of recent trends in foreign investment.	• Provides clarity in regulations and procedures across different economies; • Assists Government officials to exchange information on each other's investment regimes; and • Provides business people and investors with information to better understand the regulations and procedures for doing business and investment in member economies.

Representatives from the government and private sectors participated in the symposium. Key highlights of the symposium included sharing of ideas and experiences on global anti-corruption strategies, initiatives for denial of safe haven, asset recovery and extradition and capacity building measures to implement anti-corruption policies. The Anti-Corruption Agency of Malaysia participated and shared Malaysia's anti-corruption strategies and experiences during the symposium.

Malaysia participated actively in the development of the anti-corruption work programme in APEC. The APEC anti-corruption plan focuses on information exchange (transparency), capacity building and best practices in the implementation of domestic and international commitments. Malaysia offered the Malaysian Anti-Corruption Academy as a regional training hub for APEC and other developing nations to undertake capacity building programmes. Malaysia signed the United Nations Convention on Anti-Corruption on 9 December 2003 in Mexico and is currently undertaking measures to ensure that necessary legislation is in place before ratifying it.

Securing Trade and Facilitating Cross-Border Business and Movement of Goods

While APEC is not a security forum, issues relating to security that have an impact on trade and investment need to be addressed. Within this context, Malaysia continued to support the initiatives or measures on counter terrorism, energy security, infectious diseases and emergency preparedness that would facilitate trade.

Counter Terrorism

Under the counter terrorism agenda, APEC endorsed:

- assessment of a major international airport of each economy to identify vulnerability to the Man-Portable Air Defence Systems and ways to overcome these risks;

- adoption of the International Atomic Energy Agency Code of Conduct on the Safety and Security of Radioactive Sources and the Guidelines on Import and Export of Radioactive Sources by 2006; and

- implementation of total supply chain security in 2006.

Malaysia, in endorsing these initiatives, highlighted the need to intensify capacity building initiatives and sharing of best practices to assist developing economies in implementing the security measures. For example, Malaysia can benefit from the sharing of best practices in total supply chain security to improve trade facilitation, efficiency, reducing cost of doing business and identifying gaps that currently exist in the domestic supply chain. Malaysia also suggested that APEC share and exchange information on the *modus operandi* of terrorist organisations and identifies the root causes of terrorism.

Energy Security

The focus on energy security was on addressing the increase in price of petroleum as a result of instability in supply and demand. Among the recommendations endorsed by APEC members were:

- increasing investments in the energy sector;

- adoption of energy saving measures; and

- diversification of sources, including identification of new energy and renewable sources.

Health Security

APEC endorsed the initiative on Preparing for and Mitigating an Influenza Pandemic to counter the spread of infectious diseases, including avian influenza that emerged as a serious economic threat in the region. This initiative is to promote cooperation among APEC economies to respond to the influenza pandemic through enhanced risk communication and public awareness, socio-economic assessment of the avian influenza mitigation and control strategies in birds, and enhanced capacity building in monitoring, surveillance and emergency response to transboundary animal diseases for prevention and control of an avian-origin pandemic at the source and beyond. Malaysia proposed for APEC members to develop cooperation programmes on stock piling of the vaccine and produce the vaccine at a reasonable cost.

Disaster Preparedness

As a response to natural disasters that had hit the Asia Pacific region, including the tsunami, APEC endorsed the APEC Strategy on Response to and Preparedness for Emergency and Natural Disasters. This initiative aims to identify gaps in the preparedness of APEC economies, as well as to identify ways for APEC economies to cooperate at the regional level. The implementation of this initiative, which includes early warning systems and best practices in emergency management, will enable economies to be better prepared for future natural disasters. Malaysia supported these activities and encouraged greater and timely sharing of information and best practices in disaster mitigation.

Capacity Building and Economic and Technical Cooperation

In 2005, Malaysia organised seven APEC capacity building seminars and workshops. Representatives from local industry associations, government officials and academicians participated in these activities.

In 2006, Malaysia will be hosting five APEC capacity building projects in the areas of human resource development, agriculture, food and professional services. On human resource development, emphasis will be on improving policy setting and promotion of research and development for SMEs to improve their export performance. The professional services project will examine the current differences in trade practices and regulations within APEC economies.

Malaysia will also collaborate with other APEC economies in organising 10 capacity building projects for implementation in 2006. These include social safety nets, education, climate information services, legal metrology, dispute resolution and standards.

Individual Action Plans

The Individual Action Plans serve as a roadmap for APEC economies to achieve the Bogor goals of free and open trade and investment in the APEC region. The Individual Action Plans contain liberalisation and facilitation measures undertaken by APEC

Table 11.1:
APEC Capacity Building Projects Organised in Malaysia, 2005

Project	Objective
Biosecurity Planning and Surveillance Capacity Building Workshop, 15-20 August 2005	• To create awareness and enhance capacity to design surveillance programmes for building information on health status of agricultural industries, native flora and for early detection of serious exotic pests; • To build understanding to engage in biosecurity planning as a means of containing transboundary movement of exotic pests; and • To strengthen capacity in implementing Sanitary Phytosanitary (SPS) measures in compliance with the requirements of the WTO SPS Agreement.
East Meets West: An International Colloquium for Educational Assessment, 13-15 September 2005	• To discuss issues pertaining to concepts, theories and best practices in educational assessment. • To narrow gap between developed and developing countries through education. • To improve teaching and learning methods through educational assessment.
Seminar on Maximising the Potential of Older Workforce, 22-23 September 2005	• To share best practices and knowledge in areas of policies, programmes and legislations among economies. • To formulate policy measures to provide opportunities for older workforce to be continuously active and productive in contributing to the economy. • To maximise older workforce potential in APEC economies.
APEC/WTO Rules of Origin, 11-15 April 2005	• To understand the concept and significance of Rules of Origin under the multilateral trading system. • To understand the present status of harmonisation of Rules of Origin in the WTO. • To understand product Specific Rules of Origin for products in the Customs Harmonised System (HS) Chapters.

continued ...

Project	Objective
Seminar on Market Risk Analysis, 18-22 July 2005	• To provide participants with a basic set of market risk analysis skills that are needed to understand and provide supervisory oversight of market risk.
Investigation and Enforcement Courses in the Area of Securities Regulations, 16-19 May 2005	• To strengthen national training programmes and improve coordination of regional and international training programmes in the area of investigation and enforcement, including market surveillance and internet fraud with a focus on preventative measures.
Seminar on Fundamentals of Interest Rate Risk Management, 3-7 October 2005	• To provide greater understanding of fundamentals of interest rate risk management.

members and provides useful information that could be used by businesses to plan and make business decisions.

In 2005, Malaysia's Individual Action Plans highlighted new liberalisation and facilitation measures. These include:

- allowing the exchange rate of the Ringgit to operate in a managed float, effective 21 July 2005;

- allowing up to 49 per cent foreign equity in investment banks and also in Islamic banking subsidiaries established by the conventional domestic banking groups;

- reduction of the simple average applied tariffs to 8.1 per cent from 8.6 in 2004; and

- increasing the percentage of Malaysian Standards aligned to international standards to 52 per cent (1,982 out of 3,825) as at September 2005, compared with 50 per cent for the same period in 2004 (1,770 out of 3,514).

APEC members are examined under the Individual Action Plan Peer Review process. The Peer Review process is an important mechanism, which allows APEC members to be fully apprised of the trade and investment liberalisation and facilitation measures within APEC. A review of Malaysia's Individual Action Plans was undertaken in 2005. The review described Malaysian policy makers as demonstrating considerable flair for policy innovation in promoting the development of new export industries and also stated that Malaysia deserves high credit for initiatives undertaken in meeting APEC's free trade and investment goals.

Strengthening APEC

APEC has been undertaking measures to streamline and improve the APEC work process. These include continuously reviewing its structure and work programme to achieve higher efficiency in the face of widening agenda and a need to maintain financial sustainability.

APEC's expanded agenda on non-trade issues could be duplicative with work of other international organisations. Therefore, the APEC work programme should be reviewed to ensure that the focus is on trade and economic matters, particularly in facilitation and capacity building. Key recommendations adopted in 2005 include an increase of members' annual contribution to ensure financial sustainability.

To evaluate and achieve greater effectiveness of the programmes of numerous working groups, APEC established the Steering Committee on Economic and Technical Cooperation (ECOTECH) to plan and implement the ECOTECH activities.

Business Sector Participation

The international business community assumes an important role in the APEC process by providing industry views and feedback. Such information has been useful in evolving APEC initiatives that enhance and facilitate business transactions in the APEC region. APEC currently interacts on broader policy issues with the business community, mainly through the APEC Business Advisory Council. Government-Business dialogues such as the Automotive Dialogue, Chemical Dialogue and the Non-Ferrous Metals Dialogue also provide additional channels for in-depth discussions on specific technical issues affecting the relevant industries.

The work programme of the Automotive Dialogue in 2005 included the development of targets and schedule of automotive emission regulations and fuel properties improvement, and simplification of Customs procedures. In 2005, Malaysia participated for the first time in the Automotive Dialogue peer review session. Presentations included background on the development of the domestic automotive industry, liberalisation measures introduced, issues and challenges faced by the industry and strategies to make the industry competitive in the long run. Malaysia will host the next APEC Automotive Dialogue Steering Committee Meeting in 2006.

As part of the work programme of the Chemical Dialogue, Malaysia has agreed to adopt and adapt the Globally Harmonised System of classification and labelling into Malaysia's chemical standards. This standard will be used as the future reference or guideline for industries or relevant Government ministries/agencies pertaining to hazard classification and labelling of chemicals and safety data sheets in Malaysia. The work programme of the Chemical Dialogue also included providing business sectors' views on the EU Registration, Evaluation and Authorisation of Chemicals (REACH) regulations.

ORGANISATION OF ISLAMIC CONFERENCE

Malaysia is the Chairman of the Organisation of the Islamic Conference (OIC) from 2003-2006. In assuming the chairmanship of OIC, one of its priorities is to complement OIC's political and social agenda by strengthening and raising the profile of trade and economic cooperation among OIC member countries. In line with this objective, Malaysia hosted the OIC Trade Forum, from 20-21 June 2005 and the OIC Trade Exhibition, from 20-24 June 2005, in conjunction with the Islamic Development Bank (IDB) Board of Governors 30th Annual Meeting at the Putrajaya International Convention Centre in Putrajaya.

The Forum with the theme, 'Maximising Intra-OIC Trade and Investment Linkages', was aimed at enhancing economic, trade and investment cooperation among OIC member countries. The Forum discussed issues relating to:

- enhancing intra-OIC trade - the way forward;
- harnessing market potential in the goods and services sectors in OIC countries;
- opportunities among OIC countries in the areas of *halal* products and services, tourism, construction and education services;
- promoting successful intra-OIC business ventures and alliances; and
- investment cooperation among OIC countries.

A total of 26 panelists and 1,374 participants from the public and private sectors in Malaysia and other OIC member countries participated in the Forum. Participants of other OIC member countries were from Indonesia, Bangladesh, Pakistan, Bahrain, Kuwait, Qatar, United Arab Emirates, Saudi Arabia, Yemen, Egypt, Kazakhstan, Kyrgystan, Uzbekistan, Tajikistan, Senegal and Nigeria.

Key recommendations made by the Forum to further enhance trade and economic cooperation among OIC members include:

- to adopt the Malaysian *Halal* Standard MS 1500:2004 as the standard for *halal* food certification by all OIC member countries;

- to focus on capacity building, particularly in the area of trade financing by the Islamic Development Bank (IDB);

- to develop an insurance scheme to promote security for foreign direct investments;

- to develop data linkages on investment between OIC member countries and explore the possibility of hosting a common OIC website for investment promotion by the Malaysian Industrial Development Authority (MIDA);

- to provide funding for agricultural projects by IDB and industrial projects by Islamic Cooperation for the Development of Private Sector;

- to adopt and promote the use of information and communication technology (ICT) to facilitate exports and sourcing of products and services;

- to disseminate information on the role of Islamic Cooperation for the Development of Private Sector to facilitate wider usage of its services; and

- to share success experiences in the economic area.

The recommendations were adopted at the 21st Session of the Standing Committee on Economic and Trade Cooperation (COMCEC) held from the 22-25 November 2005 in Istanbul, Turkey. The IDB and the Islamic Centre for Development of Trade (ICDT) were mandated to study the feasibility of implementing the recommendations.

The OIC Trade Exhibition attracted a total of 122 exhibitors that showcased products and services, namely ICT, Islamic banking, finance and insurance, construction, education, tourism and professional services. Business matching sessions were also arranged between buyers, sellers and potential investors. A total of 1,753 individual business meetings were held, involving 638 Malaysian exporters and importers, and 225 foreign exporters and importers from 34 other OIC countries.

In 2005, Malaysia initiated and implemented several capacity building and poverty alleviation programmes aimed at strengthening and intensifying trade and economic cooperation, as well as forging closer bilateral trade and economic relations between Malaysia and some OIC member countries. The programmes implemented include:

- capacity building in the palm oil industry in Sierra Leone;

- exploration of oil and mineral resources and capacity building in administration, planning and management functions in Mauritania;

- development of the fisheries sector in Bangladesh; and

- small enterprise and micro financing under *Syariah* Banking Scheme for the tsunami survivors in Aceh, Indonesia.

Between 2006-2008, a total of eight capacity building projects financed under the Malaysian Technical Cooperation Programme (MTCP) will be implemented. The projects and training programmes will focus on good practices on Customs procedures and trade facilitation, *halal* standards and conformance infrastructure for OIC countries, capacity building for human resource and development of SMEs and women entrepreneurs.

Malaysia tabled a resolution on the use of the Malaysian *Halal* Standard MS 1500:2004 as an international benchmark for *Halal* Food Certification at the 32nd Islamic Conference of Foreign Ministers held from the 28-30 June 2005 in Sana'a, Yemen. Malaysia is also working closely with the OIC Islamic Fiqh Academy to adopt the MS 1500:2004 Standard as an international benchmark for *halal* food certification.

The Framework Agreement on Trade Preferential System among OIC member countries (TPS-OIC) came into force in 2003. Malaysia signed the TPS-OIC on 30 June 2004 and ratified it on 23 August 2004. At the end of 2005, a total of 16 countries have signed and ratified the Framework Agreement, namely Bangladesh, Cameroon, Egypt, Guinea, Iran, Jordan, Lebanon, Libya, Malaysia, Pakistan, Senegal, Syria, Tunisia, Turkey, Uganda and United Arab Emirates.

Two meetings were held to discuss the draft Protocol on the Preferential Tariff Scheme (Protocol) of TPS-OIC covering tariff reduction modalities and implementation schedule of concessions. A Special Session of the Trade Negotiation Committee (TNC) held on 23 November 2005 finalised the Protocol and adopted by the 21st Ministerial Session of COMCEC held from 22-25 November 2005. Key areas agreed include:

- tariff reduction on 7 per cent of the total tariff lines having tariffs above 10 per cent;

- tariff reduction to be implemented in four annual installments for developing countries and in six annual installments for least developed countries (LDCs);

- immediate elimination of para-tariffs (border charges and fees, other than tariffs, on foreign trade transactions of a tariff-like effect that are levied solely on imports) and non-tariff barriers upon entry into force of the Protocol and longer transition period of three years for LDCs to eliminate their para-tariffs and non-tariff barriers;

- use of Rules of Origin agreed under the Framework Agreement until new rules of origin are adopted by the TNC; and

- safeguard measures taken, including anti-dumping, subsidies and countervailing measures to be consistent with relevant WTO rules.

The Special Session of the TNC also agreed to include in the Protocol of Malaysia's proposal for the Voluntary Fast Track Tariff Reduction modality for countries which are ready to offer wider product coverage with deeper tariff concessions at the end of the fifth year or earlier, after the coming into force of the Protocol.

Ratification by 10 member countries is required for the Protocol to come into force. As at 31 March 2005, five member countries, namely Malaysia, Egypt, Jordan, Tunisia and Turkey, have signed the Protocol. Malaysia signed the Protocol on 27 March 2006 and will complete the ratification process in June 2006.

OTHER REGIONAL ARRANGEMENTS

The Group of Developing Eight

The Group of Developing Eight (D-8), which comprises Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Turkey, has made substantive progress in economic cooperation. The most significant decision taken was to initiate the D8 Preferential Trade Agreement (D8-PTA), aimed at according preferential tariff concession for goods among the participating countries.

The Fourth High Level Trade Officials Meeting was held from 19-20 April 2005 in Ankara, Turkey. D-8 member countries continued discussions on key issues relating to tariff reduction modality, payments and transfers, as well as restrictions to safeguard the balance of payments.

At the Fifth High Level Trade Officials Meeting held from 5-6 January 2006 in Islamabad, Pakistan, Malaysia strongly urged for the accelerated implementation of the D8-PTA and also for deepening of tariff reduction. The proposals currently under consideration are:

- reduction of tariffs on 8 per cent of tariff lines having tariffs above 10 per cent;

- implementation of concession is four years for developing member countries and six years for less developed member countries;

- elimination of para-tariffs and non-tariff barriers for goods under concession immediately upon entry into force of the D8-PTA and within three years for least developed country members; and

- review of concessions three years after entry into force of the D8-PTA, with the objective of expanding product coverage and/or deepening concessions and shortening the implementation period.

The D-8 PTA was finalised at the Sixth High Level Trade Officials Meeting on 3-4 April 2006 in Bali, Indonesia. The Agreement was signed during the Fifth D-8 Summit in Bali on 13 May 2006.

United Nations Conference on Trade and Development

The 52nd UNCTAD Trade and Development Board Session was held in Geneva, Switzerland, from 3-14 October 2005. The Session discussed issues relating to lessons learnt from development and economic reform efforts in the 1990s, new trade and development perspective of interdependence and global economic issues.

The Third Round of Negotiations on the Global System of Trade Preferences among Developing Countries (GSTP) was launched at XI UNCTAD Conference in Sao Paulo, Brazil on 16 June 2004. This is aimed at reinvigorating South-South cooperation and enabling developing countries to undertake further liberalisation of trade among themselves.

In 2005, two Negotiating Groups on Market Access and Rule-Making were established and the groups commenced discussions on approaches, procedures and modalities of negotiations, as well as elements in Rules of Origin. Participating countries are required to identify and submit export interest lists for preferential tariff treatment. Negotiations are scheduled for completion by the end of 2006. However, negotiations are progressing slowly. The deadline of July 2005 passed, with only five countries submitting the lists of export interest.

Malaysia's participation in this Round will provide opportunity to diversify its exports to non-WTO member developing countries. Products of export interest to Malaysia include palm oil and related products, electrical and electronics products, crude petroleum and chemicals and chemical products.

UNCTAD also reviews the developments and issues in the post-Doha work programme that are of particular concern to developing countries. UNCTAD has stressed that the multilateral process should acknowledge economic development, which requires:

- flexibility in trade liberalisation;

- institutional innovations;

- investment in human capital and development-oriented infrastructure;

- universal access to essential services; and

- supply-side competitiveness.

Group of Fifteen

The Group of Fifteen (G-15) Federation of Commerce, Industry and Services held its 12th Annual Body Meeting in Cairo, Egypt from 19-20 June 2005. The Federation of Commerce, Industry and Services focused its discussions on the role of SMEs in promoting development in G-15 countries through the use of local resources.

The 13th G-15 Annual Body Meeting is scheduled to be held in Kuala Lumpur, hosted by the National Chamber of Commerce and Industry Malaysia from 22-24 May 2006. The meeting will focus on the enhancement of economic and trade cooperation among SMEs through an electronics marketplace.

The European Union

In 2005, the European Union (EU) focused on its internal integration process arising from the EU enlargement in May 2004 from 15 to 25 Member States. High unemployment and the need for economic reforms remain major concerns for Europe. Progress in these areas would also dictate its future growth potential and its position as an engine of growth of the world economy.

The EU has also been focusing on strengthening its domestic legislation on consumer safety. After more than two years of negotiations, the initial draft legislation on Registration, Evaluation and Authorisation of Chemicals (REACH) was endorsed by the Council of Ministers in December 2005. The text of the draft legislation is expected to be discussed by the European Parliament and the Council in 2006 before the scheduled implementation in 2007.

This regulation requires the registration of basic information for around 30,000 substances (all existing and new substances exceeding a production volume of one tonne) submitted by companies in a central database. In addition, information on products' properties and potential hazards to humans and the environment need to be provided.

The avian influenza threat in October 2005 prompted the European Commission to suspend imports of poultry related products from affected countries, including Malaysia. Other measures implemented include a ban on commercial imports of captive live birds from third countries, regulating movements of pet birds accompanying their owners and stockpiling of antiviral drugs. Malaysia is cooperating with the EU to rescind the ban on imports of poultry products invoked since October 2005.

In 2005, the former Yugoslav Republic of Macedonia initiated negotiations on the accession process to become an EU member country. Turkey and Croatia are currently involved in the accession process. Romania and Bulgaria are expected to accede to the EU either by 2007 or 2008.

Throughout 2005, the EU continued to engage actively with third country trading partners in FTA negotiations, including the on-going negotiations with the Gulf Cooperation Council (GCC) and with the Latin American Southern Cone Common Market (MERCOSUR). The EU has also initiated negotiations for a bilateral Partnership and Cooperation Agreement with three ASEAN countries, namely Indonesia, Singapore and Thailand.

Trade and investment relations between Malaysia and the EU have also been strengthened with the convening of the First Malaysia-European Commission Senior Officials Meeting on 24 May 2005 in Cyberjaya. This marks the beginning of an institutionalised dialogue on bilateral, regional and multilateral issues between Malaysia and the European Commission. Two Working Groups were established to discuss trade and investment, and cooperation issues.

The EU's trade with third countries is expected to grow with the implementation of the revised Generalised System of Preferences (GSP) Scheme, from 1 January 2006 - 31 December 2008. The revised Scheme offers increased preferential market access with the inclusion of nearly 300 additional products for eligible countries under three schemes, namely the General Arrangement, Special Arrangement for Least Developed Countries (Everything But Arms Scheme) and the Special Incentive Arrangement for Sustainable Development and Good Governance (GSP Plus Incentive Scheme).

Malaysia qualifies for preferential tariffs under the General Arrangement of the EU GSP. With effect from 1 January 2006, preferential tariffs have been reinstated for consumer electronics, plastic and rubber, wood, clothing, and cereals, malt and starches. Only animal or vegetable fats, oils and waxes, which are basically palm oil, remain graduated.

Asia-Europe Meeting

Following the postponement of the Economic Ministers' and Senior Officials Meetings on Trade and Investment (SOMTI) in 2003 and 2004, the 10th SOMTI was held in Qingdao, the People's Republic of China in July 2005. A High Level Senior Officials Meeting within the Framework of the Economic Ministers was held in September 2005 in Rotterdam. Various activities under the Trade Facilitation Action Plan were implemented by the Working Groups on:

- Customs Procedures;
- Standards and Conformity Assessment;
- Intellectual Property Rights; and
- Electronic Commerce.

Box 11.2: Revised European Union Generalised System of Preferences

INTRODUCTION

The European Union Generalised System of Preferences (EU GSP Scheme) is a scheme of preferential trading arrangements first introduced by the EU in 1971 to grant preferential market access for imports from developing countries and economies in transition into the EU. Malaysia is a recipient of preference under the EU GSP Scheme since its introduction.

In 2005, as an interim measure before a new Scheme is introduced, the EU announced a revised EU GSP Scheme for implementation from 1 January 2006 to 31 December 2008.

MAIN FEATURES OF THE REVISED EU GSP SCHEME

The main features of the revised EU GSP Scheme that came into force on 1 January 2006 are:

- eligible countries are offered preferential market access under three packages:

  (i) the basic General Arrangement involves reduction of duties by a preference margin of 3.5 per cent on MFN tariff rates for sensitive products while the duties are at zero tariffs for non-sensitive products. In the revised Scheme, coverage under the basic Arrangement has been expanded to 7,200 products, inclusive of additional 300 new products (mainly agriculture and fishery products). A total of 3,900 products offered under the basic Arrangement are considered sensitive;

  (ii) the Special Arrangement for Least Developed Countries (Everything but Arms) provides duty-free and quota-free market access to the world's 50 poorest countries for all products, except arms and ammunition; and

  (iii) the Special Incentive Arrangement for Sustainable Development and Good Governance (GSP Plus) offers tariff preferences of zero duty for a total of 7,200 products to countries which fulfil the following conditions:

  - poorly diversified and dependent on a limited range of exports;
  - GSP covered imports into the EU represents less than 1 per cent of total EU imports under GSP; and
  - have ratified and implemented 16 core conventions on human and labour rights and seven (out of 11) of the conventions related to good governance and the protection of the environment.

- 'Graduation' or withdrawal of GSP Scheme will take place when a product from a particular country exceeds 15 per cent of total EU imports of the same product group under GSP over the last three consecutive years. For textiles and clothing, the graduation threshold is set at 12.5 per cent of total EU imports.

Under the revised EU GSP Scheme, Malaysia only qualifies for the basic GSP Arrangement. From 1 January 2006, three product sectors that were previously graduated for Malaysia have been reinstated into the Scheme, namely plastics and rubber, wood and consumer electronics. Palm oil is the only product sector that still remains graduated for Malaysia.

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UTILISATION OF EU GSP SCHEME BY MALAYSIA

In 2005, the EU imports under the GSP Scheme amounted to RM192.6 billion (43.2 billion). The main beneficiaries of the Scheme were India, which accounted for 17.9 per cent of total EU imports under the GSP, followed by the People's Republic of China (10.3 per cent), Brazil (7.7 per cent), Thailand (5.6 per cent) and Viet Nam (5.6 per cent).

Of RM10.3 billion Malaysia's exports in 2005 to the EU which were eligible for preferential treatment, only RM6.2 billion or 60 per cent were exported under the Scheme. This accounted for only 3.2 per cent of total EU imports under the GSP.

Product sectors from Malaysia with the highest GSP utilisation rates were chemical products (except fertilisers) with a share of 26 per cent of Malaysia's total preferential exports, followed by electro-mechanics (24 per cent), fishery products (6.6 per cent), textiles (6.3 per cent) and base metals (5.9 per cent). Other products exported under the Scheme were air-conditioning machines, vacuum cleaners, plastic toys, and electrical machines and apparatus.

The relatively low utilisation rate of the EU GSP Scheme by Malaysia is attributed to:

- the low preference margin of 3.5 per cent offered for sensitive products under the Scheme is deemed as not attractive by Malaysian exporters;
- EU importers find the low margin of preference given to products as not appealing and are therefore not requesting exporters to submit GSP documents when they export to the EU; and
- the current stringent and complex Rules of Origin requirements.

Why Should Exporters Use the Revised EU GSP Scheme
Malaysian exporters are encouraged to avail themselves of the revised GSP Scheme to enhance the export competitiveness of their products to the EU market. The revised Scheme provides:

- the best market access terms into the EU market, particularly for eligible products which are considered non-sensitive as they enjoy zero per cent tariffs;
- a more simplified and transparent graduation mechanism;
- preferences for additional 300 new products, mainly agriculture and fishery products;
- a competitive edge for similar products which are already graduated from competing countries, for example, the People's Republic of China; and
- certainty and predictability to exporters, due to the unchanged nature of the Scheme for a period of three years, until 31 December 2008.

The EU is in the process of reviewing its overall Rules of Origin criteria, including those that govern GSP eligibility. Greater flexibility on Rules of Origin is being considered, including facilitating regional cummulation where members of a regional group can combine inputs from other countries of the same group to encourage greater utilisation of the GSP Scheme. The new Rules of Origin is expected to be implemented in 2007.

CONCLUSION

In availing the EU GSP Scheme, the business community is requested to comply with the rules established by the EU. There have been cases where the GSP privileges were misused by exporters, including the use of forged GSP 'A' forms and exports of products from countries not eligible under the GSP as originating from Malaysia. Misuse of the privilege will have a negative impact on the overall image of Malaysia as a reliable trading partner.

For further information on the revised EU GSP Scheme:

http://www.europa.eu.int/comm/trade/issues/global/gsps/legis/index_en.htm

http://delmys.cec.eu.int/en/eu_malaysia_relations/GSP

On Customs procedures, the Working Group continued to implement the Trade Facilitation Action Plan Deliverables for 2004-2006. In the area of standards and conformity, the group intensified its efforts on information exchange by setting up a network of contact points, and exchanged views on a technical assistance programme, including identifying key products for alignment with international standards. On e-commerce, the People's Republic of China will host the Fifth Asia-Europe Meeting (ASEM) E-Commerce Conference in 2006. ASEM partners also agreed to concentrate on a limited set of high priority areas where immediate action could contribute to reducing or eliminating barriers.

The High Level Meeting endorsed three new initiatives to be pursued in 2006:

- Forum and Exhibition on Tourism and Investment (led by the People's Republic of China and Portugal);

- Seminar on Tourism (led by Portugal and the People's Republic of China); and

- Seminar on Energy Efficiency (led by Japan and the EU).

In the area of financial cooperation, the Sixth ASEM Finance Ministers Meeting held in Tianjin, the People's Republic of China in June 2005 adopted the Tianjin Initiative on Closer ASEM Economic and Financial Cooperation. Under this initiative, the Finance Ministers agreed to strengthen the ASEM economic and financial cooperation through enhanced policy dialogue, technical assistance and by examining new approaches in further enhancing the Asia-Europe ties. The Tianjin Initiative also agreed to establish an ASEM Contingency Dialogue Mechanism for Emergent Economic and Financial Events to undertake timely consultations and coordination in responding to emergencies. The Finance Ministers also noted the important role of the ASEM Trust Fund in enhancing financial cooperation between Asia and Europe. The Ministers have tasked officials to undertake a review of the ASEM Trust Fund and explore options for future funding modalities.

To enhance Asia-Europe Meeting, ASEM members have agreed to the establishment of an ASEM Virtual Secretariat. On private sector participation in ASEM, it was agreed that the current mechanism of private and public sector interactions through the Asia-Europe Business Forum need to be strengthened.

The Sixth ASEM Summit will be held in September 2006 in Helsinki and it is expected that the Leaders will discuss key issues relating to Asia-Europe cooperation, including issues related to energy, competitiveness and globalisation.

North America Free Trade Area

The USA's trade with the other two members of the North America Free Trade Area (NAFTA), namely Canada and Mexico, accounts for 98 per cent of intra-NAFTA trade. For the period January to November 2005, US-NAFTA trade recorded an increase of 10.3 per cent to US$721.8 billion, compared with US$654.4 billion for the corresponding period in 2004. For the period January to November 2005, the USA's exports was valued at US$303.8 billion and imports at US$418 billion to NAFTA countries.

Among implementation problems faced by this regional group concerns the USA's imposition of 27 per cent duty on Canadian softwood lumber products. While the NAFTA tribunal has ruled that the terms of the treaty provides for duty elimination, the USA has not implemented this decision.

Individually, the NAFTA countries continued to pursue trade liberalisation through bilateral FTAs in 2005. The US Congress ratified the Central American Free Trade Area Agreement (Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua). FTAs negotiated and awaiting ratification by the US Congress are with Bahrain, Oman and two members of the

Andean Group, Colombia and Peru. On-going negotiations are with Southern African Customs Union (Botswana, Lesotho, Namibia, South Africa and Swaziland), Panama, Andean Group (Colombia, Peru and Ecuador), Thailand and the United Arab Emirates. The USA has also announced its intention to pursue FTAs with Malaysia and the Republic of Korea. Negotiations are expected to begin in mid-2006.

Canada has on-going FTA negotiations with El Salvador, Guatemala, Honduras, Nicaragua, the Republic of Korea, Singapore, Dominican Republic, Andean Countries (Bolivia, Colombia, Ecuador, Peru and Venezuela), Caribbean Community and Common Market (CARICOM) and the European Free Trade Association (EFTA), and is conducting a joint study with Japan on further trade liberalisation between both countries. Mexico has initiated negotiations with the Republic of Korea and Singapore.

South Asian Association for Regional Cooperation

The members of the South Asian Association for Regional Cooperation (SAARC), comprising India, Pakistan, Sri Lanka, Bangladesh, Bhutan, Maldives and Nepal, signed the South Asian Free Trade Area (SAFTA) Agreement in January 2004.

The SAFTA Agreement, originally scheduled for implementation in January 2006, has been postponed due to the delay in the ratification process. Individual member countries are expected to announce the enforcement date between January and June 2006. Except for Pakistan and Sri Lanka, SAFTA has already been ratified by the other SAARC member states.

The Agreement provides for the liberalisation of trade in goods, which is scheduled for completion by 2016, where tariffs on products from the region will be progressively reduced to 0 to 5 per cent.

There are two stages of tariff reduction for India, Pakistan and Sri Lanka:

- reduce existing tariff rates to 20 per cent within two years from the date of entry into force of the Agreement; and

- subsequent tariff reduction from 20 per cent or below, to 0 to 5 per cent, shall be done within a second time frame of five years for India and Pakistan, and six years for Sri Lanka, beginning from the third year from the date of entry into force.

Under the Early Harvest Programme, India, Pakistan and Sri Lanka will be reducing their Customs duties to 0 to 5 per cent by 1 January 2009, on products imported from Bangladesh, Bhutan, Maldives and Nepal, which will reduce:

- existing tariff rates to 30 per cent within the timeframe of two years from the date of entry into force of the Agreement; and

- subsequent tariff reduction from 30 per cent or below to 0 to 5 per cent shall be done within a second timeframe of eight years, beginning from the third year from the date of entry into force.

Under the Agreement, each country is allowed to maintain a number of items, which is not offered for concession. The SAFTA Agreement also provides for special and differential treatment for Bangladesh, Bhutan, Maldives and Nepal.

Latin American Southern Cone Common Market

In 2005, Venezuela was accepted as a full member of the Latin American Southern Cone Common Market (*Mercado Común del Sur* - MERCOSUR), comprising Brazil, Argentina, Paraguay and Uruguay. Potential members to this grouping are Bolivia, Chile, Colombia, Ecuador and Peru.

MERCOSUR has a market size of 220 million consumers and a combined GDP of more than US$1 trillion. In 2004, trade within MERCOSUR expanded by 34 per cent to US$17.1 billion, while MERCOSUR's trade with the rest of the world grew by 27.7 per cent to US$135.5 billion. Canada and the USA are the major import and export destinations.

At the Summit of the Americas in Argentina in November 2005, MERCOSUR countries agreed to defer negotiations on the Free Trade Area of the Americas due to concerns on US farm subsidies. Similar concerns with the EU has also resulted in MERCOSUR deferring FTA discussions with the EU, after the Sixth WTO Ministerial in Hong Kong in December 2005.

MERCOSUR and the Republic of Korea are currently undertaking a joint study on a MERCOSUR-Korea Trade Agreement, which is expected to be completed in mid-2006. MERCOSUR and India are also currently negotiating an FTA.

Indian Ocean Rim-Association for Regional Cooperation

The Indian Ocean Rim-Association for Regional Cooperation (IOR-ARC) was established in 1997 to enhance economic cooperation, trade and investment among the Indian Ocean Rim countries. As at 2005, IOR-ARC member countries totalled 18, comprising Australia, Bangladesh, India, Indonesia, Iran, Kenya, Madagascar, Malaysia, Mauritius, Mozambique, Oman, Singapore, South Africa, Sri Lanka, Tanzania, Thailand, United Arab Emirates and Yemen.

In 2005, IOR-ARC continued to implement activities related to trade and investment promotion, fisheries development, tourism development and professional exchange programmes. Two significant IOR-ARC activities undertaken were the Workshop on Disaster Mitigation and Management, Tropical Cyclones Related Issues held in New Delhi, India, from 16-17 March 2005, and the First Meeting of the Fisheries Focal Points held in Oman, from 2-4 May 2005.

In the construction sector, Malaysia organised a Seminar on Exploring Global Construction Opportunities on 16 September 2005 in Kuala Lumpur. The seminar among others, has facilitated focal points from both the public and private sectors to identify and explore construction business opportunities and collaboration. This seminar was attended by representatives from the public and private sectors, involved in engineering, finance and banking.

The Sixth IOR-ARC Council of Ministers Meeting held from 21-22 February 2006 in Tehran, Iran, agreed to:

- implement short-term and visible projects;
- proceed to establish a Preferential Trade Agreement spearheaded by Iran, Kenya, Mauritius, Oman, Sri Lanka and Yemen, while the others may decide to join at a later stage;
- enlist country-based foreign direct investment and to take a lead role in promoting investment in IOR-ARC countries;
- hold an Economic Summit for leading business executives of IOR-ARC as part of the IOR-ARC 10th year celebrations in 2007;
- establish links among existing early warning systems that have been set in most Member States and carry out exchange of information and technical expertise; and
- assign Heads of Diplomatic Missions of the IOR-ARC countries based in Pretoria, South Africa as a working group to review the periodic work programme.

OUTLOOK

The diversity of APEC economies and the wealth of expertise and experience available across a broad range of issues provide Malaysia with ample opportunities for information sharing, sourcing of new knowledge and building capacity. Therefore, it is important for Malaysia to continue to participate actively in APEC discussions to ensure that agreed initiatives, targets and deadlines are realistic, practical and incorporate the principles of flexibility, voluntarism and best endeavour, which form the foundation of APEC consultation and collaboration.

The TPS-OIC has created greater opportunities in trade and investment, as well as economic cooperation among OIC countries. The speedy implementation of TPS-OIC and the finalisation of D-8 PTA will expedite the expansion of intra-OIC trade and investment linkages. More OIC countries are expected to participate in the TPS-OIC as they become aware of the potential benefits of membership.

Malaysia will continue to support OIC initiatives and efforts in promoting the economic development of OIC member states. To further strengthen bilateral relations with these countries, Malaysia is also seriously considering entering into FTAs with individual OIC member countries.

APPENDICES

Appendix 1 Organisations And Groupings - Membership

Organisation/ Grouping	Member Countries/Economies
APEC	Australia, Brunei Darussalam, Canada, Chile, People's Republic of China, Hong Kong, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, Taiwan, Thailand, United States of America and Viet Nam.
ASEAN	Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.
ASEAN-CER	ASEAN, Australia and New Zealand.
CEFTA	Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia.
COMMONWEALTH	Antigua and Barbuda, Australia, Bahamas, Bangladesh, Barbados, Belize, Botswana, Brunei Darussalam, Cameroon, Canada, Cyprus, Dominica, Fiji Islands, Gambia, Ghana, Grenada, Guyana, India, Jamaica, Kenya, Kiribati, Lesotho, Malawi, Malaysia, Maldives, Malta, Mauritius, Mozambique, Namibia, Nauru, New Zealand, Nigeria, Pakistan, Papua New Guinea, St. Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Seychelles, Sierra Leone, Singapore, Solomon Islands, South Africa, Sri Lanka, Swaziland, Tanzania, Tonga, Trinidad and Tobago, Tuvalu, Uganda, United Kingdom, Vanuatu, Western Samoa and Zambia.
D-8	Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Turkey.
EAEC	ASEAN, People's Republic of China, Japan and Republic of Korea.
ECO	Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkey, Turkmenistan and Uzbekistan.
EU	Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden and United Kingdom.
G-15	Algeria, Argentina, Brazil, Chile, Egypt, India, Indonesia, Jamaica, Kenya, Malaysia, Mexico, Nigeria, Peru, Sri Lanka, Senegal, Venezuela and Zimbabwe.
GCC	Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.
IOR-ARC	Australia, Bangladesh, India, Indonesia, Iran, Kenya, Madagascar, Malaysia, Mauritius, Mozambique, Oman, the Seychelles, Singapore, South Africa, Sri Lanka, Tanzania, Thailand, United Arab Emirates and Yemen.
MERCOSUR	Argentina, Brazil, Paraguay, Uruguay and Venezuela.
NAFTA	Canada, Mexico and United States of America.

Continued ...

Organisation/ Grouping	Member Countries/Economies
NAM	Afghanistan, Central African Republic, Algeria, Angola, Bahamas, Bahrain, Bangladesh, Barbados, Belarus, Belize, Benin, Bhutan, Bolivia, Botswana, Brunei Darussalam, Burkina Faso, Burundi, Cambodia, Cameroon, Cape Verde, Chad, Chile, Colombia, Comoros, Congo, Cote d'Ivore, Cuba, Democratic Republic of Congo, Djibouti, Dominican Republic, Ecuador, Egypt, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Grenada, Guatemala, Guinea, Guinea-Bissau, Guyana, Honduras, India, Indonesia, Iran, Iraq, Jamaica, Jordan, Kenya, Democratic People's Republic of Korea, Kuwait, Lao PDR, Lebanon, Lesotho, Liberia, Libya, Madagascar, Malawi, Malaysia, Maldives, Mali, Mauritania, Mauritius, Mongolia, Morocco, Mozambique, Myanmar, Namibia, Nepal, Nicaragua, Niger, Nigeria, Oman, Pakistan, Palestine, Panama, Papua New Guinea, Peru, the Philippines, Qatar, Rwanda, Saint Lucia, Saint Vincent and the Grenadines, Sao Tome and Principe, Saudi Arabia, Senegal, Seychelles, Sierra Leone, Singapore, Somalia, South Africa, Sri Lanka, Sudan, Suriname, Swaziland, Syria, Tanzania, Thailand, Timor Leste, Togo, Trinidad and Tobago, Tunisia, Turkmenistan, Uganda, United Arab Emirates, Uzbekistan, Vanuatu, Venezuela, Viet Nam, Yemen, Zambia and Zimbabwe.
OECD	Austria, Australia, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Republic of Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovakia, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States of America.
OIC	Afghanistan, Albania, Algeria, Azerbaijan, Bahrain, Bangladesh, Benin, Brunei Darussalam, Burkina Faso, Cameroon, Chad, Comoros, Cote d'Ivoire, Djibouti, Egypt, Gabon, Gambia, Guinea, Guinea-Bissau, Guyana, Indonesia, Iran, Iraq, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Lebanon, Libya, Malaysia, Maldives, Mali, Mauritania, Morocco, Mozambique, Niger, Nigeria, Oman, Pakistan, Palestine, Qatar, Saudi Arabia, Senegal, Sierra Leone, Somalia, Sudan, Suriname, Syria, Tajikistan, Togo, Tunisia, Turkey, Turkmenistan, Uganda, United Arab Emirates, Uzbekistan and Yemen.
SAARC	Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.
SADC	Angola, Botswana, Democratic Republic of the Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.
WTO	Albania, Angola, Antigua and Barbuda, Argentina, Armenia, Australia, Austria, Bahrain, Bangladesh, Barbados, Belgium, Belize, Benin, Bolivia, Botswana, Brazil, Brunei Darussalam, Bulgaria, Burkina Faso, Burundi, Cambodia, Cameroon, Canada, Central African Republic, Chad, Chile, People's Republic Of China, Colombia, Congo, Costa Rica, Cote d'Ivoire, Croatia, Cuba, Cyprus, Czech Republic, Democratic Republic of the Congo, Denmark, Djibouti, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Estonia, European Community, Fiji, Finland, Former Yugoslav Republic of Macedonia, France, Gabon, Gambia, Georgia, Germany, Ghana, Greece, Grenada, Guatemala, Guinea, Guinea Bissau, Guyana, Haiti, Honduras, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Jamaica, Japan, Jordan, Kenya, Republic of Korea, Kuwait, Kyrgyzstan, Latvia, Lesotho, Liechtenstein, Lithuania, Luxembourg, Macau, Madagascar, Malawi, Malaysia, Maldives, Mali, Malta, Mauritania, Mauritius, Mexico, Moldova, Mongolia, Morocco, Mozambique, Myanmar, Namibia, Nepal, the Netherlands, New Zealand, Nicaragua, Niger, Nigeria, Norway, Oman, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, the Philippines, Poland, Portugal, Qatar, Romania, Rwanda, St. Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Saudi Arabia, Senegal, Sierra Leone, Singapore, Slovakia, Slovenia, Solomon Islands, South Africa, Spain, Sri Lanka, Suriname, Swaziland, Sweden, Switzerland, Taiwan, Tanzania, Thailand, Togo, Trinidad and Tobago, Tunisia, Turkey, Uganda, United Arab Emirates, United Kingdom, United States of America, Uruguay, Venezuela, Zambia and Zimbabwe.

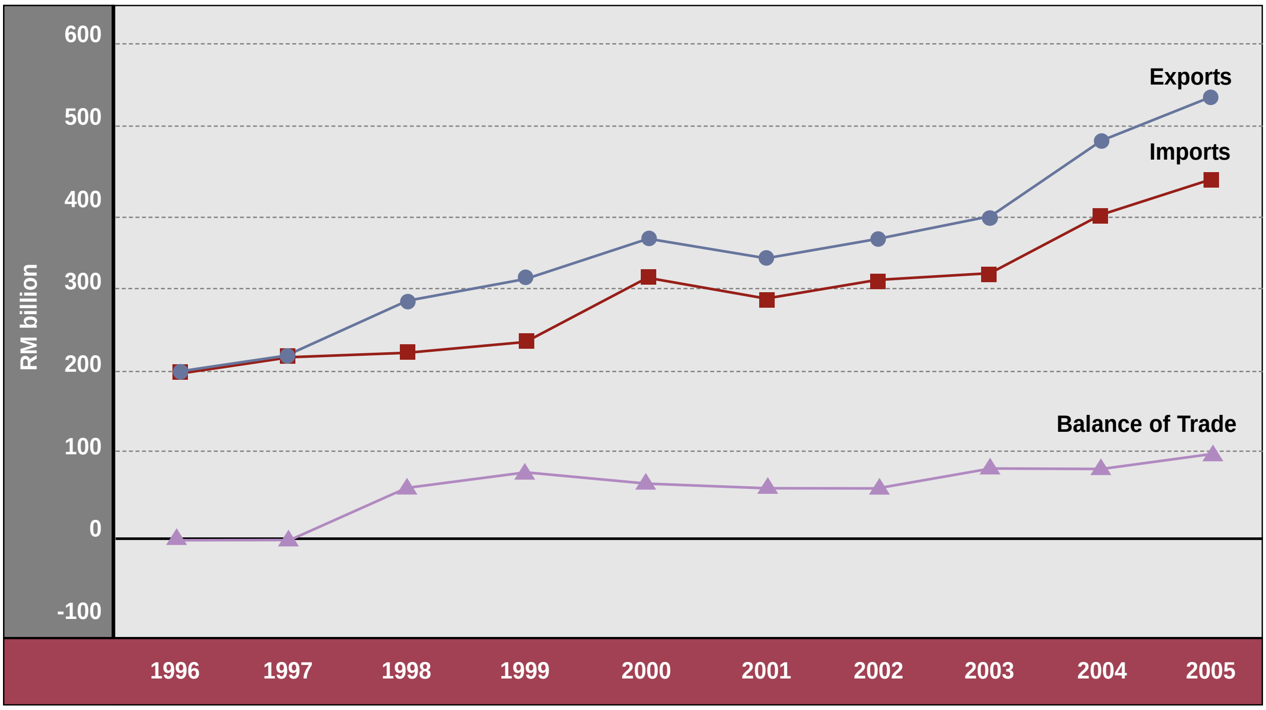
Appendix 2 Statistical Tables - Trade

Table 1:
Annual Trade, 1996-2005

Period	Total Trade	Exports	Imports	Balance of Trade
	(RM million)			
2005	967,797.7	533,787.8	434,009.9	99,777.9
2004	880,817.2	480,740.3	400,076.8	80,663.5
2003	714,422.2	397,884.4	316,537.9	81,346.5
2002	660,520.5	357,430.0	303,090.5	54,339.6
2001	614,512.9	334,283.8	280,229.1	54,054.7
2000	684,729.2	373,270.3	311,458.9	61,811.4
1999	570,036.4	321,559.5	248,476.8	73,082.7
1998	514,687.6	286,563.1	228,124.5	58,438.6
1997	441,825.9	220,890.4	220,935.5	-45.0
1996	394,305.9	197,026.1	197,279.8	-253.7

Compiled by Ministry of International Trade and Industry

Chart 1:
Annual Trade, 1996 - 2005



Compiled by Ministry of International Trade and Industry

Table 2 :
Trade with Major Trading Partners, 2004-2005

Country	2005							2004						
	Total Trade (RM million)	Share (%)	Exports (RM million)	Share (%)	Imports (RM million)	Share (%)	Balance of Trade (RM million)	Total Trade (RM million)	Share (%)	Exports (RM million)	Share (%)	Imports (RM million)	Share (%)	Balance of Trade (RM million)
Total	**967,797.7**	**100.0**	**533,787.8**	**100.0**	**434,009.9**	**100.0**	**99,777.9**	**880,817.2**	**100.0**	**480,740.3**	**100.0**	**400,076.8**	**100.0**	**80,663.5**
USA	160,951.2	16.6	105,032.9	19.7	55,918.3	12.9	49,114.7	148,061.5	16.8	90,181.5	18.8	57,880.0	14.5	32,301.5
Singapore	134,161.4	13.9	83,333.4	15.6	50,827.9	11.7	32,505.5	116,653.4	13.2	72,176.4	15.0	44,477.0	11.1	27,699.5
Japan	112,899.4	11.7	49,917.7	9.4	62,981.7	14.5	-13,063.9	112,289.4	12.7	48,552.5	10.1	63,736.9	15.9	-15,184.4
People's Republic of China	85,101.4	8.8	35,221.0	6.6	49,880.4	11.5	-14,659.3	71,438.2	8.1	32,148.5	6.7	39,289.7	9.8	-7,141.2
Thailand	51,612.0	5.3	28,722.9	5.4	22,889.1	5.3	5,833.7	44,950.3	5.1	22,953.9	4.8	21,996.5	5.5	957.4
Hong Kong	42,001.8	4.3	31,205.3	5.8	10,796.5	2.5	20,408.8	39,545.9	4.5	28,685.8	6.0	10,860.1	2.7	17,825.7
Republic of Korea	39,548.7	4.1	17,944.7	3.4	21,604.1	5.0	-3,659.4	36,706.4	4.2	16,838.7	3.5	19,867.7	5.0	-3,029.0
Taiwan	38,786.9	4.0	14,813.4	2.8	23,973.5	5.5	-9,160.2	37,413.6	4.2	15,763.0	3.3	21,650.7	5.4	-5,887.7
Germany	30,524.0	3.2	11,258.5	2.1	19,265.5	4.4	-8,006.9	28,355.5	3.2	10,485.4	2.2	17,870.1	4.5	-7,384.7
Indonesia	29,145.4	3.0	12,579.7	2.4	16,565.7	3.8	-3,986.0	27,613.3	3.1	11,677.2	2.4	15,936.2	4.0	-4,259.0
Australia	26,213.2	2.7	18,042.4	3.4	8,170.8	1.9	9,871.6	22,575.9	2.6	15,782.8	3.3	6,793.2	1.7	8,989.6
Netherlands	20,802.3	2.1	17,451.6	3.3	3,350.8	0.8	14,100.8	19,194.6	2.2	15,759.8	3.3	3,434.8	0.9	12,325.0
Philippines	19,667.9	2.0	7,475.9	1.4	12,192.0	2.8	-4,716.1	18,072.7	2.1	7,362.3	1.5	10,710.4	2.7	-3,348.0
India	19,135.6	2.0	14,971.8	2.8	4,163.8	1.0	10,808.0	16,307.8	1.9	11,410.5	2.4	4,897.3	1.2	6,513.1
UK	15,992.1	1.7	9,470.1	1.8	6,522.0	1.5	2,948.1	17,195.7	2.0	10,556.3	2.2	6,639.4	1.7	3,916.8
France	12,572.7	1.3	6,912.6	1.3	5,660.1	1.3	1,252.5	12,624.5	1.4	7,081.1	1.5	5,543.4	1.4	1,537.7
United Arab Emirates	9,831.8	1.0	6,993.3	1.3	2,838.5	0.7	4,154.8	7,619.7	0.9	5,903.1	1.2	1,716.6	0.4	4,186.5
Viet Nam	8,257.7	0.9	4,392.1	0.8	3,865.6	0.9	526.5	6,538.4	0.7	4,333.9	0.9	2,204.6	0.6	2,129.3
Saudi Arabia	7,651.2	0.8	1,792.0	0.3	5,859.3	1.4	-4,067.3	5,574.4	0.6	1,830.7	0.4	3,743.7	0.9	-1,913.0
Italy	7,368.0	0.8	2,673.8	0.5	4,694.2	1.1	-2,020.3	6,530.2	0.7	2,914.4	0.6	3,615.7	0.9	-701.3
Switzerland	5,437.5	0.6	746.4	0.1	4,691.2	1.1	-3,944.8	4,511.6	0.5	660.0	0.1	3,851.5	1.0	-3,191.5
Canada	4,979.7	0.5	2,846.9	0.5	2,132.8	0.5	714.2	4,770.1	0.5	3,011.1	0.6	1,759.0	0.4	1,252.2
Ireland	4,475.9	0.5	1,789.8	0.3	2,686.1	0.6	-896.3	3,687.9	0.4	1,443.8	0.3	2,244.1	0.6	-800.3
Belgium	3,464.1	0.4	2,039.4	0.4	1,424.8	0.3	614.6	3,655.8	0.4	2,118.5	0.4	1,537.3	0.4	581.1
Russia	3,440.7	0.4	1,803.9	0.3	1,636.8	0.4	167.1	3,328.0	0.4	1,545.7	0.3	1,782.3	0.4	-236.6
Brazil	3,391.2	0.4	1,413.3	0.3	1,977.9	0.5	-564.5	2,510.5	0.3	1,213.0	0.3	1,297.5	0.3	-84.5
New Zealand	3,316.9	0.3	2,033.5	0.4	1,283.4	0.3	750.1	2,982.1	0.3	1,687.4	0.4	1,294.7	0.3	392.7

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Country	2005							2004						
	Total Trade (RM million)	Share (%)	Exports (RM million)	Share (%)	Imports (RM million)	Share (%)	Balance of Trade (RM million)	Total Trade (RM million)	Share (%)	Exports (RM million)	Share (%)	Imports (RM million)	Share (%)	Balance of Trade (RM million)
Sweden	3,272.1	0.3	815.9	0.2	2,456.2	0.6	-1,640.4	3,717.5	0.4	743.8	0.2	2,973.6	0.7	-2,229.8
South Africa	3,250.2	0.3	2,164.0	0.4	1,086.2	0.3	1,077.8	3,092.6	0.4	1,816.7	0.4	1,275.9	0.3	540.8
Spain	3,179.5	0.3	2,209.6	0.4	969.9	0.2	1,239.7	3,079.1	0.3	2,257.8	0.5	821.3	0.2	1,436.5
Mexico	3,058.0	0.3	2,547.5	0.5	510.4	0.1	2,037.1	3,004.2	0.3	2,493.6	0.5	510.6	0.1	1,983.0
Pakistan	3,017.8	0.3	2,803.6	0.5	214.2	neg.	2,589.5	2,870.9	0.3	2,664.9	0.6	206.0	0.1	2,458.9
Finland	2,717.1	0.3	1,891.8	0.4	825.3	0.2	1,066.4	1,754.5	0.2	1,063.1	0.2	691.4	0.2	371.6
Argentina	2,711.6	0.3	389.1	0.1	2,322.5	0.5	-1,933.4	1,683.2	0.2	252.9	0.1	1,430.3	0.4	-1,177.4
Iran	2,676.4	0.3	1,357.9	0.3	1,318.5	0.3	39.4	2,296.6	0.3	1,314.3	0.3	982.3	0.2	332.0
Turkey	2,293.7	0.2	2,024.2	0.4	269.5	0.1	1,754.7	1,722.5	0.2	1,511.8	0.3	210.7	0.1	1,301.0
Oman	2,237.9	0.2	306.8	0.1	1,931.1	0.4	-1,624.2	1,781.6	0.2	271.5	0.1	1,510.1	0.4	-1,238.6
Egypt	1,869.8	0.2	1,730.1	0.3	139.7	neg.	1,590.4	1,505.7	0.2	1,388.6	0.3	117.1	neg.	1,271.5
Sri Lanka	1,700.3	0.2	1,659.6	0.3	40.7	neg.	1,618.9	1,338.2	0.2	1,311.0	0.3	27.2	neg.	1,283.8
Bangladesh	1,632.8	0.2	1,550.2	0.3	82.6	neg.	1,467.7	1,448.8	0.2	1,384.1	0.3	64.8	neg.	1,319.3
Hungary	1,601.8	0.2	1,425.5	0.3	176.2	neg.	1,249.3	2,411.7	0.3	2,277.8	0.5	133.9	neg.	2,143.9
Kuwait	1,494.4	0.2	462.7	0.1	1,031.7	0.2	-569.0	666.7	0.1	410.2	0.1	256.5	0.1	153.7
Austria	1,472.8	0.2	933.8	0.2	539.0	0.1	394.9	1,435.2	0.2	900.2	0.2	535.0	0.1	365.2
Myanmar	1,435.4	0.1	929.2	0.2	506.1	0.1	423.1	973.6	0.1	567.5	0.1	406.1	0.1	161.5
Brunei Darussalam	1,386.2	0.1	1,337.1	0.3	49.1	neg.	1,288.0	1,256.7	0.1	1,202.8	0.3	53.9	neg.	1,148.9
Denmark	1,300.1	0.1	717.6	0.1	582.4	0.1	135.2	1,151.9	0.1	612.3	0.1	539.6	0.1	72.7
Portugal	1,118.6	0.1	682.8	0.1	435.8	0.1	246.9	926.8	0.1	308.4	0.1	618.3	0.2	-309.9
Costa Rica	1,038.7	0.1	164.5	neg.	874.3	0.2	-709.8	870.0	0.1	144.9	neg.	725.1	0.2	-580.2
Ukraine	967.3	0.1	559.5	0.1	407.8	0.1	151.7	479.4	0.1	286.5	0.1	192.9	neg.	93.7
Czech Rep.	957.6	0.1	730.5	0.1	227.1	0.1	503.3	786.2	0.1	576.7	0.1	209.4	0.1	367.3
Chile	893.5	0.1	328.9	0.1	564.6	0.1	-235.7	883.0	0.1	361.1	0.1	521.9	0.1	-160.8
Nigeria	748.1	0.1	697.0	0.1	51.1	neg.	646.0	225.0	neg.	209.0	neg.	16.0	neg.	193.0
Poland	687.0	0.1	479.6	0.1	207.4	neg.	272.2	722.6	0.1	435.3	0.1	287.3	0.1	147.9
Yemen	636.1	0.1	450.9	0.1	185.3	neg.	265.6	539.0	0.1	422.2	0.1	116.7	neg.	305.5
Syria	627.6	0.1	621.9	0.1	5.7	neg.	616.2	568.4	0.1	566.6	0.1	1.7	neg.	564.9
Qatar	568.2	0.1	363.2	0.1	205.0	neg.	158.2	268.1	neg.	191.1	neg.	76.9	neg.	114.2
Bahrain	567.3	0.1	157.9	neg.	409.4	0.1	-251.4	429.0	neg.	131.6	neg.	297.4	0.1	-165.8
Jordan	530.7	0.1	430.7	0.1	100.0	neg.	330.7	1,474.8	0.2	1,305.9	0.3	168.9	neg.	1,136.9
Sudan	485.7	0.1	485.2	0.1	0.5	neg.	484.7	150.4	neg.	148.9	neg.	1.5	neg.	147.4
Norway	467.7	neg.	198.1	neg.	269.7	0.1	-71.6	432.3	neg.	194.8	neg.	237.5	0.1	-42.8
Cambodia	445.1	neg.	413.7	0.1	31.3	neg.	382.4	349.0	neg.	317.5	0.1	31.5	neg.	286.0
Ghana	442.4	neg.	254.8	neg.	187.6	neg.	67.2	302.8	neg.	211.5	neg.	91.2	neg.	120.3

Compiled by Ministry of International Trade and Industry
Note: neg. - negligible

Table 3 :
Major Export Destinations, 2004-2005

Country	Exports				
	2005			2004	
	RM million	Share (%)	Change (%)	RM million	Share (%)
Total	**533,787.8**	**100.0**	**11.0**	**480,740.3**	**100.0**
USA	105,032.9	19.7	16.5	90,181.5	18.8
Singapore	83,333.4	15.6	15.5	72,176.4	15.0
Japan	49,917.7	9.4	2.8	48,552.5	10.1
People's Republic of China	35,221.0	6.6	9.6	32,148.5	6.7
Hong Kong	31,205.3	5.8	8.8	28,685.8	6.0
Thailand	28,722.9	5.4	25.1	22,953.9	4.8
Australia	18,042.4	3.4	14.3	15,782.8	3.3
Republic of Korea	17,944.7	3.4	6.6	16,838.7	3.5
Netherlands	17,451.6	3.3	10.7	15,759.8	3.3
India	14,971.8	2.8	31.2	11,410.5	2.4
Taiwan	14,813.4	2.8	-6.0	15,763.0	3.3
Indonesia	12,579.7	2.4	7.7	11,677.2	2.4
Germany	11,258.5	2.1	7.4	10,485.4	2.2
Ukraine	9,470.1	1.8	-10.3	10,556.3	2.2
Philippines	7,475.9	1.4	1.5	7,362.3	1.5
United Arab Emirates	6,993.3	1.3	18.5	5,903.1	1.2
France	6,912.6	1.3	-2.4	7,081.1	1.5
Viet Nam	4,392.1	0.8	1.3	4,333.9	0.9
Canada	2,846.9	0.5	-5.5	3,011.1	0.6
Pakistan	2,803.6	0.5	5.2	2,664.9	0.6
Italy	2,673.8	0.5	-8.3	2,914.4	0.6
Mexico	2,547.5	0.5	2.2	2,493.6	0.5
Spain	2,209.6	0.4	-2.1	2,257.8	0.5
South Africa	2,164.0	0.4	19.1	1,816.7	0.4
Belgium	2,039.4	0.4	-3.7	2,118.5	0.4
New Zealand	2,033.5	0.4	20.5	1,687.4	0.4
Turkey	2,024.2	0.4	33.9	1,511.8	0.3
Finland	1,891.8	0.4	78.0	1,063.1	0.2
Russia	1,803.9	0.3	16.7	1,545.7	0.3
Saudi Arabia	1,792.0	0.3	-2.1	1,830.7	0.4
Ireland	1,789.8	0.3	24.0	1,443.8	0.3
Egypt	1,730.1	0.3	24.6	1,388.6	0.3
Sri Lanka	1,659.6	0.3	26.6	1,311.0	0.3
Bangladesh	1,550.2	0.3	12.0	1,384.1	0.3
Hungary	1,425.5	0.3	-37.4	2,277.8	0.5
Brazil	1,413.3	0.3	16.5	1,213.0	0.3
Iran	1,357.9	0.3	3.3	1,314.3	0.3
Brunei Darussalam	1,337.1	0.3	11.2	1,202.8	0.3
Austria	933.8	0.2	3.7	900.2	0.2
Myanmar	929.2	0.2	63.7	567.5	0.1
Sweden	815.9	0.2	9.7	743.8	0.2
Switzerland	746.4	0.1	13.1	660.0	0.1
Czech Republic	730.5	0.1	26.7	576.7	0.1
Denmark	717.6	0.1	17.2	612.3	0.1
Nigeria	697.0	0.1	233.6	209.0	neg.
Portugal	682.8	0.1	121.4	308.4	0.1
Syria	621.9	0.1	9.8	566.6	0.1
Ukraine	559.5	0.1	95.3	286.5	0.1
Sudan	485.2	0.1	225.9	148.9	neg.
Poland	479.6	0.1	10.2	435.3	0.1
Kuwait	462.7	0.1	12.8	410.2	0.1

Compiled by Ministry of International Trade and Industry
Note: neg. - negligible

Table 4 :
Major Sources of Imports, 2004-2005

Country	Imports				
	2005			2004	
	RM million	Share (%)	Change (%)	RM million	Share (%)
Total	**434,009.9**	**100.0**	**8.5**	**400,076.8**	**100.0**
Japan	62,981.7	14.5	-1.2	63,736.9	15.9
USA	55,918.3	12.9	-3.4	57,880.0	14.5
Singapore	50,827.9	11.7	14.3	44,477.0	11.1
People's Republic of China	49,880.4	11.5	27.0	39,289.7	9.8
Taiwan	23,973.5	5.5	10.7	21,650.7	5.4
Thailand	22,889.1	5.3	4.1	21,996.5	5.5
Republic of Korea	21,604.1	5.0	8.7	19,867.7	5.0
Germany	19,265.5	4.4	7.8	17,870.1	4.5
Indonesia	16,565.7	3.8	4.0	15,936.2	4.0
Philippines	12,192.0	2.8	13.8	10,710.4	2.7
Hong Kong	10,796.5	2.5	-0.6	10,860.1	2.7
Australia	8,170.8	1.9	20.3	6,793.2	1.7
UK	6,522.0	1.5	-1.8	6,639.4	1.7
Saudi Arabia	5,859.3	1.4	56.5	3,743.7	0.9
France	5,660.1	1.3	2.1	5,543.4	1.4
Italy	4,694.2	1.1	29.8	3,615.7	0.9
Switzerland	4,691.2	1.1	21.8	3,851.5	1.0
India	4,163.8	1.0	-15.0	4,897.3	1.2
Viet Nam	3,865.6	0.9	75.3	2,204.6	0.6
Netherlands	3,350.8	0.8	-2.4	3,434.8	0.9
United Arab Emirates	2,838.5	0.7	65.4	1,716.6	0.4
Ireland	2,686.1	0.6	19.7	2,244.1	0.6
Sweden	2,456.2	0.6	-17.4	2,973.6	0.7
Argentina	2,322.5	0.5	62.4	1,430.3	0.4
Canada	2,132.8	0.5	21.3	1,759.0	0.4
Brazil	1,977.9	0.5	52.4	1,297.5	0.3
Oman	1,931.1	0.4	27.9	1,510.1	0.4
Russia	1,636.8	0.4	-8.2	1,782.3	0.4
Belgium	1,424.8	0.3	-7.3	1,537.3	0.4
Iran	1,318.5	0.3	34.2	982.3	0.2
New Zealand	1,283.4	0.3	-0.9	1,294.7	0.3
South Africa	1,086.2	0.3	-14.9	1,275.9	0.3
Kuwait	1,031.7	0.2	302.2	256.5	0.1
Spain	969.9	0.2	18.1	821.3	0.2
Costa Rica	874.3	0.2	20.6	725.1	0.2
Finland	825.3	0.2	19.4	691.4	0.2
Denmark	582.4	0.1	7.9	539.6	0.1
Chile	564.6	0.1	8.2	521.9	0.1
Austria	539.0	0.1	0.7	535.0	0.1
Mexico	510.4	0.1	neg.	510.6	0.1
Myanmar	506.1	0.1	24.6	406.1	0.1
Portugal	435.8	0.1	-29.5	618.3	0.2
Bahrain	409.4	0.1	37.7	297.4	0.1
Ukraine	407.8	0.1	111.5	192.9	neg.
Norway	269.7	0.1	13.5	237.5	0.1
Turkey	269.5	0.1	27.9	210.7	0.1
Czech Republic	227.1	0.1	8.5	209.4	0.1
Liberia	224.6	0.1	*	20.6	neg.
Pakistan	214.2	neg.	4.0	206.0	0.1
Poland	207.4	neg.	-27.8	287.3	0.1
Qatar	205.0	neg.	166.4	76.9	neg.

Compiled by Ministry of International Trade and Industry
Note: neg. - negligible
** - not meaningful*

Table 5 :
Trade with ASEAN, 2004-2005

Country	Exports					Imports					Balance of Trade	
	2005			2004		2005			2004		2005	2004
	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	
Total	**533,787.8**	**100.0**	**11.0**	**480,740.3**	**100.0**	**434,009.9**	**100.0**	**8.5**	**400,076.8**	**100.0**	**99,777.9**	**80,663.5**
ASEAN	**139,207.8**	**26.1**	**15.4**	**120,601.1**	**25.1**	**106,975.9**	**24.6**	**11.6**	**95,816.5**	**23.9**	**32,232.0**	**24,784.5**
Singapore	83,333.4	15.6	15.5	72,176.4	15.0	50,827.9	11.7	14.3	44,477.0	11.1	32,505.5	27,699.5
Thailand	28,722.9	5.4	25.1	22,953.9	4.8	22,889.1	5.3	4.1	21,996.5	5.5	5,833.7	957.4
Indonesia	12,579.7	2.4	7.7	11,677.2	2.4	16,565.7	3.8	4.0	15,936.2	4.0	-3,986.0	-4,259.0
Philippines	7,475.9	1.4	1.5	7,362.3	1.5	12,192.0	2.8	13.8	10,710.4	2.7	-4,716.1	-3,348.0
Viet Nam	4,392.1	0.8	1.3	4,333.9	0.9	3,865.6	0.9	75.3	2,204.6	0.6	526.5	2,129.3
Brunei Darussalam	1,337.1	0.3	11.2	1,202.8	0.3	49.1	neg.	-8.9	53.9	neg.	1,288.0	1,148.9
Myanmar	929.2	0.2	63.7	567.5	0.1	506.1	0.1	24.6	406.1	0.1	423.1	161.5
Cambodia	413.7	0.1	30.3	317.5	0.1	31.3	neg.	-0.5	31.5	neg.	382.4	286.0
Lao PDR	23.8	neg.	149.5	9.5	neg.	48.9	neg.	*	0.6	neg.	-25.2	9.0

Compiled by Ministry of International Trade and Industry
Note: neg. - negligible
** - not meaningful*

Table 6 :
Trade With NAFTA, 2004-2005

Country	Exports					Imports					Balance of Trade	
	2005			2004		2005			2004		2005	2004
	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	
Total	**533,787.8**	**100.0**	**11.0**	**480,740.3**	**100.0**	**434,009.9**	**100.0**	**8.5**	**400,076.8**	**100.0**	**99,777.9**	**80,663.5**
NAFTA	**110,427.4**	**20.7**	**15.4**	**95,686.2**	**19.9**	**58,561.5**	**13.5**	**-2.6**	**60,149.6**	**15.0**	**51,865.9**	**35,536.6**
USA	105,032.9	19.7	16.5	90,181.5	18.8	55,918.3	12.9	-3.4	57,880.0	14.5	49,114.7	32,301.5
Canada	2,846.9	0.5	-5.5	3,011.1	0.6	2,132.8	0.5	21.3	1,759.0	0.4	714.2	1,252.2
Mexico	2,547.5	0.5	2.2	2,493.6	0.5	510.4	0.1	neg.	510.6	0.1	2,037.1	1,983.0

Compiled by Ministry of International Trade and Industry
Note: neg. - negligible

Table 7:
Trade With EU, 2004-2005

Country	Exports					Imports					Balance of Trade	
	2005			2004		2005			2004		2005	2004
	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	
Total	**533,787.8**	**100.0**	**11.0**	**480,740.3**	**100.0**	**434,009.9**	**100.0**	**8.5**	**400,076.8**	**100.0**	**99,777.9**	**80,663.5**
EU	**62,629.3**	**11.7**	**3.7**	**60,387.6**	**12.6**	**50,512.3**	**11.6**	**5.2**	**48,030.6**	**12.0**	**12,117.0**	**12,356.9**
Netherlands	17,451.6	3.3	10.7	15,759.8	3.3	3,350.8	0.8	-2.4	3,434.8	0.9	14,100.8	12,325.0
Germany	11,258.5	2.1	7.4	10,485.4	2.2	19,265.5	4.4	7.8	17,870.1	4.5	-8,006.9	-7,384.7
UK	9,470.1	1.8	-10.3	10,556.3	2.2	6,522.0	1.5	-1.8	6,639.4	1.7	2,948.1	3,916.8
France	6,912.6	1.3	-2.4	7,081.1	1.5	5,660.1	1.3	2.1	5,543.4	1.4	1,252.5	1,537.7
Italy	2,673.8	0.5	-8.3	2,914.4	0.6	4,694.2	1.1	29.8	3,615.7	0.9	-2,020.3	-701.3
Spain	2,209.6	0.4	-2.1	2,257.8	0.5	969.9	0.2	18.1	821.3	0.2	1,239.7	1,436.5
Belgium	2,039.4	0.4	-3.7	2,118.5	0.4	1,424.8	0.3	-7.3	1,537.3	0.4	614.6	581.1
Finland	1,891.8	0.4	78.0	1,063.1	0.2	825.3	0.2	19.4	691.4	0.2	1,066.4	371.6
Ireland	1,789.8	0.3	24.0	1,443.8	0.3	2,686.1	0.6	19.7	2,244.1	0.6	-896.3	-800.3
Hungary	1,425.5	0.3	-37.4	2,277.8	0.5	176.2	neg.	31.6	133.9	neg.	1,249.3	2,143.9
Austria	933.8	0.2	3.7	900.2	0.2	539.0	0.1	0.7	535.0	0.1	394.9	365.2
Sweden	815.9	0.2	9.7	743.8	0.2	2,456.2	0.6	-17.4	2,973.6	0.7	-1,640.4	-2,229.8
Czech Republic	730.5	0.1	26.7	576.7	0.1	227.1	0.1	8.5	209.4	0.1	503.3	367.3
Denmark	717.6	0.1	17.2	612.3	0.1	582.4	0.1	7.9	539.6	0.1	135.2	72.7
Portugal	682.8	0.1	121.4	308.4	0.1	435.8	0.1	-29.5	618.3	0.2	246.9	-309.9
Poland	479.6	0.1	10.2	435.3	0.1	207.4	neg.	-27.8	287.3	0.1	272.2	147.9
Greece	342.8	0.1	-14.5	401.0	0.1	29.0	neg.	-4.2	30.3	neg.	313.8	370.7
Luxembourg	273.4	0.1	*	34.0	neg.	35.2	neg.	14.5	30.7	neg.	238.2	3.3
Slovak Republic	119.4	neg.	40.1	85.2	neg.	124.7	neg.	99.8	62.4	neg.	-5.3	22.9
Estonia	113.3	neg.	62.0	69.9	neg.	13.6	neg.	63.5	8.3	neg.	99.7	61.6
Malta	92.5	neg.	9.9	84.2	neg.	185.9	neg.	46.0	127.3	neg.	-93.4	-43.1
Lithuania	60.6	neg.	38.8	43.6	neg.	37.8	neg.	23.6	30.5	neg.	22.8	13.1
Cyprus	56.4	neg.	3.7	54.4	neg.	14.0	neg.	-19.0	17.3	neg.	42.4	37.1
Latvia	44.2	neg.	6.9	41.4	neg.	19.7	neg.	*	1.5	neg.	24.5	39.9
Slovenia	43.8	neg.	12.3	39.0	neg.	29.7	neg.	8.6	27.3	neg.	14.1	11.7

Compiled by Ministry of International Trade and Industry
Note: neg. - negligible
** - not meaningful*

Table 8:

Trade With APEC, 2004-2005

Country	Exports					Imports					Balance of Trade	
	2005			2004		2005			2004		2005	2004
	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	
Total	**533,787.8**	**100.0**	**11.0**	**480,740.3**	**100.0**	**434,009.9**	**100.0**	**8.5**	**400,076.8**	**100.0**	**99,777.9**	**80,663.5**
APEC	**420,048.4**	**78.7**	**11.4**	**377,119.9**	**78.4**	**345,982.1**	**79.7**	**7.6**	**321,426.7**	**80.3**	**74,066.3**	**55,693.2**
USA	105,032.9	19.7	16.5	90,181.5	18.8	55,918.3	12.9	-3.4	57,880.0	14.5	49,114.7	32,301.5
Singapore	83,333.4	15.6	15.5	72,176.4	15.0	50,827.9	11.7	14.3	44,477.0	11.1	32,505.5	27,699.5
Japan	49,917.7	9.4	2.8	48,552.5	10.1	62,981.7	14.5	-1.2	63,736.9	15.9	-13,063.9	-15,184.4
People's Republic of China	35,221.0	6.6	9.6	32,148.5	6.7	49,880.4	11.5	27.0	39,289.7	9.8	-14,659.3	-7,141.2
Hong Kong	31,205.3	5.8	8.8	28,685.8	6.0	10,796.5	2.5	-0.6	10,860.1	2.7	20,408.8	17,825.7
Thailand	28,722.9	5.4	25.1	22,953.9	4.8	22,889.1	5.3	4.1	21,996.5	5.5	5,833.7	957.4
Australia	18,042.4	3.4	14.3	15,782.8	3.3	8,170.8	1.9	20.3	6,793.2	1.7	9,871.6	8,989.6
Republic of Korea	17,944.7	3.4	6.6	16,838.7	3.5	21,604.1	5.0	8.7	19,867.7	5.0	-3,659.4	-3,029.0
Taiwan	14,813.4	2.8	-6.0	15,763.0	3.3	23,973.5	5.5	10.7	21,650.7	5.4	-9,160.2	-5,887.7
Indonesia	12,579.7	2.4	7.7	11,677.2	2.4	16,565.7	3.8	4.0	15,936.2	4.0	-3,986.0	-4,259.0
Philippines	7,475.9	1.4	1.5	7,362.3	1.5	12,192.0	2.8	13.8	10,710.4	2.7	-4,716.1	-3,348.0
Viet Nam	4,392.1	0.8	1.3	4,333.9	0.9	3,865.6	0.9	75.3	2,204.6	0.6	526.5	2,129.3
Canada	2,846.9	0.5	-5.5	3,011.1	0.6	2,132.8	0.5	21.3	1,759.0	0.4	714.2	1,252.2
Mexico	2,547.5	0.5	2.2	2,493.6	0.5	510.4	0.1	neg.	510.6	0.1	2,037.1	1,983.0
New Zealand	2,033.5	0.4	20.5	1,687.4	0.4	1,283.4	0.3	-0.9	1,294.7	0.3	750.1	392.7
Russia	1,803.9	0.3	16.7	1,545.7	0.3	1,636.8	0.4	-8.2	1,782.3	0.4	167.1	-236.6
Brunei Darussalam	1,337.1	0.3	11.2	1,202.8	0.3	49.1	neg.	-8.9	53.9	neg.	1,288.0	1,148.9
Chile	328.9	0.1	-8.9	361.1	0.1	564.6	0.1	8.2	521.9	0.1	-235.7	-160.8
Papua New Guinea	290.3	0.1	86.0	156.0	neg.	114.5	neg.	68.2	68.1	neg.	175.7	88.0
Peru	178.8	neg.	-13.1	205.8	neg.	24.8	neg.	-25.9	33.5	neg.	153.9	172.3

Compiled by Ministry of International Trade and Industry
Note: neg. - negligible

Table 9:

Trade with Major Countries in NAM, 2004-2005

Country	Exports					Imports					Balance of Trade	
	2005			2004		2005			2004		2005	2004
	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	
Total	**533,787.8**	**100.0**	**11.0**	**480,740.3**	**100.0**	**434,009.9**	**100.0**	**8.5**	**400,076.8**	**100.0**	**99,777.9**	**80,663.5**
NAM	**183,086.8**	**34.3**	**15.9**	**157,969.1**	**32.9**	**129,190.6**	**29.8**	**13.5**	**113,867.4**	**28.5**	**53,896.1**	**44,101.7**
Singapore	83,333.4	15.6	15.5	72,176.4	15.0	50,827.9	11.7	14.3	44,477.0	11.1	32,505.5	27,699.5
Thailand	28,722.9	5.4	25.1	22,953.9	4.8	22,889.1	5.3	4.1	21,996.5	5.5	5,833.7	957.4
India	14,971.8	2.8	31.2	11,410.5	2.4	4,163.8	1.0	-15.0	4,897.3	1.2	10,808.0	6,513.1
Indonesia	12,579.7	2.4	7.7	11,677.2	2.4	16,565.7	3.8	4.0	15,936.2	4.0	-3,986.0	-4,259.0
Philippines	7,475.9	1.4	1.5	7,362.3	1.5	12,192.0	2.8	13.8	10,710.4	2.7	-4,716.1	-3,348.0
United Arab Emirates	6,993.3	1.3	18.5	5,903.1	1.2	2,838.5	0.7	65.4	1,716.6	0.4	4,154.8	4,186.5
Viet Nam	4,392.1	0.8	1.3	4,333.9	0.9	3,865.6	0.9	75.3	2,204.6	0.6	526.5	2,129.3
Pakistan	2,803.6	0.5	5.2	2,664.9	0.6	214.2	neg.	4.0	206.0	0.1	2,589.5	2,458.9
South Africa	2,164.0	0.4	19.1	1,816.7	0.4	1,086.2	0.3	-14.9	1,275.9	0.3	1,077.8	540.8
Saudi Arabia	1,792.0	0.3	-2.1	1,830.7	0.4	5,859.3	1.4	56.5	3,743.7	0.9	-4,067.3	-1,913.0
Egypt	1,730.1	0.3	24.6	1,388.6	0.3	139.7	neg.	19.3	117.1	neg.	1,590.4	1,271.5
Sri Lanka	1,659.6	0.3	26.6	1,311.0	0.3	40.7	neg.	49.7	27.2	neg.	1,618.9	1,283.8
Bangladesh	1,550.2	0.3	12.0	1,384.1	0.3	82.6	neg.	27.5	64.8	neg.	1,467.7	1,319.3
Iran	1,357.9	0.3	3.3	1,314.3	0.3	1,318.5	0.3	34.2	982.3	0.2	39.4	332.0
Brunei Darussalam	1,337.1	0.3	11.2	1,202.8	0.3	49.1	neg.	-8.9	53.9	neg.	1,288.0	1,148.9
Myanmar	929.2	0.2	63.7	567.5	0.1	506.1	0.1	24.6	406.1	0.1	423.1	161.5
Nigeria	697.0	0.1	233.6	209.0	neg.	51.1	neg.	218.8	16.0	neg.	646.0	193.0
Syria	621.9	0.1	9.8	566.6	0.1	5.7	neg.	224.9	1.7	neg.	616.2	564.9
Sudan	485.2	0.1	225.9	148.9	neg.	0.5	neg.	-66.4	1.5	neg.	484.7	147.4
Kuwait	462.7	0.1	12.8	410.2	0.1	1,031.7	0.2	302.2	256.5	0.1	-569.0	153.7
Yemen	450.9	0.1	6.8	422.2	0.1	185.3	neg.	58.7	116.7	neg.	265.6	305.5
Jordan	430.7	0.1	-67.0	1,305.9	0.3	100.0	neg.	-40.8	168.9	neg.	330.7	1,136.9
Cambodia	413.7	0.1	30.3	317.5	0.1	31.3	neg.	-0.5	31.5	neg.	382.4	286.0
Qatar	363.2	0.1	90.0	191.1	neg.	205.0	neg.	166.4	76.9	neg.	158.2	114.2
Chile	328.9	0.1	-8.9	361.1	0.1	564.6	0.1	8.2	521.9	0.1	-235.7	-160.8

Compiled by Ministry of International Trade and Industry
Note: neg. - negligible

Table 10 :

Trade with Major Countries in the OIC, 2004-2005

Country	Exports					Imports					Balance of Trade	
	2005			2004		2005			2004		2005	2004
	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	
Total	**533,787.8**	**100.0**	**11.0**	**480,740.3**	**100.0**	**434,009.9**	**100.0**	**8.5**	**400,076.8**	**100.0**	**99,777.9**	**80,663.5**
OIC	**38,196.1**	**7.2**	**9.2**	**34,964.2**	**7.3**	**31,874.4**	**7.3**	**20.0**	**26,555.9**	**6.6**	**6,321.7**	**8,408.3**
D-8	**22,742.8**	**4.3**	**12.9**	**20,149.8**	**4.2**	**18,641.2**	**4.3**	**6.3**	**17,533.1**	**4.4**	**4,101.6**	**2,616.7**
Indonesia[1]	12,579.7	2.4	7.7	11,677.2	2.4	16,565.7	3.8	4.0	15,936.2	4.0	-3,986.0	-4,259.0
United Arab Emirates	6,993.3	1.3	18.5	5,903.1	1.2	2,838.5	0.7	65.4	1,716.6	0.4	4,154.8	4,186.5
Pakistan[1]	2,803.6	0.5	5.2	2,664.9	0.6	214.2	neg.	4.0	206.0	0.1	2,589.5	2,458.9
Turkey[1]	2,024.2	0.4	33.9	1,511.8	0.3	269.5	0.1	27.9	210.7	0.1	1,754.7	1,301.0
Saudi Arabia	1,792.0	0.3	-2.1	1,830.7	0.4	5,859.3	1.4	56.5	3,743.7	0.9	-4,067.3	-1,913.0
Egypt[1]	1,730.1	0.3	24.6	1,388.6	0.3	139.7	neg.	19.3	117.1	neg.	1,590.4	1,271.5
Bangladesh[1]	1,550.2	0.3	12.0	1,384.1	0.3	82.6	neg.	27.5	64.8	neg.	1,467.7	1,319.3
Iran[1]	1,357.9	0.3	3.3	1,314.3	0.3	1,318.5	0.3	34.2	982.3	0.2	39.4	332.0
Brunei Darussalam	1,337.1	0.3	11.2	1,202.8	0.3	49.1	neg.	-8.9	53.9	neg.	1,288.0	1,148.9
Nigeria[1]	697.0	0.1	233.6	209.0	neg.	51.1	neg.	218.8	16.0	neg.	646.0	193.0
Syria	621.9	0.1	9.8	566.6	0.1	5.7	neg.	224.9	1.7	neg.	616.2	564.9
Sudan	485.2	0.1	225.9	148.9	neg.	0.5	neg.	-66.4	1.5	neg.	484.7	147.4
Kuwait	462.7	0.1	12.8	410.2	0.1	1,031.7	0.2	302.2	256.5	0.1	-569.0	153.7
Yemen	450.9	0.1	6.8	422.2	0.1	185.3	neg.	58.7	116.7	neg.	265.6	305.5
Jordan	430.7	0.1	-67.0	1,305.9	0.3	100.0	neg.	-40.8	168.9	neg.	330.7	1,136.9
Qatar	363.2	0.1	90.0	191.1	neg.	205.0	neg.	166.4	76.9	neg.	158.2	114.2
Oman	306.8	0.1	13.0	271.5	0.1	1,931.1	0.4	27.9	1,510.1	0.4	-1,624.2	-1,238.6
Maldives	203.2	neg.	47.0	138.3	neg.	1.6	neg.	169.5	0.6	neg.	201.6	137.7
Algeria	194.2	neg.	-43.8	345.7	0.1	3.4	neg.	533.9	0.5	neg.	190.8	345.2
Togo	190.8	neg.	-14.1	222.2	neg.	5.4	neg.	-43.8	9.6	neg.	185.4	212.6

Compiled by Ministry of International Trade and Industry

Note: 1 - Member of D8

neg. - negligible

Table 11 :

Trade with OECD, 2004-2005

Country	Exports					Imports					Balance of Trade	
	2005			2004		2005			2004		2005	2004
	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	
Total	**533,787.8**	**100.0**	**11.0**	**480,740.3**	**100.0**	**434,009.9**	**100.0**	**8.5**	**400,076.8**	**100.0**	**99,777.9**	**80,663.5**
OECD	**263,564.2**	**49.4**	**9.4**	**240,977.5**	**50.1**	**208,044.6**	**47.9**	**2.0**	**203,961.4**	**51.0**	**55,519.6**	**37,016.2**
USA	105,032.9	19.7	16.5	90,181.5	18.8	55,918.3	12.9	-3.4	57,880.0	14.5	49,114.7	32,301.5
Japan	49,917.7	9.4	2.8	48,552.5	10.1	62,981.7	14.5	-1.2	63,736.9	15.9	-13,063.9	-15,184.4
Australia	18,042.4	3.4	14.3	15,782.8	3.3	8,170.8	1.9	20.3	6,793.2	1.7	9,871.6	8,989.6
Republic of Korea	17,944.7	3.4	6.6	16,838.7	3.5	21,604.1	5.0	8.7	19,867.7	5.0	-3,659.4	-3,029.0
Netherlands	17,451.6	3.3	10.7	15,759.8	3.3	3,350.8	0.8	-2.4	3,434.8	0.9	14,100.8	12,325.0
Germany	11,258.5	2.1	7.4	10,485.4	2.2	19,265.5	4.4	7.8	17,870.1	4.5	-8,006.9	-7,384.7
UK	9,470.1	1.8	-10.3	10,556.3	2.2	6,522.0	1.5	-1.8	6,639.4	1.7	2,948.1	3,916.8
France	6,912.6	1.3	-2.4	7,081.1	1.5	5,660.1	1.3	2.1	5,543.4	1.4	1,252.5	1,537.7
Canada	2,846.9	0.5	-5.5	3,011.1	0.6	2,132.8	0.5	21.3	1,759.0	0.4	714.2	1,252.2
Italy	2,673.8	0.5	-8.3	2,914.4	0.6	4,694.2	1.1	29.8	3,615.7	0.9	-2,020.3	-701.3
Mexico	2,547.5	0.5	2.2	2,493.6	0.5	510.4	0.1	neg.	510.6	0.1	2,037.1	1,983.0
Spain	2,209.6	0.4	-2.1	2,257.8	0.5	969.9	0.2	18.1	821.3	0.2	1,239.7	1,436.5
Belgium	2,039.4	0.4	-3.7	2,118.5	0.4	1,424.8	0.3	-7.3	1,537.3	0.4	614.6	581.1
New Zealand	2,033.5	0.4	20.5	1,687.4	0.4	1,283.4	0.3	-0.9	1,294.7	0.3	750.1	392.7
Turkey	2,024.2	0.4	33.9	1,511.8	0.3	269.5	0.1	27.9	210.7	0.1	1,754.7	1,301.0
Finland	1,891.8	0.4	78.0	1,063.1	0.2	825.3	0.2	19.4	691.4	0.2	1,066.4	371.6
Ireland	1,789.8	0.3	24.0	1,443.8	0.3	2,686.1	0.6	19.7	2,244.1	0.6	-896.3	-800.3
Hungary	1,425.5	0.3	-37.4	2,277.8	0.5	176.2	neg.	31.6	133.9	neg.	1,249.3	2,143.9
Austria	933.8	0.2	3.7	900.2	0.2	539.0	0.1	0.7	535.0	0.1	394.9	365.2
Sweden	815.9	0.2	9.7	743.8	0.2	2,456.2	0.6	-17.4	2,973.6	0.7	-1,640.4	-2,229.8
Switzerland	746.4	0.1	13.1	660.0	0.1	4,691.2	1.1	21.8	3,851.5	1.0	-3,944.8	-3,191.5
Czech Republic	730.5	0.1	26.7	576.7	0.1	227.1	0.1	8.5	209.4	0.1	503.3	367.3
Denmark	717.6	0.1	17.2	612.3	0.1	582.4	0.1	7.9	539.6	0.1	135.2	72.7
Portugal	682.8	0.1	121.4	308.4	0.1	435.8	0.1	-29.5	618.3	0.2	246.9	-309.9
Poland	479.6	0.1	10.2	435.3	0.1	207.4	neg.	-27.8	287.3	0.1	272.2	147.9

Compiled by Ministry of International Trade and Industry
Note: neg. - negligible

Table 12:
Trade with Major Countries in the Commonwealth, 2004-2005

Country	Exports					Imports					Balance of Trade	
	2005			2004		2005			2004		2005	2004
	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	
Total	**533,787.8**	**100.0**	**11.0**	**480,740.3**	**100.0**	**434,009.9**	**100.0**	**8.5**	**400,076.8**	**100.0**	**99,777.9**	**80,663.5**
Commonwealth	**142,862.8**	**26.8**	**14.5**	**124,768.5**	**26.0**	**75,566.4**	**17.4**	**10.4**	**68,460.0**	**17.1**	**67,296.4**	**56,308.5**
Singapore	83,333.4	15.6	15.5	72,176.4	15.0	50,827.9	11.7	14.3	44,477.0	11.1	32,505.5	27,699.5
Australia	18,042.4	3.4	14.3	15,782.8	3.3	8,170.8	1.9	20.3	6,793.2	1.7	9,871.6	8,989.6
India	14,971.8	2.8	31.2	11,410.5	2.4	4,163.8	1.0	-15.0	4,897.3	1.2	10,808.0	6,513.1
UK	9,470.1	1.8	-10.3	10,556.3	2.2	6,522.0	1.5	-1.8	6,639.4	1.7	2,948.1	3,916.8
Canada	2,846.9	0.5	-5.5	3,011.1	0.6	2,132.8	0.5	21.3	1,759.0	0.4	714.2	1,252.2
Pakistan	2,803.6	0.5	5.2	2,664.9	0.6	214.2	neg.	4.0	206.0	0.1	2,589.5	2,458.9
South Africa	2,164.0	0.4	19.1	1,816.7	0.4	1,086.2	0.3	-14.9	1,275.9	0.3	1,077.8	540.8
New Zealand	2,033.5	0.4	20.5	1,687.4	0.4	1,283.4	0.3	-0.9	1,294.7	0.3	750.1	392.7
Sri Lanka	1,659.6	0.3	26.6	1,311.0	0.3	40.7	neg.	49.7	27.2	neg.	1,618.9	1,283.8
Bangladesh	1,550.2	0.3	12.0	1,384.1	0.3	82.6	neg.	27.5	64.8	neg.	1,467.7	1,319.3
Brunei Darussalam	1,337.1	0.3	11.2	1,202.8	0.3	49.1	neg.	-8.9	53.9	neg.	1,288.0	1,148.9
Nigeria	697.0	0.1	233.6	209.0	neg.	51.1	neg.	218.8	16.0	neg.	646.0	193.0
Papua New Guinea	290.3	0.1	86.0	156.0	neg.	114.5	neg.	68.2	68.1	neg.	175.7	88.0
Ghana	254.8	neg.	20.5	211.5	neg.	187.6	neg.	105.6	91.2	neg.	67.2	120.3
Mauritius	228.6	neg.	9.4	209.0	neg.	3.0	neg.	-53.0	6.4	neg.	225.5	202.6
Maldives	203.2	neg.	47.0	138.3	neg.	1.6	neg.	169.5	0.6	neg.	201.6	137.7
Kenya	196.3	neg.	20.4	163.0	neg.	26.8	neg.	24.5	21.5	neg.	169.5	141.5
Tanzania	114.0	neg.	29.7	87.8	neg.	82.0	neg.	97.2	41.6	neg.	31.9	46.3
Fiji	93.7	neg.	21.1	77.4	neg.	1.6	neg.	428.6	0.3	neg.	92.2	77.1
Malta	92.5	neg.	9.9	84.2	neg.	185.9	neg.	46.0	127.3	neg.	-93.4	-43.1

Compiled by Ministry of International Trade and Industry
Note: neg. - negligible

Table 13:

Trade with Major South Countries, 2004-2005

Country	Exports					Imports					Balance of Trade	
	2005			2004		2005			2004		2005	2004
	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	
Total	**533,787.8**	**100.0**	**11.0**	**480,740.3**	**100.0**	**434,009.9**	**100.0**	**8.5**	**400,076.8**	**100.0**	**99,777.9**	**80,663.5**
South Countries	**139,966.8**	**26.2**	**14.3**	**122,474.0**	**25.5**	**134,072.1**	**30.9**	**18.8**	**112,856.0**	**28.2**	**5,894.7**	**9,617.9**
China	35,221.0	6.6	9.6	32,148.5	6.7	49,880.4	11.5	27.0	39,289.7	9.8	-14,659.3	-7,141.2
Thailand	28,722.9	5.4	25.1	22,953.9	4.8	22,889.1	5.3	4.1	21,996.5	5.5	5,833.7	957.4
India	14,971.8	2.8	31.2	11,410.5	2.4	4,163.8	1.0	-15.0	4,897.3	1.2	10,808.0	6,513.1
Indonesia	12,579.7	2.4	7.7	11,677.2	2.4	16,565.7	3.8	4.0	15,936.2	4.0	-3,986.0	-4,259.0
Philippines	7,475.9	1.4	1.5	7,362.3	1.5	12,192.0	2.8	13.8	10,710.4	2.7	-4,716.1	-3,348.0
United Arab Emirates	6,993.3	1.3	18.5	5,903.1	1.2	2,838.5	0.7	65.4	1,716.6	0.4	4,154.8	4,186.5
Viet Nam	4,392.1	0.8	1.3	4,333.9	0.9	3,865.6	0.9	75.3	2,204.6	0.6	526.5	2,129.3
Pakistan	2,803.6	0.5	5.2	2,664.9	0.6	214.2	neg.	4.0	206.0	0.1	2,589.5	2,458.9
Mexico	2,547.5	0.5	2.2	2,493.6	0.5	510.4	0.1	neg.	510.6	0.1	2,037.1	1,983.0
South Africa	2,164.0	0.4	19.1	1,816.7	0.4	1,086.2	0.3	-14.9	1,275.9	0.3	1,077.8	540.8
Saudi Arabia	1,792.0	0.3	-2.1	1,830.7	0.4	5,859.3	1.4	56.5	3,743.7	0.9	-4,067.3	-1,913.0
Egypt	1,730.1	0.3	24.6	1,388.6	0.3	139.7	neg.	19.3	117.1	neg.	1,590.4	1,271.5
Sri Lanka	1,659.6	0.3	26.6	1,311.0	0.3	40.7	neg.	49.7	27.2	neg.	1,618.9	1,283.8
Bangladesh	1,550.2	0.3	12.0	1,384.1	0.3	82.6	neg.	27.5	64.8	neg.	1,467.7	1,319.3
Brazil	1,413.3	0.3	16.5	1,213.0	0.3	1,977.9	0.5	52.4	1,297.5	0.3	-564.5	-84.5
Iran	1,357.9	0.3	3.3	1,314.3	0.3	1,318.5	0.3	34.2	982.3	0.2	39.4	332.0
Brunei Darussalam	1,337.1	0.3	11.2	1,202.8	0.3	49.1	neg.	-8.9	53.9	neg.	1,288.0	1,148.9
Myanmar	929.2	0.2	63.7	567.5	0.1	506.1	0.1	24.6	406.1	0.1	423.1	161.5
Nigeria	697.0	0.1	233.6	209.0	neg.	51.1	neg.	218.8	16.0	neg.	646.0	193.0
Syria	621.9	0.1	9.8	566.6	0.1	5.7	neg.	224.9	1.7	neg.	616.2	564.9
Sudan	485.2	0.1	225.9	148.9	neg.	0.5	neg.	-66.4	1.5	neg.	484.7	147.4
Kuwait	462.7	0.1	12.8	410.2	0.1	1,031.7	0.2	302.2	256.5	0.1	-569.0	153.7
Yemen	450.9	0.1	6.8	422.2	0.1	185.3	neg.	58.7	116.7	neg.	265.6	305.5
Jordan	430.7	0.1	-67.0	1,305.9	0.3	100.0	neg.	-40.8	168.9	neg.	330.7	1,136.9
Cambodia	413.7	0.1	30.3	317.5	0.1	31.3	neg.	-0.5	31.5	neg.	382.4	286.0

Compiled by Ministry of International Trade and Industry

Note: neg. - negligible

Table 14 :
Trade with Major Asian Countries, 2004-2005

Country	Exports					Imports					Balance of Trade	
	2005			2004		2005			2004		2005	2004
	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	
Total	**533,787.8**	**100.0**	**11.0**	**480,740.3**	**100.0**	**434,009.9**	**100.0**	**8.5**	**400,076.8**	**100.0**	**99,777.9**	**80,663.5**
Asia	**325,113.5**	**60.9**	**10.6**	**293,978.4**	**61.2**	**295,086.7**	**68.0**	**10.9**	**266,178.0**	**66.5**	**30,026.8**	**27,800.4**
North East Asia	**149,210.8**	**28.0**	**5.0**	**142,108.4**	**29.6**	**169,288.5**	**39.0**	**8.9**	**155,448.4**	**38.9**	**-20,077.7**	**-13,340.0**
Japan	49,917.7	9.4	2.8	48,552.5	10.1	62,981.7	14.5	-1.2	63,736.9	15.9	-13,063.9	-15,184.4
China	35,221.0	6.6	9.6	32,148.5	6.7	49,880.4	11.5	27.0	39,289.7	9.8	-14,659.3	-7,141.2
Hong Kong	31,205.3	5.8	8.8	28,685.8	6.0	10,796.5	2.5	-0.6	10,860.1	2.7	20,408.8	17,825.7
Republic of Korea	17,944.7	3.4	6.6	16,838.7	3.5	21,604.1	5.0	8.7	19,867.7	5.0	-3,659.4	-3,029.0
Taiwan	14,813.4	2.8	-6.0	15,763.0	3.3	23,973.5	5.5	10.7	21,650.7	5.4	-9,160.2	-5,887.7
Asean	**139,207.8**	**26.1**	**15.4**	**120,601.1**	**25.1**	**106,975.9**	**24.6**	**11.6**	**95,816.5**	**23.9**	**32,232.0**	**24,784.5**
West Asia	**15,217.6**	**2.9**	**6.7**	**14,256.7**	**3.0**	**14,276.1**	**3.3**	**47.4**	**9,682.3**	**2.4**	**941.5**	**4,574.4**
United Arab Emirates	6,993.3	1.3	18.5	5,903.1	1.2	2,838.5	0.7	65.4	1,716.6	0.4	4,154.8	4,186.5
Turkey	2,024.2	0.4	33.9	1,511.8	0.3	269.5	0.1	27.9	210.7	0.1	1,754.7	1,301.0
Saudi Arabia	1,792.0	0.3	-2.1	1,830.7	0.4	5,859.3	1.4	56.5	3,743.7	0.9	-4,067.3	-1,913.0
Iran	1,357.9	0.3	3.3	1,314.3	0.3	1,318.5	0.3	34.2	982.3	0.2	39.4	332.0
Syria	621.9	0.1	9.8	566.6	0.1	5.7	neg.	224.9	1.7	neg.	616.2	564.9
Kuwait	462.7	0.1	12.8	410.2	0.1	1,031.7	0.2	302.2	256.5	0.1	-569.0	153.7
Yemen	450.9	0.1	6.8	422.2	0.1	185.3	neg.	58.7	116.7	neg.	265.6	305.5
Jordan	430.7	0.1	-67.0	1,305.9	0.3	100.0	neg.	-40.8	168.9	neg.	330.7	1,136.9
South Asia	**21,244.5**	**4.0**	**25.3**	**16,949.5**	**3.5**	**4,504.4**	**1.0**	**-13.4**	**5,198.6**	**1.3**	**16,740.2**	**11,750.8**
India	14,971.8	2.8	31.2	11,410.5	2.4	4,163.8	1.0	-15.0	4,897.3	1.2	10,808.0	6,513.1
Pakistan	2,803.6	0.5	5.2	2,664.9	0.6	214.2	neg.	4.0	206.0	0.1	2,589.5	2,458.9
Sri Lanka	1,659.6	0.3	26.6	1,311.0	0.3	40.7	neg.	49.7	27.2	neg.	1,618.9	1,283.8
Bangladesh	1,550.2	0.3	12.0	1,384.1	0.3	82.6	neg.	27.5	64.8	neg.	1,467.7	1,319.3
Central Asia	**226.1**	**neg.**	**264.0**	**62.1**	**neg.**	**41.5**	**neg.**	**29.4**	**32.1**	**neg.**	**184.6**	**30.0**
Kazakhstan	183.1	neg.	379.6	38.2	neg.	38.5	neg.	58.1	24.3	neg.	144.7	13.9
Uzbekistan	34.4	neg.	80.4	19.1	neg.	0.1	neg.	-87.6	0.9	neg.	34.3	18.2

Compiled by Ministry of International Trade and Industry
Note: neg. - negligible

Table 15 :
Trade with Major Countries in the Americas, 2004-2005

Country	Exports					Imports					Balance of Trade	
	2005			2004		2005			2004		2005	2004
	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	
Total	**533,787.8**	**100.0**	**11.0**	**480,740.3**	**100.0**	**434,009.9**	**100.0**	**8.5**	**400,076.8**	**100.0**	**99,777.9**	**80,663.5**
Americas	**114,048.8**	**21.4**	**15.3**	**98,886.0**	**20.6**	**64,837.4**	**14.9**	**0.6**	**64,475.9**	**16.1**	**49,211.4**	**34,410.1**
North America	**107,879.9**	**20.2**	**15.8**	**93,192.6**	**19.4**	**58,051.1**	**13.4**	**-2.7**	**59,639.0**	**14.9**	**49,828.8**	**33,553.6**
USA	105,032.9	19.7	16.5	90,181.5	18.8	55,918.3	12.9	-3.4	57,880.0	14.5	49,114.7	32,301.5
Canada	2,846.9	0.5	-5.5	3,011.1	0.6	2,132.8	0.5	21.3	1,759.0	0.4	714.2	1,252.2
Central America	**3,113.3**	**0.6**	**0.9**	**3,086.4**	**0.6**	**1,559.6**	**0.4**	**20.2**	**1,297.7**	**0.3**	**1,553.7**	**1,788.7**
Mexico	2,547.5	0.5	2.2	2,493.6	0.5	510.4	0.1	neg.	510.6	0.1	2,037.1	1,983.0
Panama	275.8	0.1	0.2	275.2	0.1	131.8	neg.	*	2.6	neg.	144.0	272.6
Costa Rica	164.5	neg.	13.5	144.9	neg.	874.3	0.2	20.6	725.1	0.2	-709.8	-580.2
El Salvador	42.8	neg.	6.3	40.3	neg.	2.6	neg.	79.7	1.4	neg.	40.3	38.9
Honduras	36.4	neg.	-45.5	66.8	neg.	1.0	neg.	574.0	0.1	neg.	35.5	66.7
Guatemala	36.4	neg.	-13.7	42.1	neg.	37.7	neg.	-29.4	53.3	neg.	-1.3	-11.2
South America	**2,658.4**	**0.5**	**17.0**	**2,271.8**	**0.5**	**5,102.6**	**1.2**	**50.1**	**3,399.8**	**0.8**	**-2,444.2**	**-1,128.0**
Brazil	1,413.3	0.3	16.5	1,213.0	0.3	1,977.9	0.5	52.4	1,297.5	0.3	-564.5	-84.5
Argentina	389.1	0.1	53.9	252.9	0.1	2,322.5	0.5	62.4	1,430.3	0.4	-1,933.4	-1,177.4
Chile	328.9	0.1	-8.9	361.1	0.1	564.6	0.1	8.2	521.9	0.1	-235.7	-160.8
Peru	178.8	neg.	-13.1	205.8	neg.	24.8	neg.	-25.9	33.5	neg.	153.9	172.3
Colombia	136.2	neg.	53.1	89.0	neg.	7.0	neg.	-1.0	7.1	neg.	129.2	81.9
Venezuela	95.0	neg.	49.4	63.6	neg.	55.5	neg.	404.6	11.0	neg.	39.5	52.6
Ecuador	36.6	neg.	7.0	34.2	neg.	6.1	neg.	45.6	4.2	neg.	30.6	30.1
Uruguay	27.2	neg.	-14.9	32.0	neg.	128.8	neg.	85.7	69.3	neg.	-101.5	-37.3
Caribbean	**397.2**	**0.1**	**18.5**	**335.2**	**0.1**	**124.2**	**neg.**	**-10.9**	**139.3**	**neg.**	**273.1**	**195.8**

Compiled by Ministry of International Trade and Industry
Note: neg. - negligible
** - not meaningful*

Table 16 :
Trade with Major European Countries, 2004-2005

Country	Exports					Imports					Balance of Trade	
	2005			2004		2005			2004		2005	2004
	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	
Total	**533,787.8**	**100.0**	**11.0**	**480,740.3**	**100.0**	**434,009.9**	**100.0**	**8.5**	**400,076.8**	**100.0**	**99,777.9**	**80,663.5**
Europe	**66,255.4**	**12.4**	**3.7**	**63,899.1**	**13.3**	**57,622.7**	**13.3**	**6.3**	**54,184.2**	**13.5**	**8,632.8**	**9,714.9**
EU	**62,629.3**	**11.7**	**3.7**	**60,387.6**	**12.6**	**50,512.3**	**11.6**	**5.2**	**48,030.6**	**12.0**	**12,117.0**	**12,356.9**
Other Europe	**3,626.1**	**0.7**	**3.3**	**3,511.5**	**0.7**	**7,110.3**	**1.6**	**15.5**	**6,153.6**	**1.5**	**-3,484.2**	**-2,642.1**
Russia	1,803.9	0.3	16.7	1,545.7	0.3	1,636.8	0.4	-8.2	1,782.3	0.4	167.1	-236.6
Switzerland	746.4	0.1	13.1	660.0	0.1	4,691.2	1.1	21.8	3,851.5	1.0	-3,944.8	-3,191.5
Ukraine	559.5	0.1	95.3	286.5	0.1	407.8	0.1	111.5	192.9	neg.	151.7	93.7
Norway	198.1	neg.	1.7	194.8	neg.	269.7	0.1	13.5	237.5	0.1	-71.6	-42.8
Romania	125.3	neg.	10.1	113.8	neg.	40.6	neg.	45.2	28.0	neg.	84.7	85.8
Bulgaria	75.3	neg.	-11.7	85.3	neg.	32.6	neg.	46.5	22.2	neg.	42.7	63.1
Yugoslavia	39.3	neg.	50.7	26.1	neg.	3.5	neg.	-75.6	14.2	neg.	35.9	11.9
Croatia	33.1	neg.	-14.9	38.9	neg.	6.9	neg.	94.9	3.5	neg.	26.2	35.4
Iceland	11.3	neg.	34.1	8.4	neg.	1.3	neg.	5.2	1.2	neg.	10.0	7.2
Azerbaijan	8.7	neg.	-97.8	396.2	0.1	neg.	neg.	*	0.2	neg.	neg.	396.1
Macedonia	7.2	neg.	*	1.1	neg.	0.1	neg.	-29.7	0.1	neg.	7.1	1.0
Monaco	5.3	neg.	75.2	3.0	neg.	1.0	neg.	288.0	0.2	neg.	4.4	2.8
Georgia	4.6	neg.	-96.7	138.6	neg.	4.7	neg.	48.9	3.1	neg.	-0.1	135.4
Armenia	2.5	neg.	-41.5	4.3	neg.	0.8	neg.	*	neg.	neg.	1.7	4.2
San Marino	2.4	neg.	*	nil	nil	nil	nil	nil	nil	nil	neg.	nil
Albania	1.0	neg.	-82.6	6.0	neg.	0.1	neg.	-68.0	0.5	neg.	0.9	5.5
Montenegro	0.8	neg.	2.4	0.8	neg.	neg.	neg.	neg.	0.1	neg.	neg.	0.8
Moldova	0.4	neg.	7.7	0.4	neg.	neg.	neg.	neg.	neg.	neg.	neg.	0.4
Liechtenstein	0.4	neg.	1.8	0.4	neg.	0.1	neg.	-12.6	0.1	neg.	0.3	0.3
Bosnia-Herzegovinia	0.3	neg.	4.0	0.3	neg.	2.3	neg.	48.8	1.5	neg.	-2.0	-1.3

Compiled by Ministry of International Trade and Industry
Note: neg. - negligible
** - not meaningful*

Table 17 :

Trade with Major African Countries, 2004-2005

Country	Exports					Imports					Balance of Trade	
	2005			2004		2005			2004		2005	2004
	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	Share (%)	Change (%)	RM million	Share (%)	RM million	
Total	**533,787.8**	**100.0**	**11.0**	**480,740.3**	**100.0**	**434,009.9**	**100.0**	**8.5**	**400,076.8**	**100.0**	**99,777.9**	**80,663.5**
Africa	**7,649.1**	**1.4**	**26.8**	**6,030.6**	**1.3**	**2,511.2**	**0.6**	**5.2**	**2,386.2**	**0.6**	**5,137.9**	**3,644.4**
South Africa	2,164.0	0.4	19.1	1,816.7	0.4	1,086.2	0.3	-14.9	1,275.9	0.3	1,077.8	540.8
Egypt	1,730.1	0.3	24.6	1,388.6	0.3	139.7	neg.	19.3	117.1	neg.	1,590.4	1,271.5
Nigeria	697.0	0.1	233.6	209.0	neg.	51.1	neg.	218.8	16.0	neg.	646.0	193.0
Sudan	485.2	0.1	225.9	148.9	neg.	0.5	neg.	-66.4	1.5	neg.	484.7	147.4
Ghana	254.8	neg.	20.5	211.5	neg.	187.6	neg.	105.6	91.2	neg.	67.2	120.3
Mauritius	228.6	neg.	9.4	209.0	neg.	3.0	neg.	-53.0	6.4	neg.	225.5	202.6
Kenya	196.3	neg.	20.4	163.0	neg.	26.8	neg.	24.5	21.5	neg.	169.5	141.5
Algeria	194.2	neg.	-43.8	345.7	0.1	3.4	neg.	533.9	0.5	neg.	190.8	345.2
Togo	190.8	neg.	-14.1	222.2	neg.	5.4	neg.	-43.8	9.6	neg.	185.4	212.6
Tunisia	148.4	neg.	17.2	126.6	neg.	15.7	neg.	-36.3	24.6	neg.	132.7	102.0
Morocco	129.4	neg.	24.9	103.6	neg.	57.4	neg.	122.8	25.8	neg.	71.9	77.8
Tanzania	114.0	neg.	29.7	87.8	neg.	82.0	neg.	97.2	41.6	neg.	31.9	46.3
Benin	100.0	neg.	122.2	45.0	neg.	3.5	neg.	-48.0	6.6	neg.	96.6	38.4
Angola	88.9	neg.	7.6	82.6	neg.	neg.	neg.	136.3	neg.	neg.	88.9	82.6
Djibouti	82.6	neg.	62.4	50.9	neg.	neg.	neg.	453.1	neg.	neg.	82.6	50.8
Congo	62.9	neg.	154.0	24.7	neg.	neg.	neg.	-96.9	0.3	neg.	62.9	24.5
Libya	61.3	neg.	-47.6	117.0	neg.	42.6	neg.	79.4	23.7	neg.	18.7	93.2
Senegal	61.0	neg.	97.1	30.9	neg.	1.4	neg.	1,012.9	0.1	neg.	59.6	30.8
Gambia	60.1	neg.	5.0	57.3	neg.	0.9	neg.	-85.9	6.3	neg.	59.3	50.9
Mozambique	57.6	neg.	-5.3	60.9	neg.	2.8	neg.	715.3	0.3	neg.	54.9	60.5
Reunion Islands	51.8	neg.	77.9	29.1	neg.	1.6	neg.	-68.8	5.1	neg.	50.3	24.1
Madagascar	50.6	neg.	39.8	36.2	neg.	8.0	neg.	-46.7	14.9	neg.	42.7	21.3
Mauritania	48.6	neg.	-41.8	83.6	neg.	4.9	neg.	-54.0	10.6	neg.	43.7	73.0
Cameroon	34.9	neg.	39.1	25.1	neg.	111.4	neg.	-34.1	169.2	neg.	-76.5	-144.1
Zaire	33.1	neg.	78.5	18.5	neg.	9.0	neg.	-82.3	51.0	neg.	24.0	-32.5
Ethiopia	32.1	neg.	-5.0	33.8	neg.	21.1	neg.	141.0	8.7	neg.	11.0	25.0
Liberia	32.1	neg.	31.7	24.4	neg.	224.6	0.1	990.7	20.6	neg.	-192.5	3.8

Compiled by Ministry of International Trade and Industry
Note: neg. - negligible

Table 18 :

Major Exports of Manufactured Goods to Top Ten Destinations, 2004-2005

Products	Country	2005 RM million	2005 Share (%)	2004 RM million	2004 Share (%)
Total		**533,787.8**	**100.0**	**480,740.3**	**100.0**
Manufactured Goods		**413,132.6**	**77.4**	**376,822.9**	**78.4**
Electrical & electronics products	**Total**	**264,698.9**	**49.6**	**241,483.1**	**50.2**
	USA	81,967.9	15.4	68,717.7	14.3
	Singapore	43,891.8	8.2	40,862.7	8.5
	Hong Kong	24,085.5	4.5	21,559.2	4.5
	Japan	16,718.1	3.1	17,876.3	3.7
	People's Republic of China	15,292.0	2.9	12,699.0	2.6
	Netherlands	11,086.8	2.1	9,299.5	1.9
	Thailand	10,367.5	1.9	9,215.8	1.9
	Germany	6,897.2	1.3	6,734.2	1.4
	Taiwan	6,000.6	1.1	7,390.8	1.5
	France	5,197.0	1.0	5,474.1	1.1
Chemicals & chemical products	**Total**	**26,301.3**	**4.9**	**24,942.8**	**5.2**
	People's Republic of China	3,899.9	0.7	3,919.5	0.8
	Thailand	2,493.2	0.5	2,184.7	0.5
	Singapore	2,455.0	0.5	2,264.7	0.5
	Japan	2,429.0	0.5	2,499.7	0.5
	Indonesia	2,331.7	0.4	2,135.4	0.4
	Hong Kong	1,933.3	0.4	1,687.5	0.4
	India	1,394.2	0.3	1,064.0	0.2
	Republic of Korea	1,232.4	0.2	1,120.6	0.2
	Taiwan	1,059.6	0.2	1,244.2	0.3
	USA	954.8	0.2	915.8	0.2
Machinery, appliances & parts	**Total**	**18,120.6**	**3.4**	**15,569.5**	**3.2**
	Singapore	4,248.6	0.8	3,155.7	0.7
	USA	1,607.1	0.3	1,329.1	0.3
	Thailand	1,521.1	0.3	1,352.8	0.3
	People's Republic of China	1,255.4	0.2	1,046.4	0.2
	Indonesia	1,130.3	0.2	1,124.7	0.2
	Japan	1,106.7	0.2	940.3	0.2
	Australia	626.3	0.1	456.1	0.1
	Hong Kong	552.0	0.1	581.6	0.1
	Germany	443.7	0.1	261.4	0.1
	Spain	437.0	0.1	386.2	0.1
Wood products	**Total**	**14,638.9**	**2.7**	**14,074.3**	**2.9**
	Japan	3,626.7	0.7	3,763.4	0.8
	USA	3,286.8	0.6	3,011.4	0.6
	UK	806.2	0.2	934.4	0.2
	Republic of Korea	775.7	0.1	690.3	0.1
	Australia	621.1	0.1	683.2	0.1
	Taiwan	603.5	0.1	542.8	0.1
	People's Republic of China	532.2	0.1	507.7	0.1
	United Arab Emirates	423.6	0.1	428.0	0.1
	Singapore	372.0	0.1	413.7	0.1
	Canada	243.5	neg.	239.4	neg.

Continued...

Products	2005			2004	
	Country	RM million	Share (%)	RM million	Share (%)
Optical & scientific equipment	**Total**	**12,317.7**	**2.3**	**11,567.3**	**2.4**
	USA	2,755.1	0.5	2,429.2	0.5
	Japan	1,832.0	0.3	2,106.1	0.4
	Singapore	1,673.2	0.3	2,203.1	0.5
	People's Republic of China	982.7	0.2	567.6	0.1
	Netherlands	851.1	0.2	877.1	0.2
	Thailand	813.3	0.2	295.7	0.1
	Germany	508.5	0.1	397.8	0.1
	Taiwan	390.4	0.1	290.4	0.1
	Hong Kong	387.1	0.1	452.3	0.1
	Republic of Korea	376.9	0.1	108.3	neg.
Manufactures of metal	**Total**	**10,847.9**	**2.0**	**9,621.6**	**2.0**
	Singapore	2,365.0	0.4	2,405.0	0.5
	Japan	1,073.2	0.2	1,054.7	0.2
	Thailand	900.0	0.2	644.0	0.1
	USA	717.6	0.1	675.6	0.1
	People's Republic of China	628.0	0.1	491.4	0.1
	Australia	484.9	0.1	336.6	0.1
	Hong Kong	452.0	0.1	435.8	0.1
	Indonesia	442.9	0.1	343.5	0.1
	Taiwan	402.4	0.1	331.1	0.1
	Republic of Korea	379.8	0.1	205.5	neg.
Textiles & apparel	**Total**	**10,289.1**	**1.9**	**9,689.1**	**2.0**
	USA	2,927.6	0.5	2,937.4	0.6
	Turkey	638.1	0.1	397.1	0.1
	Singapore	461.9	0.1	506.6	0.1
	UK	456.2	0.1	528.0	0.1
	Japan	451.6	0.1	523.9	0.1
	People's Republic of China	447.8	0.1	373.8	0.1
	Hong Kong	352.6	0.1	454.4	0.1
	Germany	347.9	0.1	270.0	0.1
	Syria	340.1	0.1	246.0	0.1
	India	323.2	0.1	283.8	0.1
Iron & steel products	**Total**	**7,002.8**	**1.3**	**7,235.9**	**1.5**
	Thailand	1,281.2	0.2	698.9	0.1
	Singapore	830.9	0.2	731.9	0.2
	People's Republic of China	595.5	0.1	438.2	0.1
	USA	542.7	0.1	668.9	0.1
	Australia	527.6	0.1	665.9	0.1
	Viet Nam	410.3	0.1	777.2	0.2
	Indonesia	410.1	0.1	252.6	0.1
	Russia	319.4	0.1	412.8	0.1
	Republic of Korea	232.6	neg.	377.2	0.1
	Taiwan	206.3	neg.	177.6	neg.
Transport equipment	**Total**	**6,997.9**	**1.3**	**5,329.2**	**1.1**
	Singapore	1,176.5	0.2	1,302.2	0.3
	Thailand	660.7	0.1	456.4	0.1
	Nigeria	529.9	0.1	0.5	neg.
	USA	519.7	0.1	422.6	0.1
	UK	502.6	0.1	302.0	0.1
	Indonesia	473.3	0.1	866.6	0.2
	Taiwan	369.2	0.1	312.3	0.1
	Viet Nam	277.0	0.1	62.9	neg.
	Myanmar	240.6	neg.	4.7	neg.
	Germany	207.3	neg.	178.8	neg.

Continued...

Products	2005			2004	
	Country	RM million	Share (%)	RM million	Share (%)
Rubber products	**Total**	**6,985.5**	**1.3**	**6,183.6**	**1.3**
	USA	2,103.1	0.4	1,919.0	0.4
	Japan	383.0	0.1	361.0	0.1
	UK	368.0	0.1	343.7	0.1
	Germany	296.4	0.1	266.1	0.1
	People's Republic of China	290.3	0.1	175.5	neg.
	Thailand	265.4	neg.	174.9	neg.
	Italy	255.7	neg.	261.8	0.1
	Australia	250.7	neg.	263.4	0.1
	Brazil	230.3	neg.	171.4	neg.
	France	209.2	neg.	173.2	neg.

Compiled by Ministry of International Trade and Industry
Note: neg. - negligible

Table 19 :
Major Imports of Manufactured Goods from Top Ten Suppliers, 2004-2005

Products	Country	2005 RM million	2005 Share (%)	2004 RM million	2004 Share (%)
Total		**434,009.9**	**100.0**	**400,076.8**	**100.0**
Manufactured Goods		**367,723.2**	**84.7**	**344,275.0**	**86.1**
Electrical & electronics products	**Total**	**193,181.9**	**44.5**	**182,100.4**	**45.5**
	USA	34,311.1	7.9	35,854.3	9.0
	People's Republic of China	30,723.5	7.1	23,615.7	5.9
	Japan	24,293.9	5.6	25,063.3	6.3
	Singapore	20,304.2	4.7	18,083.7	4.5
	Taiwan	14,821.2	3.4	12,771.8	3.2
	Republic of Korea	12,628.1	2.9	12,153.0	3.0
	Philippines	10,482.4	2.4	9,189.2	2.3
	Germany	9,711.4	2.2	9,126.5	2.3
	Thailand	8,094.3	1.9	8,448.9	2.1
	Hong Kong	6,797.0	1.6	6,437.6	1.6
Machinery, appliances & parts	**Total**	**36,355.1**	**8.4**	**32,894.6**	**8.2**
	Japan	9,143.1	2.1	8,436.0	2.1
	USA	5,633.8	1.3	5,213.1	1.3
	People's Republic of China	3,505.9	0.8	2,505.2	0.6
	Germany	2,828.9	0.7	3,089.3	0.8
	Singapore	2,466.0	0.6	2,234.9	0.6
	Thailand	2,142.5	0.5	1,411.8	0.4
	Taiwan	1,931.9	0.4	1,996.9	0.5
	Republic of Korea	1,165.2	0.3	1,041.2	0.3
	Italy	1,051.2	0.2	1,151.3	0.3
	UK	842.0	0.2	903.7	0.2
Chemicals & chemical products	**Total**	**31,972.8**	**7.4**	**29,917.5**	**7.5**
	Singapore	5,119.4	1.2	4,467.3	1.1
	Japan	4,303.9	1.0	4,052.1	1.0
	USA	3,089.5	0.7	3,029.4	0.8
	Thailand	2,387.6	0.6	2,457.4	0.6
	People's Republic of China	2,049.3	0.5	1,799.4	0.4
	Indonesia	1,718.1	0.4	1,654.0	0.4
	Republic of Korea	1,685.5	0.4	1,675.2	0.4
	Taiwan	1,419.1	0.3	1,358.2	0.3
	Germany	1,289.7	0.3	1,251.4	0.3
	India	747.0	0.2	612.8	0.2
Transport equipment	**Total**	**19,339.9**	**4.5**	**16,586.8**	**4.1**
	Japan	6,496.0	1.5	6,625.8	1.7
	Republic of Korea	2,221.6	0.5	1,328.4	0.3
	Germany	2,133.5	0.5	1,094.5	0.3
	Thailand	2,052.5	0.5	1,475.8	0.4
	USA	1,744.9	0.4	2,773.0	0.7
	Indonesia	881.0	0.2	395.4	0.1
	UK	565.4	0.1	402.5	0.1
	Singapore	468.6	0.1	374.0	0.1
	People's Republic of China	468.5	0.1	249.7	0.1
	Netherlands	420.4	0.1	186.6	neg.

Continued...

Products	2005			2004	
	Country	RM million	Share (%)	RM million	Share (%)
Iron & steel products	**Total**	**18,260.9**	**4.2**	**16,096.8**	**4.0**
	Japan	5,275.7	1.2	5,295.4	1.3
	People's Republic of China	1,774.0	0.4	1,393.5	0.3
	Taiwan	1,584.5	0.4	1,541.7	0.4
	Republic of Korea	1,500.4	0.3	1,384.8	0.3
	Italy	1,459.1	0.3	351.5	0.1
	USA	1,101.9	0.3	852.3	0.2
	Thailand	547.1	0.1	657.6	0.2
	Australia	471.4	0.1	403.3	0.1
	UK	435.3	0.1	652.0	0.2
	India	401.5	0.1	375.1	0.1
Manufactures of metal	**Total**	**17,771.9**	**4.1**	**15,660.9**	**3.9**
	Japan	3,655.5	0.8	3,632.4	0.9
	Australia	1,979.3	0.5	1,524.0	0.4
	Singapore	1,417.7	0.3	1,204.2	0.3
	People's Republic of China	1,365.8	0.3	1,187.0	0.3
	Indonesia	1,233.6	0.3	839.5	0.2
	USA	1,222.5	0.3	1,324.6	0.3
	Taiwan	1,071.8	0.2	914.4	0.2
	Republic of Korea	883.1	0.2	799.5	0.2
	Thailand	736.6	0.2	457.9	0.1
	Germany	507.3	0.1	471.5	0.1
Optical & scientific equipment	**Total**	**12,468.1**	**2.9**	**13,532.6**	**3.4**
	USA	2,967.5	0.7	3,434.1	0.9
	Japan	2,937.2	0.7	3,338.1	0.8
	Singapore	1,474.7	0.3	1,690.0	0.4
	Hong Kong	1,172.4	0.3	1,230.9	0.3
	People's Republic of China	999.1	0.2	831.0	0.2
	Germany	593.0	0.1	781.5	0.2
	UK	459.0	0.1	354.2	0.1
	Switzerland	308.7	0.1	265.9	0.1
	Taiwan	257.2	0.1	213.4	0.1
	Thailand	156.7	neg.	226.0	0.1
Processed food	**Total**	**6,353.7**	**1.5**	**5,910.3**	**1.5**
	Australia	1,324.2	0.3	1,065.3	0.3
	Thailand	879.1	0.2	1,192.3	0.3
	New Zealand	667.3	0.2	706.1	0.2
	USA	482.8	0.1	432.6	0.1
	Brazil	417.5	0.1	66.1	neg.
	People's Republic of China	367.7	0.1	329.0	0.1
	Netherlands	338.7	0.1	325.7	0.1
	Singapore	287.4	0.1	248.3	0.1
	Indonesia	265.3	0.1	286.7	0.1
	Denmark	165.8	neg.	91.0	neg.
Paper & pulp products	**Total**	**5,266.0**	**1.2**	**4,996.3**	**1.2**
	Indonesia	955.1	0.2	856.2	0.2
	Japan	534.7	0.1	625.0	0.2
	Taiwan	450.3	0.1	392.0	0.1
	Thailand	423.1	0.1	390.4	0.1
	USA	411.4	0.1	404.4	0.1
	Germany	286.2	0.1	327.8	0.1
	People's Republic of China	282.9	0.1	207.5	0.1
	Republic of Korea	252.7	0.1	208.9	0.1
	Singapore	228.3	0.1	227.4	0.1
	Brazil	197.3	neg.	14.2	neg.

Continued...

Products	2005			2004	
	Country	RM million	Share (%)	RM million	Share (%)
Manufactures of plastics	**Total**	**5,220.7**	**1.2**	**5,004.1**	**1.3**
	Japan	1,203.6	0.3	1,196.0	0.3
	Singapore	831.2	0.2	799.1	0.2
	People's Republic of China	755.2	0.2	577.0	0.1
	USA	560.7	0.1	674.3	0.2
	Thailand	392.1	0.1	322.5	0.1
	Taiwan	304.9	0.1	328.2	0.1
	Indonesia	185.4	neg.	208.1	0.1
	Republic of Korea	166.5	neg.	165.8	neg.
	Hong Kong	133.3	neg.	134.5	neg.
	Germany	116.3	neg.	102.2	neg.

Compiled by Ministry of International Trade and Industry
Note: neg. - negligible

Table 20 :
Exports of Top Ten Products to Selected Destinations, 2004-2005

Products	2005 RM million	2005 Share (%)	2005 Change (%)	2004 RM million	2004 Share (%)
Total	**533,787.8**	**100.0**	**11.0**	**480,740.3**	**100.0**
Manufactured Goods	**413,132.6**	**77.4**	**9.6**	**376,822.9**	**78.4**
Agricultural Goods	**41,178.1**	**7.7**	**0.2**	**41,105.7**	**8.6**
Mining Goods	**70,212.1**	**13.2**	**26.9**	**55,314.1**	**11.5**
ASEAN	**139,207.8**	**26.1**	**15.4**	**120,601.1**	**25.1**
Manufactured Goods	**105,266.6**	**19.7**	**8.4**	**97,138.5**	**20.2**
Agricultural Goods	**5,330.5**	**1.0**	**5.6**	**5,046.2**	**1.0**
Mining Goods	**24,832.5**	**4.7**	**57.6**	**15,758.9**	**3.3**
Electrical & electronics products	59,691.3	42.9	7.2	55,698.0	46.2
Refined petroleum products	12,262.6	8.8	56.5	7,833.2	6.5
Crude petroleum	11,969.7	8.6	63.0	7,345.0	6.1
Chemicals & chemical products	9,104.2	6.5	9.7	8,302.9	6.9
Machinery, appliances & parts	7,657.2	5.5	18.8	6,446.4	5.3
Manufactures of metal	4,155.4	3.0	4.2	3,988.3	3.3
Iron & steel products	3,168.9	2.3	18.7	2,669.6	2.2
Transport equipment	2,913.2	2.1	5.7	2,756.7	2.3
Optical & scientific equipment	2,865.0	2.1	-3.5	2,968.2	2.5
Processed food	2,524.6	1.8	9.5	2,306.2	1.9
USA	**105,032.9**	**19.7**	**16.5**	**90,181.5**	**18.8**
Manufactured Goods	**100,221.3**	**18.8**	**17.4**	**85,333.2**	**17.8**
Agricultural Goods	**2,619.3**	**0.5**	**19.2**	**2,197.7**	**0.5**
Mining Goods	**1,469.9**	**0.3**	**-27.9**	**2,038.1**	**0.4**
Electrical & electronics products	81,967.9	78.0	19.3	68,717.7	76.2
Wood products	3,286.8	3.1	9.1	3,011.4	3.3
Textiles & apparel	2,927.6	2.8	-0.3	2,937.4	3.3
Optical & scientific equipment	2,755.1	2.6	13.4	2,429.2	2.7
Rubber products	2,103.1	2.0	9.6	1,919.0	2.1
Machinery, appliances & parts	1,607.1	1.5	20.9	1,329.1	1.5
Palm oil	1,403.1	1.3	26.6	1,108.7	1.2
Chemicals & chemical products	954.8	0.9	4.3	915.8	1.0
Crude petroleum	935.9	0.9	-15.3	1,105.6	1.2
Manufactures of metal	717.6	0.7	6.2	675.6	0.7
EU	**62,629.3**	**11.7**	**3.7**	**60,387.6**	**12.6**
Manufactured Goods	**53,808.1**	**10.1**	**4.1**	**51,697.7**	**10.8**
Agricultural Goods	**7,445.3**	**1.4**	**0.8**	**7,383.7**	**1.5**
Mining Goods	**580.5**	**0.1**	**20.1**	**483.5**	**0.1**
Electrical & electronics products	37,324.6	59.6	5.8	35,263.9	58.4
Palm oil	3,999.6	6.4	2.4	3,905.8	6.5
Machinery, appliances & parts	2,210.8	3.5	16.6	1,896.8	3.1
Optical & scientific equipment	1,914.8	3.1	-0.1	1,917.2	3.2
Textiles & apparel	1,810.7	2.9	4.5	1,732.4	2.9
Rubber products	1,688.2	2.7	6.8	1,580.8	2.6
Crude rubber	1,683.7	2.7	-1.4	1,707.0	2.8
Wood products	1,677.5	2.7	1.5	1,652.9	2.7
Chemicals & chemical products	1,220.1	1.9	-20.7	1,538.0	2.5
Manufactures of plastics	1,179.4	1.9	30.7	902.1	1.5

Continued...

Products	2005			2004	
	RM million	Share (%)	Change (%)	RM million	Share (%)
Japan	**49,917.7**	**9.4**	**2.8**	**48,552.5**	**10.1**
Manufactured Goods	**30,649.4**	**5.7**	**-3.3**	**31,702.0**	**6.6**
Agricultural Goods	**2,546.9**	**0.5**	**-2.4**	**2,610.3**	**0.5**
Mining Goods	**16,048.7**	**3.0**	**18.4**	**13,552.1**	**2.8**
Electrical & electronics products	16,718.1	33.5	-6.5	17,876.3	36.8
LNG	13,117.0	26.3	28.4	10,212.3	21.0
Wood products	3,626.7	7.3	-3.6	3,763.4	7.8
Chemicals & chemical products	2,429.0	4.9	-2.8	2,499.7	5.1
Optical & scientific equipment	1,832.0	3.7	-13.0	2,106.1	4.3
Refined petroleum products	1,710.3	3.4	-9.1	1,880.9	3.9
Crude petroleum	1,132.2	2.3	-11.2	1,274.9	2.6
Machinery, appliances & parts	1,106.7	2.2	17.7	940.3	1.9
Manufactures of metal	1,073.2	2.1	1.7	1,054.7	2.2
Palm oil	982.2	2.0	-11.1	1,105.2	2.3
People's Republic of China	**35,221.0**	**6.6**	**9.6**	**32,148.5**	**6.7**
Manufactured Goods	**25,501.3**	**4.8**	**19.2**	**21,400.3**	**4.5**
Agricultural Goods	**7,809.3**	**1.5**	**4.7**	**7,458.5**	**1.6**
Mining Goods	**1,423.3**	**0.3**	**-51.1**	**2,910.7**	**0.6**
Electrical & electronics products	15,292.0	43.4	20.4	12,699.0	39.5
Palm oil	4,448.0	12.6	-16.0	5,292.9	16.5
Chemicals & chemical products	3,899.9	11.1	-0.5	3,919.5	12.2
Crude rubber	1,991.9	5.7	46.7	1,357.6	4.2
Machinery, appliances & parts	1,255.4	3.6	20.0	1,046.4	3.3
Saw logs & sawn timber	1,166.5	3.3	91.8	608.1	1.9
Optical & scientific equipment	982.7	2.8	73.1	567.6	1.8
Refined petroleum products	928.5	2.6	-24.5	1,229.9	3.8
Manufactures of metal	628.0	1.8	27.8	491.4	1.5
Iron & steel products	595.5	1.7	35.9	438.2	1.4

Compiled by Ministry of International Trade and Industry
Note: neg. - negligible

Table 21 :

Imports of Top Ten Products from Selected Sources, 2004-2005

Products	2005			2004	
	RM million	Share (%)	Change (%)	RM million	Share (%)
Total	**434,009.9**	**100.0**	**8.5**	**400,076.8**	**100.0**
Manufactured Goods	**367,723.2**	**84.7**	**6.8**	**344,275.0**	**86.1**
Agricultural Goods	**16,590.1**	**3.8**	**-1.3**	**16,805.4**	**4.2**
Mining Goods	**36,309.8**	**8.4**	**37.9**	**26,330.7**	**6.6**
ASEAN	**106,975.9**	**24.6**	**11.6**	**95,816.5**	**23.9**
Manufactured Goods	**78,378.3**	**18.1**	**10.0**	**71,267.0**	**17.8**
Agricultural Goods	**7,036.5**	**1.6**	**-10.2**	**7,839.2**	**2.0**
Mining Goods	**19,221.1**	**4.4**	**33.0**	**14,452.1**	**3.6**
Electrical & electronics products	41,899.4	39.2	8.4	38,648.9	40.3
Refined petroleum products	14,677.9	13.7	32.5	11,076.6	11.6
Chemicals & chemical products	9,478.5	8.9	8.5	8,737.7	9.1
Machinery, appliances & parts	5,570.6	5.2	26.0	4,419.7	4.6
Manufactures of metal	3,800.3	3.6	38.1	2,747.6	2.9
Transport equipment	3,521.9	3.3	48.4	2,372.5	2.5
Crude petroleum	2,368.3	2.2	70.5	1,388.9	1.4
Optical & scientific equipment	1,774.1	1.7	-14.0	2,063.6	2.2
Processed food	1,675.1	1.6	-15.5	1,984.5	2.1
Paper & pulp products	1,662.4	1.6	11.5	1,490.6	1.6
Japan	**62,981.7**	**14.5**	**-1.2**	**63,736.9**	**15.9**
Manufactured Goods	**59,913.2**	**13.8**	**-1.2**	**60,629.2**	**15.2**
Agricultural Goods	**62.5**	**neg.**	**-10.4**	**69.8**	**0.0**
Mining Goods	**173.1**	**neg.**	**5.1**	**164.7**	**0.0**
Electrical & electronics products	24,293.9	38.6	-3.1	25,063.3	39.3
Machinery, appliances & parts	9,143.1	14.5	8.4	8,436.0	13.2
Transport equipment	6,496.0	10.3	-2.0	6,625.8	10.4
Iron & steel products	5,275.7	8.4	-0.4	5,295.4	8.3
Chemicals & chemical products	4,303.9	6.8	6.7	4,052.1	6.4
Manufactures of metal	3,655.5	5.8	0.6	3,632.4	5.7
Optical & scientific equipment	2,937.2	4.7	-12.0	3,338.1	5.2
Manufactures of plastics	1,203.6	1.9	0.9	1,196.0	1.9
Non-metallic mineral products	536.4	0.9	-27.7	741.5	1.2
Paper & pulp products	534.7	0.8	-14.4	625.0	1.0
USA	**55,918.3**	**12.9**	**-3.4**	**57,880.0**	**14.5**
Manufactured Goods	**53,056.0**	**12.2**	**-4.2**	**55,362.2**	**13.8**
Agricultural Goods	**855.1**	**0.2**	**-12.9**	**981.7**	**0.2**
Mining Goods	**888.5**	**0.2**	**68.7**	**526.7**	**0.1**
Electrical & electronics products	34,311.1	61.4	-4.3	35,854.3	61.9
Machinery, appliances & parts	5,633.8	10.1	7.9	5,213.1	9.0
Chemicals & chemical products	3,089.5	5.5	2.0	3,029.4	5.2
Optical & scientific equipment	2,967.5	5.3	-13.6	3,434.1	5.9
Transport equipment	1,744.9	3.1	-37.1	2,773.0	4.8
Manufactures of metal	1,222.5	2.2	-7.2	1,324.6	2.3
Iron & steel products	1,101.9	2.0	29.5	852.3	1.5
Refined petroleum products	776.5	1.4	93.0	402.3	0.7
Manufactures of plastics	560.7	1.0	-16.8	674.3	1.2
Processed food	482.8	0.9	11.6	432.6	0.7

Continued...

Products	2005			2004	
	RM million	Share (%)	Change (%)	RM million	Share (%)
EU	**50,512.3**	**11.6**	**5.2**	**48,030.6**	**12.0**
Manufactured Goods	**48,411.4**	**11.2**	**6.5**	**45,453.9**	**11.4**
Agricultural Goods	**510.6**	**0.1**	**-17.1**	**616.1**	**0.2**
Mining Goods	**305.2**	**0.1**	**-25.3**	**408.3**	**0.1**
Electrical & electronics products	21,150.3	41.9	0.9	20,966.5	43.7
Machinery, appliances & parts	6,823.7	13.5	-2.9	7,027.1	14.6
Chemicals & chemical products	5,022.9	9.9	1.3	4,957.7	10.3
Transport equipment	3,688.8	7.3	79.4	2,056.5	4.3
Iron & steel products	3,250.5	6.4	50.5	2,162.9	4.5
Optical & scientific equipment	1,617.3	3.2	-2.3	1,655.2	3.4
Manufactures of metal	1,287.5	2.5	-10.3	1,432.4	3.0
Paper & pulp products	1,111.0	2.2	-10.7	1,244.5	2.6
Processed food	977.2	1.9	10.6	883.5	1.8
Manufactures of plastics	447.7	0.9	11.9	400.1	0.8
People's Republic of China	**49,880.4**	**11.5**	**27.0**	**39,289.7**	**9.8**
Manufactured Goods	**45,965.5**	**10.6**	**26.1**	**36,465.0**	**9.1**
Agricultural Goods	**1,796.2**	**0.4**	**22.8**	**1,463.0**	**0.4**
Mining Goods	**1,045.0**	**0.2**	**134.8**	**445.0**	**0.1**
Electrical & electronics products	30,723.5	61.6	30.1	23,615.7	60.1
Machinery, appliances & parts	3,505.9	7.0	39.9	2,505.2	6.4
Chemicals & chemical products	2,049.3	4.1	13.9	1,799.4	4.6
Iron & steel products	1,774.0	3.6	27.3	1,393.5	3.5
Textiles & apparel	1,504.8	3.0	7.7	1,397.6	3.6
Manufactures of metal	1,365.8	2.7	15.1	1,187.0	3.0
Optical & scientific equipment	999.1	2.0	20.2	831.0	2.1
Crude petroleum	820.6	1.6	237.5	243.1	0.6
Manufactures of plastics	755.2	1.5	30.9	577.0	1.5
Vegetables, roots, tubers	600.9	1.2	14.3	525.5	1.3

Compiled by Ministry of International Trade and Industry

Appendix 3 Bilateral Agreements On Trade And Investment

Trade Agreements as at December 2005

No.	Country	Date of Signing
	ASEAN	
1.	Cambodia	04.02.1999
2.	Indonesia	16.10.1973
3.	Lao PDR	11.08.1998
4.	Myanmar	09.06.1998
5.	Thailand	06.10.2000
6.	Viet Nam	11.08.1992
	CER	
7.	Australia	26.08.1958
	New Agreement	20.10.1997
8.	New Zealand	03.02.1961
	New Agreement	17.10.1997
	SOUTH ASIA	
9.	Bangladesh	01.12.1977
10.	India	11.10.2000
11.	Pakistan	05.11.1987
	EAST ASIA	
12.	China	01.04.1988
13.	Japan	10.05.1960
14.	North Korea	09.06.1979
15.	Republic of Korea	05.11.1962
	AFRICA	
16.	Algeria	11.08.2003
17.	Burkina Faso	23.04.1998
18.	Egypt	08.01.1977
19.	Ethiopia	22.10.1998
20.	Ghana	03.12.1995
21.	Guinea	11.10.1999
22.	Libya	18.01.1977
23.	Malawi	05.09.1996
24.	Mali	16.11.1990
25.	Morocco	10.03.1997
26.	Namibia	12.08.1994
27.	South Africa	07.03.1997
28.	Sudan	14.05.1998
29.	Swaziland	12.10.1998
30.	Tunisia	25.11.1992
31.	Uganda	16.04.1998
32.	Zimbabwe	09.07.1993

No.	Country	Date of Signing
	WEST ASIA	
33.	Iran	19.03.1989
34.	Iraq	17.02.1977
35.	Jordan	02.10.1994
36.	Lebanon	23.03.1995
37.	Syria	17.08.2003
38.	Turkey	13.02.1977
39.	United Arab Emirates	26.02.1962
40.	Yemen	11.02.1998
	NORTH AMERICA	
41.	USA (TIFA)	10.05.2004
	SOUTH AMERICA AND THE CARIBBEAN	
42.	Argentina	01.07.1991
43.	Brazil	26.04.1996
44.	Chile	21.06.1991
45.	Colombia	14.08.1995
46.	Cuba	26.09.1997
47.	Peru	13.10.1995
48.	Suriname	25.05.1998
49.	Uruguay	09.08.1995
50.	Venezuela	26.11.1991
	EASTERN EUROPE	
51.	Albania	24.01.1994
52.	Bosnia-Herzegovina	26.10.1994
53.	Bulgaria	20.05.1968
54.	Croatia	26.10.1994
55.	Macedonia	11.11.1997
56.	Romania	01.03.1991
57.	Ukraine	19.08.2002
58.	USSR (Russia)	03.04.1967
	COMMONWEALTH OF INDEPENDENT STATES	
59.	Kazakhstan	27.05.1996
60.	Kyrgyzstan	20.07.1995
61.	Turkmenistan	13.05.1994
62.	Uzbekistan	06.10.1997

Source : Ministry of International Trade and Industry

Bilateral Payment Arrangements/Agreements as at December 2005

No.	Country	Date of Signing
	IRANIAN MODEL	
1.	Iran	08.08.1988
2.	Mozambique	27.04.1991
3.	Botswana	06.06.1991
4.	Fiji	12.10.1991
5.	Bosnia-Herzegovina	13.11.1996
	ALADI MODEL	
6.	Venezuela	03.08.1990
7.	Mexico	24.09.1990
8.	Romania	20.05.1991
9.	Zimbabwe	07.06.1991
10.	Chile	21.06.1991
11.	Peru	13.11.1991
12.	Algeria	31.01.1992
13.	Seychelles	21.09.1992
14.	Tunisia	25.11.1992
15.	Viet Nam	29.03.1993
16.	Uzbekistan	28.06.1993
17.	Argentina	03.12.1993
18.	Albania	24.01.1994
19.	Lao PDR	16.04.1994
20.	Turkmenistan	30.05.1994
21.	Philippines	20.05.1999
22.	Kyrgyzstan	05.08.2002
23.	Thailand	20.09.2002
24.	Indonesia	18.06.2004
	REVOLVING CREDIT	
25.	Sudan	04.01.1992
	(New agreement)	18.12.1993

Source : Bank Negara Malaysia

No.	Country	Date of Signing
	POCPA	
26.	Algeria	14.06.1992
27.	Pakistan	06.08.1992
28.	Iraq	28.02.1993
	(New agreement)	28.02.1995
29.	Myanmar	21.01.1994
30.	Iran	08.02.1994
31.	Bosnia-Herzegovina	13.11.1996
32.	Cuba	26.03.1998
33.	Sudan	23.07.1999
34.	North Korea	20.12.2000
	(New agreement)	15.04.2002
35.	Russia	10.07.2002

Note:

1. Iranian Model:- Under this model, the central banks are not involved in the settlement of financial claims arising from trade. The central banks will guarantee its own importers i.e. if foreign importers do not pay, counter party central bank will pay the Malaysian exporters and vice versa.

2. ALADI Model:- Under this model, the central banks will guarantee payments to their respective exporters in domestic currency and settle, on a period basis, the net amount due to each other in an agreed currency.

3. Revolving Credit:- Under this model, Malaysia extends a two-year credit period on a deferred payment basis to a foreign country for the importation of Malaysian Products.

4. POCPA:- Under this scheme, developing countries would be able to import palm oil from Malaysia on deferred payment terms for a period of 2 years. With effect from August 2001, the POCPA fund has been converted into a revolving fund.

Agreements on the Avoidance of Double Taxation

No.	Country	Date of Signing
	EUROPE	
1.	Sweden	21.11.1970
	(New agreement)	28.02.2002
2.	Denmark	04.12.1970
	(Protocol)	03.12.2003
3.	Norway	23.12.1970
4.	UK	30.03.1973
	(New agreement)	10.12.1996
5.	Belgium	24.10.1973
	(Protocol)	21.11.1995
6.	Switzerland	30.12.1974
7.	France	24.04.1975
	(Protocol)	31.01.1991
8.	Federal Republic of Germany	08.04.1977
9.	Poland	16.09.1977
10.	Romania	26.11.1982
11.	Italy	28.01.1984
12.	Finland	28.03.1984
13.	Russia	31.07.1987
14.	Netherlands	07.03.1988
	(Protocol)	04.12.1996
15.	Hungary	24.05.1989
16.	Austria	20.09.1989
17.	Albania	24.01.1994
18.	Malta	03.10.1995
19.	Czech Republic	08.03.1996
20.	Ireland	28.11.1998
21.	Croatia	18.02.2002
22.	Luxembourg	21.11.2002
23.	Singapore	26.12.1968
	(Supplementary)	06.07.1973
	(New agreement)	05.10.2004
	ASIA	
24.	Japan	30.01.1970
	(New agreement)	19.02.1999
25.	Sri Lanka	16.09.1972
	(New agreement)	16.09.1997
26.	India	25.10.1976
	(New agreement)	14.05.2001
27.	Thailand	29.03.1982
	(Protocol)	10.02.1995
28.	Republic of Korea	20.04.1982
29.	Philippines	27.04.1982
30.	Pakistan	29.05.1982
31.	Bangladesh	19.04.1983
32.	People's Republic of China	23.11.1985
33.	Indonesia	12.09.1991
	(Protocol)	12.01.2006
34.	Iran	11.11.1992
	(Protocol)	22.07.2002
35.	Sudan	07.10.1993
36.	Turkey	27.09.1994
37.	Jordan	01.10.1994
38.	Mongolia	27.07.1995
39.	Viet Nam	07.09.1995
40.	United Arab Emirates	28.11.1995
41.	Kuwait	06.04.1997
	(New agreement)	05.02.2003
42.	Egypt	14.04.1997
43.	Uzbekistan	06.10.1997
44.	Kyrgyzstan	19.11.2000
45.	Myanmar	09.03.1998
46.	Bahrain	14.06.1999
47.	Morocco	02.07.2001
48.	Lebanon	20.01.2003
	OCEANIA	
49.	New Zealand	19.03.1976
	(Protocol)	14.07.1994
50.	Australia	20.08.1980
	(2nd Protocol)	28.07.2002
51.	Papua New Guinea	20.05.1993
52.	Fiji	19.12.1995
	NORTH AMERICA	
53.	Canada	16.10.1976
	SOUTH AMERICA	
54.	Chile	03.09.2004
	AFRICA	
55.	Mauritius	23.08.1992
56.	Zimbabwe	28.04.1994
57.	Namibia	28.07.1997
58.	Republic of Seychelles	03.12.2003
59 .	South Africa	26.07.2005
	RESTRICTED AGREEMENT: (with respect to taxes on income on air transport and shipping)	
60.	Saudi Arabia	18.07.1993
	(New agreement)	31.01.2006
61.	USA	18.04.1989
62.	Argentina	03.10.1997

Source: Ministry of Finance

Investment Guarantee Agreements as at December 2005

No.	Country	Date of Signing
	CENTRAL AND EASTERN EUROPE	
1.	Albania	24.01.1994
2.	Bosnia-Herzegovina	16.12.1994
3.	Croatia	16.12.1994
4.	Czech Rep.	09.09.1996
5.	Hungary	19.02.1993
6.	Macedonia	11.11.1997
7.	Poland	21.04.1993
8.	Romania	25.06.1996
	WESTERN EUROPE	
9.	Austria	12.04.1985
10.	Belgium-Luxembourg	22.11.1979
11.	Denmark	06.01.1992
12.	Finland	15.04.1985
13.	France	24.04.1975
14.	Germany	22.12.1960
15.	Italy	04.01.1988
16.	Netherlands	15.06.1971
17.	Norway	06.11.1984
18.	Spain	04.04.1995
19.	Sweden	03.03.1979
20.	Switzerland	01.03.1978
21.	United Kingdom	21.05.1981
	CENTRAL AND SOUTH AMERICA	
22.	Argentina	06.09.1994
23.	Chile	11.11.1992
24.	Cuba	26.09.1997
25.	Peru	13.10.1995
26.	Uruguay	09.08.1995
	ASEAN	
27.	ASEAN	15.12.1987
28.	Cambodia	07.08.1994
29.	Indonesia	22.01.1994
30.	Lao PDR	08.12.1992
31.	Viet Nam	21.01.1992
	COMMONWEALTH OF INDEPENDENT STATES	
32.	Kazakhstan	27.05.1996
33.	Kyrgyzstan	20.07.1995
34.	Turkmenistan	30.05.1994
35.	Uzbekistan	06.10.1997
	SOUTH ASIA	
36.	Bangladesh	12.10.1994
37.	India	03.08.1995
38.	Pakistan	07.07.1995
39.	Sri Lanka	16.04.1982
	NORTH AMERICA	
40.	Canada	01.10.1971
41.	USA	21.04.1959
	EAST ASIA	
42.	China	21.11.1988
43.	Mongolia	27.07.1995
44.	Republic of Korea	11.04.1988
45.	North Korea	04.02.1998
46.	Taiwan	18.02.1993
	WEST ASIA	
47.	Bahrain	15.06.1999
48.	Iran	22.07.2002
49.	Jordan	02.10.1994
50.	Kuwait	21.11.1987
51.	Lebanon	26.02.1998
52.	OIC	30.09.1987
53.	Saudi Arabia	25.10.2000
54.	Turkey	25.02.1998
55.	United Arab Emirates	11.10.1991
56.	Yemen	11.02.1998
	AFRICA	
57.	Algeria	27.01.2000
58.	Botswana	31.07.1997
59.	Burkina Faso	23.04.1998
60.	Djibouti	03.08.1998
61.	Egypt	14.04.1997
62.	Ethiopia	22.10.1998
63.	Ghana	11.11.1996
64.	Guinea	07.11.1996
65.	Malawi	05.09.1996
66.	Morocco	16.04.2002
67.	Namibia	12.08.1994
68.	Senegal	11.02.1999
69.	Sudan	14.05.1998
70.	Zimbabwe	28.04.1994
	OCEANIA	
71.	Papua New Guinea	27.10.1992

Source: Ministry of International Trade and Industry

Appendix 4 Import Licensing

No.	Product	Approving Authority
1.	Poultry (fowls, chicks, ducks, geese, turkeys, guinea fowls and pigeons), alive or dead or any part thereof	Veterinary Department
2.	Meat and offals, fresh or preserved (dried, dehydrated, salted, pickled, smoked), frozen or chilled, of buffaloes, cattle, sheep and goats	Veterinary Department
3.	Birds' nest, eggs of poultry, birds and testudinate (terrapin and the like), excluding turtle eggs	Veterinary Department
4.	Rice and paddy, including rice flour, rice polishings, rice bran and rice vermicelli	Ministry of Agriculture and Agro-based Industry
5.	Sugar	MITI
6.	Natural barium sulphate (barytes)	MITI
7.	Acetyl bromide	Ministry of Health
8.	Acetic anhydride, acetyl chloride	Ministry of Health
9.	Fireworks including fire crackers	Police Department
10.	Magnetic tape webs for video and sound recording	MITI
11.	Explosives, including: - propellant powders; - prepared explosives, other than propellant powders; - safety fuses, detonating fuses, percussion and detonating caps, igniters, detonators; - pyrotechnic articles; - nitrocellulose; - nitroglycerin; - mercury fulminate; - lead azide; - lead styphnate; - picric acid (trinitrophenol); - 2,4,6 trinitrotolene (TNT); - pentaerythritol tetranitrate (PETN); - nitroguanidine; and - trimethylenetrinitramine (cyclotrimethylene trinitramine).	Police Department
12.	Wood in the rough, whether or not stripped of its bark or merely roughed down, wood, roughly squared or half-squared but not further manufactured	Malaysian Timber Industry Board
13.	Safety helmets, except as worn by motorcylists or motor-cycle pillion riders	MITI
14.	Rice milling machinery including parts thereof	Ministry of Agriculture and Agro-based Industry
15.	Automatic cassette or cartridge loaders	MITI
16.	Parts of automatic cassette or cartridge loaders	MITI

No.	Product	Approving Authority
17.	All single colour copying machines, including Canon PC-10, Canon PC-25, Canon NP 150, Canon NP 155, Mita DC 142RE, U-BIX 1800z, Xerox Copier RX 1025, all multi-colour copying machines including Rank Xerox 6500, Canon NE Colour T and Ricoh Colour 5000 and colour toner cartridges	MITI
18.	Any piece of equipment, apparatus, appliance or any other device capable of producing the sound of a siren or any sound resembling that of a siren, irrespective of its mode of operation	Police Department
19.	Apparatus of equipment to be attached to or connected to a public telecommunication network or system	SIRIM BERHAD
20.	All radio communications apparatus capable of being used for telecommunications in the frequency band lower than 3000 GHz or their motherboards, except for: (i) receiver that is designed for use in the broadcasting services; and (ii) radio telecommunications apparatus having a valid licence issued by the Telecommunications Authority of any country or an International Automatic Roaming (IAR) card issued by a licensed operator	SIRIM BERHAD
21.	Motor vehicles for the transport of persons, goods or materials (including sports motor vehicles, other than those under heading No. 87.11): Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading No. 87.02), including station wagons and racing cars (excluding go-karts and ambulances) falling within subheading Nos: 8703.10 100, 8703.10 900, 8703.21, 8703.22, 8703.23, 8703.24, 8703.31, 8703.32, 8703.33, 8703.90 Motor vehicles for the transport of goods falling within heading No. 87.04 Multi sourcing parts falling within subheading Nos: 8708.99 111, 8708.99 112, 8708.99 113, 8708.99 114, 8708.99 115, 8708.99 121, 8708.99 122, 8708.99 123, 8708.99 124, 8708.99 131, 8708.99 132, 8708.99 133, 8708.99 134, 8708.99 135, 8708.99 140	MITI
22.	Chassis fitted with or without engines, for motor vehicles of heading Nos. 87.02, 87.03, 87.04 or 87.05 and parts thereof: For motor vehicles falling within subheading Nos: 8703.21 321, 8703.21 322, 8703.22 321, 8703.22 322, 8703.23 321, 8703.23.322, 8703.23 323, 8703.23 324, 8703.23 331, 8703.23 332, 8703.23 333, 8703.23 334, 8703.24 321, 8703.24 322, 8703.31 321, 8703.31 322, 8703.32 321, 8703.32 331, 8703.32 332, 8703.32 333, 8703.33 321, 8703.33 331, 8703.33 332, 8703.90 310, 8703.90 331, 8703.90 332, 8703.90 333, 8703.90 334, 8703.90 335, 8703.90 341, 8703.90 342, 8703.90 343, 8703.90 344, 8703.90 345 For motor vehicles falling within sub-heading Nos: 8702.10 121, 8702.10 122, 8702.10 900, 8702.90 121, 8702.90 122 and 8702.90 900 For ambulance	MITI

No.	Product	Approving Authority
	For motor vehicles falling within heading No. 87.05 For motor vehicles falling within subheading Nos: 8703.10 100, 8703.10 900, 8703.21 221, 8703.21 222, 8703.21 400, 8703.22 221, 8703.22 222, 8703.22 400, 8703.23 221, 8703.23 222, 8703.23 223, 8703.23 224, 8703.23 231, 8703.23 232, 8703.23 233, 8703.23 234, 8703.23 400, 8703.24 221, 8703.24 222, 8703.24 400, 8703.31 221, 8703.31 222, 8703.31 400, 8703.32 221, 8703.32 222, 8703.32 223, 8703.32 231, 8703.32 232, 8703.32 233, 8703.32 400, 8703.33 221, 8703.33 222, 8703.33 231, 8703.33 232, 8703.33 400, 8703.90 221, 8703.90 222, 8703.90 223, 8703.90 224, 8703.90 225, 8703.90 231, 8703.90 232, 8703.90 233, 8703.90 234, 8703.90 235, 8703.90 400, 8704.10 211, 8704.10 219, 8704.10 311, 8704.10 319, 8704.21 210, 8704.21 220, 8704.22 210, 8704.22 220, 8704.23 210, 8704.23 220, 8704.31 210, 8704.31 220, 8704.32 210, 8704.32 220, 8704.90 210, 8704.90 220	
23.	Ships' derricks; cranes; including cable cranes; mobile lifting frame, straddle carriers and works trucks fitted with crane	MITI
24.	Fork-Lift trucks; other works trucks fitted with lifting or handling equipment	MITI
25.	Self-propelled bulldozers, angledozers, graders, levellers, scrapers, machanical shovel, excavators, shovel loaders, tamping machines and road rollers	MITI
26.	Other moving, grading, levelling, scraping, excavating, tamping, compacting, extracting or boring machinery, for earth, minerals or ores; pile-drivers and pile-extractors; (excluding snow-ploughs and snow-blowers)	MITI
27.	Parts suitable for machinery falling within heading No. 84.31	MITI
28.	Bodies (including cabs), for motor vehicles falling within heading Nos: 87.02, 87.03, 87.04 or 87.05: For ambulance For motor vehicles falling within subheading Nos: 8703.21 221, 8703.21 222, 8703.21 321, 8703.21 322, 8703.21 400, 8703.22 221, 8703.22 222, 8703.22 321, 8703.22 322, 8703.22 400, 8703.23 221, 8703.23 222, 8703.23 223, 8703.23 224, 8703.23 231, 8703.23 232, 8703.23 233, 8703.23 234, 8703.23 321, 8703.23 322, 8703.23 323, 8703.23 324, 8703.23 331, 8703.23 332, 8703.23 333, 8703.23 334, 8703.23 400, 8703.24 221, 8703.24 222, 8703.24 321, 8703.24 322, 8703.24 400, 8703.31 221, 8703.31 222, 8703.31 321, 8703.31 322, 8703.31 400, 8703.32 221, 8703.32 222, 8703.32 223, 8703.32 231, 8703.32 232, 8703.32 233, 8703.32 321, 8703.32 331, 8703.32 332, 8703.32 333, 8703.32 400, 8703.33 221, 8703.33 222, 8703.33 231, 8703.33 232, 8703.33 321, 8703.33 331, 8703.33 332, 8703.33 400, 8703.90 221, 8703.90 222, 8703.90 223, 8703.90 224, 8703.90 225, 8703.90 231, 8703.90 232, 8703.90 233, 8703.90 234, 8703.90 235, 8703.90 310, 8703.90 331, 8703.90 332, 8703.90 333, 8703.90 334, 8703.90 335, 8703.90 341, 8703.90 342, 8703.90 343, 8703.90 344, 8703.90 345, 8703.90 400 For motor vehicles falling within subheading Nos: 8702.10 121, 8702.10 122, 8702.10 900, 8702.90 121, 8702.90 122, 8702.90 900 For motor vehicles falling within subheading Nos: 8704.10 211, 8704.10 219, 8704.10.319, 8704.10 311, 8704.21 210, 8704.21 220, 8704.22 210, 8704.22 220, 8704.23 210, 8704.23 220, 8704.31 210, 8704.31 220, 8704.32 210, 8704.32 220, 8704 90 210, 8704.90 220 For motor vehicles falling within subheading No. 8703.10	MITI
29.	Motorcycles, autocycles and cycles fitted within auxiliary motor	MITI
30.	High speed duplicators, including master electronics control, master playback, with or without loop bin and slave recorders, medicine making machines and CD master machines	MITI

No.	Product	Approving Authority
31.	Film or tapes for magnetic recording commonly known as 'pancakes', excluding those in cassettes or cartridges	MITI
32.	Parts of high speed duplicators, including master electronics control, master playback and slave recorders	MITI
33.	Arms and ammunition as defined under the Arms Act 1960, other than personal arms and ammunition imported by a bona fide traveller	Police Department
34.	Saccharin and its salt	Ministry of Health
35.	Unmanufactured tobacco; tobacco refuse	Ministry of Plantation Industries and Commodities
36.	Road tractors for semi-trailers completely built-up, old	MITI
37.	Special purpose vehicles falling within heading No. 8705	MITI
38.	Parabolic antenna for outdoor use	SIRIM BERHAD
39.	Parabolic equipment, antenna parts and accessories; (i) satellite receiver (tuner); (ii) video plexer; (iii) antenna positioner; (iv) feed horn; (v) low noise block down converter and cover; (vi) parabolic antenna mounts/stand and mounting brackets; and (vii) actuators	SIRIM BERHAD
40.	Acesulfame K	Ministry of Health
41.	Substances covered by The Montreal Protocol: Annex A to the Protocol: Group I: CFC-11 Trichlorofluoromethane CFC-12 Dichlorodifluoromethane CFC-113 1,1,2-Trichloro 1,2,2-trifluoroethane CFC-114 1,2-Dichlorotetra-fluoroethane CFC-115 Chloropentafluoroethane Group II: Halon-1211 Bromochlorodifluoromethane Halon-1301 Bromotrifluoromethane Halon-2402 Dibromotetrafluoromethane Annex B to the Protocol: Group I: CFC-13 Chlorotrifluoromethane CFC-111 Pentachlorofluoroethane CFC-112 Tetrachlorodifluoroethane CFC-211 Heptachlorodifluoropropane CFC-212 Hexachlorodifluoropropane CFC-213 Pentachlorotrifluoropropane CFC-214 Tetrachlorotetrafluoropropane CFC-215 Trichloropentafluoropropane CFC-216 Dichlorohexafluoropropane CFC-217 Chloroheptafluoropropane	MITI

No.	Product	Approving Authority
	Group II: CCI Carbon tetrachloride (Tetrachloromethane) Group III: CHCCI Methyl Chloroform 3 3 (1,1,1, Trichloroethane)	
42.	Liquid milk in any form including flavoured milk, recombined or reconstituted	MITI
43.	Liquid sterilised flavoured milk including flavoured milk, recombined or reconstituted	MITI
44.	Cabbage (round)	FAMA
45.	Coffee, not roasted	FAMA
46.	Cereal flours: of wheat or meslin (including atta flour) in packings not exceeding 5 kg	MITI
47.	Activated clay and activated bleaching earth	MITI
48.	Billets of iron or steel	MITI
49.	Bars and rods (including wire-rods), of iron or steel, hot-rolled, forged, extruded, cold-formed or cold-finished (including precision made); hollow mining drill steel: Wire-rod Bars and rods (excluding wire rods) not further worked than hot-rolled or extruded: round Bars and rods, cold-formed or cold-finished (including precision made): round	MITI
50.	Alloy steel and high carbon steel in the form mentioned in heading Nos. 72.06 to 72.17: Wire-rod of high carbon steel, of stainless or heat resisting steel and of other alloy steel Bars and rods (excluding wire rods) and hollow mining drill steel of high carbon steel, of stainless or heat resisting steel of other alloy steel	MITI
51.	Standard wire, cables, cordages, ropes, plaited bands and the like, of aluminium wire but excluding insulated electric wires and cables: of steel reinforced aluminium of unalloyed aluminium of other aluminium alloys	MITI
52.	Insulated (including enameled or anodised) electric wire, cables, bars and strip and the like (including co-axial cable), whether or not fitted with connectors: Telephone and telegraph (including radio relay) cables; others: Power transfer wire, cable, bars, strip and the like: paper insulated	MITI
53.	All goods from Serbia, Montenegro and Israel	MITI
54.	Flat-rolled products of iron or non-alloy steel of a width of 600mm or more, clad, plated or coated within heading No. 72.10	MITI
55.	Flat-rolled products of iron or non-alloy steel of a width less than 600mm, clad, plated or coated within heading No. 72.12	MITI
56.	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, hot-rolled, not clad, plated or coated	MITI
57.	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, cold-rolled (cold reduced), not clad, plated or coated	MITI
58.	Flat-rolled products of iron or non-alloy steel, of a width of less than 600 mm, not clad, plated or coated	MITI

No.	Product	Approving Authority
59.	Tubes, pipes and hollow profiles, of cast iron: sub-heading No. 7303.00.000	MITI
60.	Tubes, pipes and hollow profiles, seamless, of iron (other than cast iron) or steel within heading No. 73.04	MITI
61.	Other tubes and pipes (for example, welded, riveted or similarly closed), having circular cross-sections, the external diameter of which exceeds 406.4mm, of iron or steel within heading No. 73.05	MITI
62.	Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel	MITI
63.	Toxic chemicals and their precursors covered under the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on Their Destruction 1993 (CWC).	Ministry Of Foreign Affairs

Appendix 5 Temporary Exclusion And Sensitive Lists For Investment Under The Asean Investment Area Agreement

Manufacturing Sector

BRUNEI DARUSSALAM

Sensitive List

Industries Closed to Both National and Foreign Investors
Manufacture of garments of categories 338, 339, 638 and 639 - for US market.
No more approval given.

Industries Open with Restriction to Foreign Investors
Industries utilising local resources, domestic market access and government facilities or the manufacturing of food-related products.
Foreign investment must have at least 30% local participation. However, full foreign ownership is allowed if 100% of the product is exported with exception of the manufacturing of food related products and use of local resources.

Industries Closed Only to Foreign Investors
Manufacture of cement.
Manufacture of drinking water either from tap or from local resources.
Subject to control

CAMBODIA

Sensitive List

Industries Closed to Both National and Foreign Investors
Manufacture/processing of cultural items.
Subject to prior approval from relevant Ministries.

Sawn timber, veneer, plywood, wood-based products utilising local logs as raw material.
No new licence will be issued.

DBSA production. Toxic chemicals affecting health of community and impacting the environment.
Subject to prior approval from Ministry of Health and relevant ministries.

Production of toxic chemicals or utilisation of toxic agents.
Prohibited in accordance with an international treaty.

Manufacture of psychotropic substances.
Prohibited for these psychotropic substances:
- Brolamfetamine, Cathinone, DET, DMA, DMHP, DMT, DOET, Eticyclidine, (+)-Lysergide, MDMA, Mescaline, 4-Methylaminorex, MMDA, N-Ethyl-MDA, N-Hydroxy-MDA, Parahexyl, PMA, Psilocine, Psilotsin, Psilocybine, Rolicyclidine, STP, DOM, Tenamfetamine, Tenocyclidine, Tetrahydrocannabinol, TMA.

Subject to prior approval from Ministry of Health for these psychotropic substances:
- Amfetamine, Dexamfetamine, Fenetylline, Levamfetamine, Mecloqualone, Metamfetamine, Methaqualone, Methylphenidate, Phencyclidine, Phenmetrazine, Metamfetamine Racemate, Secobarbital, Amobarbital, Allobarbial, Alprazolam, Amfepramone, Barbital, Benzfetamine, Bromasepam, Buprenorphine, Butalbital, Butobarbital, Cathine, Camazepam, Chlordiazepoxide, Clobazam, Clonazepam, Clorazepate, Clorazepam, Cloxazolam, Cyclobarbital,

Continued ...

Delorazepam, Diazepam, Estazolam, Ethchlorvynol, Ethinamate, Etilamfetamine, Fencamfamine, Fenproporex, Fludiazepam, Flunitrazepam, Flurazepam, Gluthethimide, Halazepam, Haloxazolam, Ketazolam, Lefetamine, Loflazepate Ethyl, Loprazolam, Lorazepam, Lormetazepam, Mazindol, Medazepam, Mefenorex, Meprobamate, Methylphenobarbital, Methyprylon, Midazolam, Nimetazepam, Nitrazepam, Nordazepam, Oxazepam, Oxazolam, Pemoline, Pentazocine, Pentobarbital, Phendimetrazine, Phenobarbital, Phentermine, Pinazepam, Pipradrol, Prazepam, Pyrovalerone, Secbutabarbital, Temazepam, Tetrazepam, Triazolam, Vinylbital

Manufacture/processing of narcotic drugs.
Prohibited.

Manufacture of weapons and ammunitions.
National defense policy.

Manufacturing of firecrackers and fireworks.
Subject to control.

Manufacturing related to defense and security.
National defense policy.

<u>Industries Open with Restrictions to Foreign Investors</u>
Manufacture of cigarettes.
Only for export (100% export).

Alcohol.
Movie production.
Subject to prior approval from relevant ministries.

Exploitation of gemstones
Bricks made of clay (hollow, solid) and tiles.
Rice mill.
Manufacture of wood and stone carving.
Silk weaving.
Subject to local equity participation.

INDONESIA

Temporary Exclusion List

<u>Industries Closed to Both National and Foreign Investors</u>
Industries manufacturing communication devices:
- Telephone connection boxes.

Business reserved for small-scale enterprises.

Sensitive List

<u>Industries Closed to Both National and Foreign Investors</u>
Saccharine.
Cyclamate.
Closed - Public health.

Saw mill.
Only in Papua using natural forest as raw material.

Plywood.
Only in Papua.

Clove cigarettes (with automatic machines).
Ratio of production manually and machinery.

Fire crackers and fire works.
Manufacturing of ammonium nitrate for explosive purposes.
National security.

Continued ...

Food and drink:
- Industries preparing shredded meat, boiled and then fried, and jerked meat; Industries preparing pickled/sweetened fruit, vegetables and eggs; Industries preparing salted/pickled fish and other, marine biota; Industries making bread, cookies, and the like; Industries making brown/coconut palm sugar; Industries making fermented bean paste used as condiment; Industries making bean cake; Industries making bean curd; Industries making crisp, thin chip made of flour and peanut, shrimp or small fish/crispy chips of banana, potato, bean cake, etc.; Industries making peanut snacks (fried peanuts with out covering, salted peanuts, large white beans, onion beans); Industries making chips made of flour flavored with fish or shrimp; Industries making condiment of fermented fish or shrimp; Industries making deep-fried, boiled, steamed cake; Processing of palm, sugar palm and palmyra palm; and Honey bee industries.

Business reserved for small-scale enterprises.

Industries of various kinds of flour of grains, cereals, legumes and tubers:
- rice flours of various kinds; flour made of legumes; and flour made of dried cassava.

On condition of partnership with small-scale enterprises.

Yarn-finishing industries:
- yarn having a tie motive based on "tenun ikat"; using manually operated instruments.

Textile and textile products:
- traditional weaving industries (non machine woven cloth); industries making hand-written batiks; knitting industries using hand operated instruments; and industries making rimless caps and headdresses.

Business reserved for small-scale enterprises.

Cloth printing and finishing industries: printing using hand operated instruments, except when it is integrated with the upstream industries.
On condition of partnership with small-scale enterprises.

Industries of lime and products made of lime:
- quick lime;lime for chewing with betel leaves; slaked lime; lime for agricultural purposes and chalk.

On condition of partnership with small-scale enterprises.

Industries making clay articles for household purposes:
- unglazed household decorations; various kinds of unglazed vases; and unglazed household utensils.

Business reserved for small-scale enterprises.

Industries of clay articles for construction purposes:
- clay bricks; and unglazed clay roof tiles.

On condition of partnership with small-scale enterprises.

Industries making agricultural tools:
- mattocks; shovels; plows; harrows; pitchforks; crowbars; sickles; scrapes; sarap/lempak/bawak (reaping); small palm knives; hoes for weed removal; *emposan tikus* (sprayer for killing rats); manually operated sprayer; manually operated rice hullers; manually operated paddy and soy bean hullers; and manually operated looseners of corn grains.

Industries making cutting tools:
- short machetes; axes; large-bladed knives; and instruments for mincing onions/cassava/chips.

Plantation tools industry:
- knife to tap rubber; bowl to tap rubber; rubber freezing box; coffee peeler machines; and cashew nut peeler machine.

Industries making handicraft tools:
- trowels; wooden planes; planes; *Beugel-beugel* (traditional tools); *kasut pleste* (traditional tools for plaster); spatulas; clamps; handsaw; hammers (of a small type); chisels; and *pangut* (traditional cutter).

Industries for maintenance and repair (workshops, including special workshops):
- small workshops including roving small workshops, tire repair, upholstery workshops, railway workshops, workshops for ships maintenance, air filling/air pumps, traditional car body repair and the like, without modern instruments.

Industries for maintenance and repair (workshop including special workshops):
- repair of electrical devices for household purposes.

Business reserved for small-scale enterprises.

Industries making electrical devices and other components:
- various kinds of clamps; motor armature and track armature.

Continued ...

Professional, science, measure equipment and electronic controller industry:
- water meter box.

On condition of partnership with small-scale enterprises.

Industries of multivarious handicrafts:
- handicrafts using plants as raw materials; handicraft using animals as raw materials; imitation flowers and decorations; handicrafts from mollusks and the like; handicrafts made of precious stone and marble and household equipment made of bamboo and rattan.

Business reserved for small-scale enterprises.

Raw rattan processing
On condition of partnership with small-scale enterprises.

Traditional medicine product and medical instruments for non-medic.
Traditional Indonesian musical instruments.
Business reserved for small-scale Enterprises.

Industries Open With Restriction to Foreign Investors
Food and drink:
- milk processing industries/dairy product; fish flour industries (animal feed); tea processing industries; soy sauce industries; processing industries: pepper; gnetum gnemon; cinnamon; vanilla; cardamon; nutmeg; and cloves; and granulated sugar industries.

Industries of rubber products for industrial purposes.
- rubber rolls.

Industries manufacturing agricultural machinery.
- threshers; reapers; hydrotillers; and corn removers.

Industries manufacturing fluid machinery.
- hand operated water pumps.

Bicycles-making industries:
- industries making bicycle equipment.

Industries making silver crafts.
Processing and canning of fruits.

Various palm essence industry:
- sago palm essence.

Rice milling and threshing.
Copra industry.
Silk yarn spinning industry.
Downstream industry of pepper.
On condition of partnership with small-scale Enterprises.

Fish-smoking industries and the likes;
Wood carving industry.
Business reserved for small-scale enterprises

LAO PDR

Temporary Exclusion List

<u>Industries Closed Only to Foreign Investors</u>
Manufacture of products of copper, silver and gold (jewellery).
Manufacture of Lao dolls.
Manufacture of blankets/mattress with cotton and kapok.
Manufacture of authentic Lao musical instruments.
Reserved for Lao PDR citizen.

Continued ...

Industries Open with Restrictions to Foreign Investors
Manufacture of rice noodles products.
Subject to high ratio of local content (use of local material) and/or export requirements.

Manufacture of beer.
Manufacture of soft drinks.
Subject to joint-venture with domestic investors and/or export 100%.

Manufacture of tobacco products.
Subject to high ratio of local content, local equity participation and/or export 100%.

Sensitive List

Industries Closed to Both National and Foreign Investors
Manufacture of all types of weapons and ammunitions.
Prohibited for security reasons.

Manufacture/processing of narcotic drugs.
Manufacture of cultural items destructive of the national culture and tradition.
Prohibited.

Manufacture of chemical substances and industrial waste hazardous to human life and the environment.
Prohibited for health and environment reason.

Industries Open with Restrictions to Foreign Investors
Manufacture of psychothopic substances.
Subject to specific details provided by Ministry of Health.

Manufacture of wood and wood products.
The establishment of new wood processing factory is not permitted, except for utilising raw material from the reforestation of forest plantation.

Manufacture of chemicals and chemical products.
Not to be destructive to the environmental and society.

Manufacture of pharmaceuticals.
Manufacture of alcohol of all types.
Manufacture of motor vehicles of all types.
Subject to local equity participation and/or export or high ratio of local content.

MALAYSIA

Sensitive List

Industries Closed for Both National and Foreign Investors
Pineapple Canning.
Palm Oil Milling.
Closed except for projects with source of supply from own plantation.

Palm Oil Refining.
Closed for Peninsular Malaysia. Open for projects in Sabah and Sarawak with source of supply from own plantations.

Sugar Refining.
Closed

Liquors and Alcoholic Beverages.
Closed for projects that do not export 100% of their products.

Tobacco Processing and Cigarettes.
Closed for projects that do not export more than 80% of their products.

Sawn timber, veneer and plywood.
Closed for Peninsular Malaysia and Sabah. Open for Sarawak.

Continued ...

Wood-based products utilising local logs as raw material.
Closed for Peninsular Malaysia. Open for Sabah and Sarawak.

Petroleum Refining.
Closed for projects that do not export 100% of their products.

Ordinary Portland Cement.
Closed for non-integrated projects i.e., projects which do not produce their own clinker for grinding into ordinary Portland cement.

Hot Rolled Steel Round Bars and Wire Rods.
Closed.

Steel Billets/Blooms.
Closed for projects that have capacity of below 350,000 tonnes.

Assembly of motorcycles, passenger cars, and commercial vehicles.
Closed.

<u>Industries Open with Restrictions to Both Foreign and National Investors</u>
Fabrics and Apparel of Batik.
Ordinary Portland Cement (Integrated Projects).
Maximum foreign equity ownership allowed is 30%.

<u>Industries Open with Restrictions to Both Foreign and National Investors</u>
Explosives, pyrotechnic products, propellant powders, detonating or safety fuses and the like.
Weapons and ammunition.
Prior approval is required from Ministry of Home Affairs.

MYANMAR

Temporary Exclusion List

<u>Industries Closed for Both National and Foreign Investors</u>
Manufacturing of pulp of all kinds.
Value-added product policy.
Manufacture of paper is required.

<u>Industries Open with Restrictions to Foreign Investors</u>
Production and marketing of basic construction materials, furniture, parquet, etc. using teak extracted and sold by the State-owned economic organisation.
Only for export of high value-added wood-based products.

Sensitive List

<u>Industries Closed for Both National and Foreign Investors</u>
Distilling, blending, rectifying, bottling, and marketing of all kinds of spirits, beverages or non-beverages.
Manufacture of wines.
Manufacture of malt and malt liquors, beer and other brewery products.
Manufacture of soft beverages, aerated and non-aerated products.
Manufacture of cigarettes.
Manufacture of monosodium glutamate.
Manufacture of corrugated galvanized iron sheets.
No new permit to be issued.

Manufacture of refined petroleum products.
Reserved for the State sector.

Manufacture of weapons and ammunition.
National Defense Policy.

<u>Industries Closed Only to Foreign Investors</u>
Sawmilling and planning of wood.
National policy on forestry.

Continued ...

Industries Open with Restrictions to Foreign Investors
Manufacture of veneer sheets, manufacture of plywood, laminboard, particle board and other panels and boards.
National policy on forestry.

Manufacture of bakery products.
Export requirement is compulsory.

Manufacture of pulp, paper and paperboard.
Integrated project is compulsory.

Manufacture of pharmaceutical drugs.
Well-known firms are to be considered.

PHILIPPINES

Sensitive List

Industries Open With Restrictions to Foreign Investors
Domestic market enterprises with paid-in equity capital of less than US$200,000.*
Foreign equity is restricted to maximum 40%.

Domestic market enterprises which involve advanced technology or employ at least fifty (50) direct employees with paid-up capital of less than US$100,000.*
Foreign equity can be more than 40% if firm exports at least 60% of total production output.

Industries Closed Only to foreign Investors
Cooperatives*
No foreign equity allowed.

- No ISIC Code since this cuts across all sectors

SINGAPORE

Sensitive List

Industries Closed to Both National and Foreign Investors
Chewing gum, bubble gum, dental chewing gum or any like substance.
Production prohibited for safety and social reasons.

Firecrackers.
Match sticks.
Production prohibited for safety reasons.

Industries Open with Restrictions to Foreign Investors
Publishing and printing of newspapers.
Foreign equity is subject to approval by relevant Ministry.

Beer and Stout
Water conservation.

Reproduction of recorded media. (e.g. CD, CD-ROM, VCD, DVD-ROM).
Intellectual Property Rights enforcement.

Pig iron and sponge iron.
Rolled steel products.
Steel ingots, billets, blooms and slabs.
Limited local steel scrap.

Continued ...

THAILAND

Sensitive List

Industries Closed to Both National and Foreign Investments
Manufacture of sugar from sugarcane.
Subject to Cabinet's decision.

Industries Open with Restrictions to Foreign Investors
Manufacture of carved wood.
Manufacture of Thai silk threads, Thai silk weaving or Thai silk pattern printing.
Manufacture of Thai musical instruments.
Manufacture of goldware, silverware, bronzeware or lacquerware.
Manufacture of crockery of Thai arts and culture.
Wood fabrication for production of furniture and utensils.
Foreign equity participation is restricted to 50% of registered capital.
Foreign equity participation of 50% or more of registered capital can be made, subject to the following:
- *shall obtain permission from Minister of Commerce, with approval of Cabinet, and shall also fulfill following requirements:*
- *shall have Thai nationals, or juristic persons that are not foreigners under this Act, held not less than 40% of registered capital. However, Minister of Commerce, with approval of Cabinet, may reduce said requirement to not less than 25 percent; and*
- *shall have Thai nationals held at least two-fifth of total directors.*

Or
- *shall receive promotion under Investment Promotion law, or shall obtain permission under law governing Industrial Estate Authority of Thailand or other related laws.*

Shall have minimum capital invested at commencement of business not less than that prescribed by Ministry of Commerce's regulations, which in any case not less than 3 million Baht.
Shall apply for licence or certificate from Department of Commerce Registration.
Shall comply with other conditions prescribed in Foreign Business Act B.E. 2542 (1999) and other related laws.

Manufacture of plywood, veneer board, chipboard or hardboard.
Manufacture of lime.
Rice milling.
Foreign equity participation is restricted to not more than 50% registered capital.
Foreign equity participation of 50% or more of registered capital can be made, subject to the following:
- *shall obtain permission from Director General of Department of Commercial Registration with approval of Foreign Business Committee.*
- *shall receive promotion under Investment Promotion law, or shall obtain permission under law governing Industrial Estate Authority of Thailand or other related laws.*

Shall have minimum capital invested at commencement of business not less than that prescribed by Ministry of Commerce's regulations, which in any case not less than 3 million Baht.
Shall apply for licence or certificate from Department of Commerce Registration.
Shall comply with other conditions prescribed in Foreign Business Act B.E. 2542 (1999) and other related laws.

Manufacture of cigarette.
Manufacture of playing cards.
Shall obtain permission from Director-General of Excise Department according to Tobacco Act. B.E. 2509, or Playing Card Act B.E. 2486.

VIETNAM

Temporary Exclusion List

Industries Open with Restrictions to Foreign Investors
Manufacture of cultivation, processing, reaping machines, insecticide pumps, spare parts for agricultural machines and engines.
Subject to export, technology and quality requirements.

Bicycle manufacture.
Electrical fans.
Manufacturing new types of products and subject to quality and export requirements.

Continued ...

Manufacture of electrical towers.
Export at least 50%.

Production of aluminium shaped bars.
Export at least 20%.

Single superphosphate fertiliser.
Production of H_2SO_4, H_3PO_4, LAS, industrial gasses, acetylene.
Common use paint.

Motorcycle and bicycle tyres and tubes; automotive tyres and tubes up to 450 mm.
Plastic water pipes used in agriculture, rubber gloves, labour sanitary boots.
Subject to export and quality requirements.

Consumer plastics.
Detergent, shampoo, soaps, washing liquid.
Zn, Mn batteries (R_6, R_{14}, R_{20}).
Subject to export requirements.

Paper production.
In conjunction with development of local raw material resources. Common types of paper such as printing paper, writing paper, photocopy paper are subject to at least 80% export requirement.

Fruit juice.
Subject to utilisation of local raw material and export requirements.

Electro-mechanical and refrigeration equipment.
Household electric appliances.
Subject to technology and export requirements.

Processing of aqua-products, canned sea foods.
Joint-Venture form, subject to material and technology requirements and export at least 80%.

Assembly of marine engines.
Subject to technology requirement.

Production and processing of wood.
Dairy processing.
In conjunction with development of local raw material resources.

Cane sugar production.
Vegetables oil production and processing.
In conjunction with development of local raw material resources and subject to export requirement.

Tanning.
In conjunction with development of local raw material resources, and subject to environmental processing requirement.

Sensitive List

Industries Closed to Both National and Foreign Investments
Production of firecrackers including fireworks.
Export 100%.

Industries Closed Only to Foreign Investors
Fishing
Foreign investment shall not be licensed.

Beer and soft drinks.
Tobacco production.
Exploitation of gemstones.
Vertical shaft cement production and baked earth bricks and tiles.
Clay bricks.
Under 10,000 DWT cargo ships under 800 TEU container ships; lighters and under 500 seats passenger ships.

Continued ...

D6-D32mm construction steelrods, and D15-D114 mm seam steel pipe, zinc galvanized and colour sheets.
Production of NPK fertiliser.
Construction glass.
Fluorescent tubes and bulbs.
Fishing net production.
Lubrication oil, grease.
No new licence will be issued.

Alcohol.
Subject to brand, quality and export requirements.
Automobile assembly and manufacture.
Subject to local content requirement and planning of the Government.

Motorcycle assembly and manufacture.
Subject to local content requirement and planning of the Government and export at least 80%.

Assembly of consumer electronic products.
Subject to local content requirement.

Manufacture of TV sets and tubes.
Subject to local content requirement and export at least 80%.

Sanitary ceramics, porcelain and tiles.
Export 100% and subject to technology requirement.

Cement production.
Ready mixed concrete, stone crushing.
Industrial explosives and devices.
Exploitation, processing of rare and precious material, raw material; exploitation of clay for production of construction material; exploitation, exportation of high-quality sand for production of construction and technical glasses.
Subject to planning of the Government.

Agriculture, Fishery and Mining Sectors

BRUNEI DARUSSALAM

Temporary Exclusion List

Industries Open with Restrictions to Foreign Investors

Agriculture
Growing of cereals and other crops n.e.c,vegetables, horticulture specialties and nursery products, fruits, nuts, beverage and spice crops.
Hunting, trapping and game propagation including related services activities.
Farming of cattle, sheep, goats, horses, asses, mules and hinnies, dairy farming.
Growing of crops, combined with farming of animals (mixed farming).
Agriculture and animal husbandry services activities, except veterinary activities.

Forestry
Forest plantations and nurseries.
30% local participation - for access to government facilities and sales to domestic market.

Sensitive List

Industries Open with Restrictions to Foreign Investors

Agriculture
Other animal farming; production of animal products n.e.c.
30% local participation is required for access to Government facilities and sales to domestic market.

Fishery
Offshore capture of fisheries (purse-seines and long lines)
Aquaculture
30% local participant is required.

Mining and Quarrying
Extraction of crude petroleum and natural gas.
Crude petroleum and natural gas are important natural resources and the backbone of the country's economy. Although foreign investors are allowed to invest in petroleum mining activities, they cannot be certain that their participation interest in their project will be 100%. His Majesty's Government has the right to acquire participation upon declaration of commerciality of the field. Under the production sharing contract (PSC), His Majesty's Government through its Holding Company will automatically have interest in the petroleum activities.

Silica mining.
Extraction of ground water.
Quarrying of stone.
30% local participation is required for utilising government facilities and domestic market access.

CAMBODIA

Sensitive List

Industries Closed to Both National and Foreign Investors

Agronomy
Estate crops:
- medicinal/traditional herbs; and
- plantation of the above.

Business reserved for daily need of local farmers.

Livestock
- native chicken; native cattle and buffalo; and native duck.

Business reserved for national small-scale enterprises.

Continued ...

Fishery
- fishing (fresh water); catching of fingerling, caplo capio, giant fish, crocodile, probatus and jullieni fish.

Endangered species.

Forestry
- not applicable.

Depending on rule, law and regulation of Cambodia forest policy.

Mining
- radioactive minerals (uranium etc).

National security

Industries Closed Only to Foreign Investors

Agronomy
- genetic resources (bio-diversity).

Environmental protection.

Fishery
- catching of fresh water fish.

Reserved for small local enterprises.

Forestry
- Not applicable.

On condition of partnership with local partner.

Mining
- small scale mining.

Reserved for local people.

Industries Open with Restriction to Foreign Investors

Agronomy
All type of:
- Food crops; Fruit crops; Industrial crops; and Processing industries.

On condition of partnership with the local of farmers' association and conservation of sustainability of natural resources. (applicable to all).

Livestock
- chicken raising (broiler; layer); beef cattle raising; sheep raising; goat raising; pig raising; duck raising; dairy cattle raising; and horse raising.

On condition of partnership with small-scale enterprises

Fishery
- not applicable.

Refer to Fishery Law.

Forestry
- forest products (finish products); zoology; forest park; and forest plantation for industry.

Based on National Forest Policy.

Mining
All foreign investments should be carried out under contract of work.

INDONESIA

Sensitive List

Industries Closed to Both National and Foreign Investors

Agriculture
- estate crops: medical herbs, except ginger; plantation of pepper, *belinjo*, cinnamon, candlenut, vanilla, *kapulaga* (amomum cardamomum), nutmeg, *siwalan*, sugar palm and leaf (*lontar*), clove, *Pogostemon Catlin Benth*, *Uncaria gambir*.

On condition of partnership with small-scale enterprises.

Continued ...

Livestock
- native chicken.

Business reserved for national small-scale enterprises.

Fishing
Catching of marine ornamental fish, catching area < 12 miles.
Business reserved for national small-scale enterprises.

Hatchery
Aquaculture.
- freshwater fish hatchery.

Business reserved for national small-scale enterprises.

Forestry
- contractors of logging.

Environmental protection.

- Apiculture exploitation.
- Exploitation of sugar palm, sago, rattan, candlenut, tree, bamboo and cinnamon plant forest.
- Exploitation of swallow nests in the nature.
- Exploitation of tamarind estates by small holders (tamarind seeds collection and processing).
- Exploitation of charcoal producing plant forest.
- Exploitation of tree sap producing plant forest.
- Exploitation of atsiri oil producing plant forest (pine oil, lawang oil, tengkawang oil, cajuput oil, kenanga oil, fragrant root oil, and other)

Business reserved for national small-scale enterprises.

General Mining
- radioactive minerals (uranium, etc.)

national security.

- small-scale mining.

On condition of partnership with small-scale enterprises. All foreign investments should be carried out under contract of works. Conservation Forest Area is prohibited for all mining. Preserve Forest is prohibited for open cut mining.

Industries Closed Only to Foreign Investors

Agricultural
Genetic resources (bio-diversity).
Environmental protection.

Aquaculture
Grow-Out
- freshwater fish culture.

Business reserved for national small-scale enterprises.

Forestry
- utilisation of naturally growing forest;

environmental protection.

- utilisation of forest based on HPH (forest exploitation right).
- community forest utilisation right.

reserved for local people.

- genetic resources (bio-diversity).

environmental protection.

Industries Open with Restrictions to Foreign Investors

Agriculture
- Food crops; Cassava;

On condition of partnership with the local farmers located in production center of food crop concerned

Continued ...

Traditional herbal plantation.
- estate crops: oil palm; rubber; sugar; coconut; cocoa; coffee; tea; cashewnut; cotton; castor oil; ginger; fibre plants; (jute; kenaf; rami; stevia; and rosela), areca-palm; banana of manila (Musa textilis); medical plants; fragrant root (*akar wangi*); palm; tamarind (*asam jawa*); indigo; brass; kaempferia galanga (*kencur*); almond; turmeric; coriander; benth (pogostemon catlin); tobacco; fragrant grass (*sereh wangi*); sesame seed; and herb (panzolzia zeylanica benn), (urang-aring).

On condition of special partnership programs and the need to have recommendation from the Ministry of Agriculture.

Aquaculture

Hatchery
- brackishwater shrimps hatchery.

On condition of partnership with national small-scale enterprises.

Grow-Out
- aquaculture of eel, escargot and crocodile.

On condition of partnership with small-scale enterprises.

Forestry
- Utilisation of Industrial Plantation

On condition of partnership with small-scale enterprises.

LAO PDR

Temporary Exclusion List

<u>Industries Open with Restrictions to Foreign Investors</u>
Mining and agglomeration of hard coal.
Mining and agglomeration of lignite.
Extraction and agglomeration of peat.
Extraction of crude petroleum and natural gas.
Service activities incidental to oil and gas extraction excluding surveying.

Mining of iron ores.
Mining of non-ferrous metal ores, except uranium and thorium ores.
Mining of chemical and fertiliser minerals.
Extraction of salt.
Other mining and quarrying.
Subject to agreement with the Government and processing.

Sensitive List

<u>Industries Closed to Foreign Investors</u>
Operation of hatcheries in the reservoirs.
Reserved for Lao citizen.

<u>Industries Open with Restrictions to Foreign Investors</u>
Hunting, trapping and game propagation, including related service activities.
Subject to specific approval and agreement with the Government.

Forestry

Logging and related activities.
Logging is closed for both national and foreign investors; the other activities are subject to specific approval and agreement with the Government.

Fishing and service activities incidental to fishing.
Operation of fish hatcheries in the Mekong River and its tributaries.
Subject to agreement with the Government and to follow the regulations of local authorities.

Production and processing of local and domestic fishes.
Subject to specific approval and agreement with the Government.
Mining of uranium and thorium ores.
Negotiation and agreement with the Government are needed (for security reason).

Quarrying of stone, sand and clay.
Subject to agreement with the Government and processing.

Continued ...

MALAYSIA

Sensitive List

Industries Closed to Foreign Investors
Extraction and harvesting of timber.
This activity is generally closed to foreign investors in Peninsular Malaysia and Sabah. However, for Sarawak, local involvement and majority local control is required. Forest areas to be opened for such activities will be gradually reduced in the future to enable the resources to be managed sustainably.

Capture of fisheries.
Foreign fishing companies are not allowed to fish in Malaysia's Exclusive Economic Zone (EEZ).

Industries Open with Restriction to Foreign Investors.
Oil and gas upstream industries.
Project must be carried out on a joint-venture basis with a wholly-owned subsidiary of the national petroleum corporation (Petronas), whose equity in the joint venture will range from 15% to 60% depending on the block/area. The terms and conditions of each block is negotiated on a case-by-case basis and the Production Sharing Contracts will adhere to rules and regulations stipulated by the Malaysian Government with regards to the award of contract etc.

MYANMAR

Temporary Exclusion List

Industries Closed to Both National and Foreign Investors

Forestry
Extraction of hardwood and sale of the same.
National policy on forestry.

Mining
Exploration and extraction of pearls and export of the same.
Exploration and extraction of metal and export of the same.
Carrying out other quarrying industries and marketing of the same.
The Government may permit by notifications.

Energy
Exploration, extraction and sale of petroleum.
Exploration, extraction and sale of natural gas and production of the products of the same.
The Government may permit by notifications.

Power
Production, collection and distribution of electricity.
The Government may permit by notifications.

Industries Closed Only to Foreign Investors

Fishery
Fishing of marine fish, prawn and other aquatic organism.
The Government may permit by notifications.

Industries Open with Restrictions to Foreign Investors

Others
Railway transport service.
Air transport.
Courier activities other than national post activities.
Joint venture with State organisation.
Banking and insurance services.
To be liberalised later.

Continued ...

PHILIPPINES

Sensitive List

Industries Closed Only to Foreign Investors
People's Small-scale mining programme.
Mining activities which rely heavily on manual labor using simple implements and methods and do not use explosives or heavy mining equipment.
Maximum area of 20 hectares.
Investment not to exceed P10.0 million.
Ratio of labor cost to equipment utilisation cost is greater than or equal to 1.0 (based on 1 metric ton of ore).
No foreign equity allowed.

Industries Open With Restrictions to Foreign Investors

Forestry
Mining (other than small-scale mining).Deep sea fishing.
Agriculture in public land.
Foreign equity is restricted to a maximum of 40%.

SINGAPORE

Sensitive List

Industries Closed to Both National and Foreign Investors
Pig farming.
Quarrying.
No more licenses issued.

THAILAND

Temporary Exclusion List

Industries Open with Restrictions to Foreign Investors

Fishery, specifically marine animal culture.
Logging from plantation.
Artificial propagated or plant breeding
Foreign equity participation is restricted to not more than 50% of registered capital.
Foreign equity participation of 50% of registered capital or more can be made, subject to following conditions:
- *shall obtain permission from Director-General of Department of Commercial Registration, with approval from Foreign Business Committee.*
- *Shall receive promotion under Investment Promotion Law, or shall obtain permission under law governing Industrial Estate Authority of Thailand or other related laws.*

Shall have minimum capital invested at commencement of a business not less than that prescribed by Ministry of Commerce's regulations, which in any case not less than three million Baht.
Shall apply for licence or certificate from Department of Commercial Registration.
Shall comply with other conditions prescribed in Foreign Business Act B.E. 2542 (1999) and other related laws.
(These lists shall be reviewed at least once every year).

Sensitive List

Industries Open with Restrictions to Foreign Investors

Salt farming, including efflorescent salt production.
Rock salt mining.
Mining, including rock blasting or crushing.
Silkworm farming.
Foreign equity participation is restricted to not more than 50% of registered capital.
Foreign equity participation of 50% of registered capital or more can be made, subject to following conditions:
- *Shall obtain permission from Minister of Commerce, with approval of Cabinet, and shall also fulfill following requirements:*

Continued ...

- *Shall have Thai nationals or juristic persons that are not foreigners under this Act, holding not less than 40% of registered capital. However, Minister of Commerce with approval of Cabinet, may reduce said requirement to not less than 25%;*
- *Shall have Thai nationals helding at least two-fifths of total directors; or*
- *Shall receive promotion under Investment Promotion Law, or must obtain permission under law governing Industrial Estate Authority of Thailand or other related laws.*

Shall have minimum capital invested at commencement of a business not less than that prescribed by Ministry of Commerce's regulations, which in any case not less than three million Baht.
Shall apply for licence or certificate from Department of Commercial Registration.
Shall comply with other conditions prescribed in Foreign Business Act B.E. 2542 (1999) and other related laws.
(These lists shall be reviewed at least once every year).

VIET NAM

Temporary Exclusion List

<u>Industries Open with Restrictions to Foreign Investors</u>
Manufacture of cultivation processing, reaping machines, insecticide pumps, spare parts for agricultural machines and engines.
Subject to export, technology and quality requirement.

Paper production.
In conjunction with development of local raw material resources. Common types of paper such as printing paper, writing paper, photocopy paper are subject to at least 80% export requirements.

Fruit juice.
Subject to utilisation of local raw material and export requirements.

Refrigeration equipment.
Subject to technology and export requirements.

Processing of aqua-products; canned sea foods.
Joint venture form, subject to material, technology requirements and export at least 80%.

Assembly of marine engines.
Subject to technology requirement.

Production and processing of wood.
Dairy processing.
In conjunction with development of local raw material resources.

Cane sugar production.
Vegetable production and processing.
In conjunction with development of local raw material resources and subject to export requirement.

Tanning.
In conjunction with development of local raw material resources and subject to environmental protection requirement.

Sensitive List

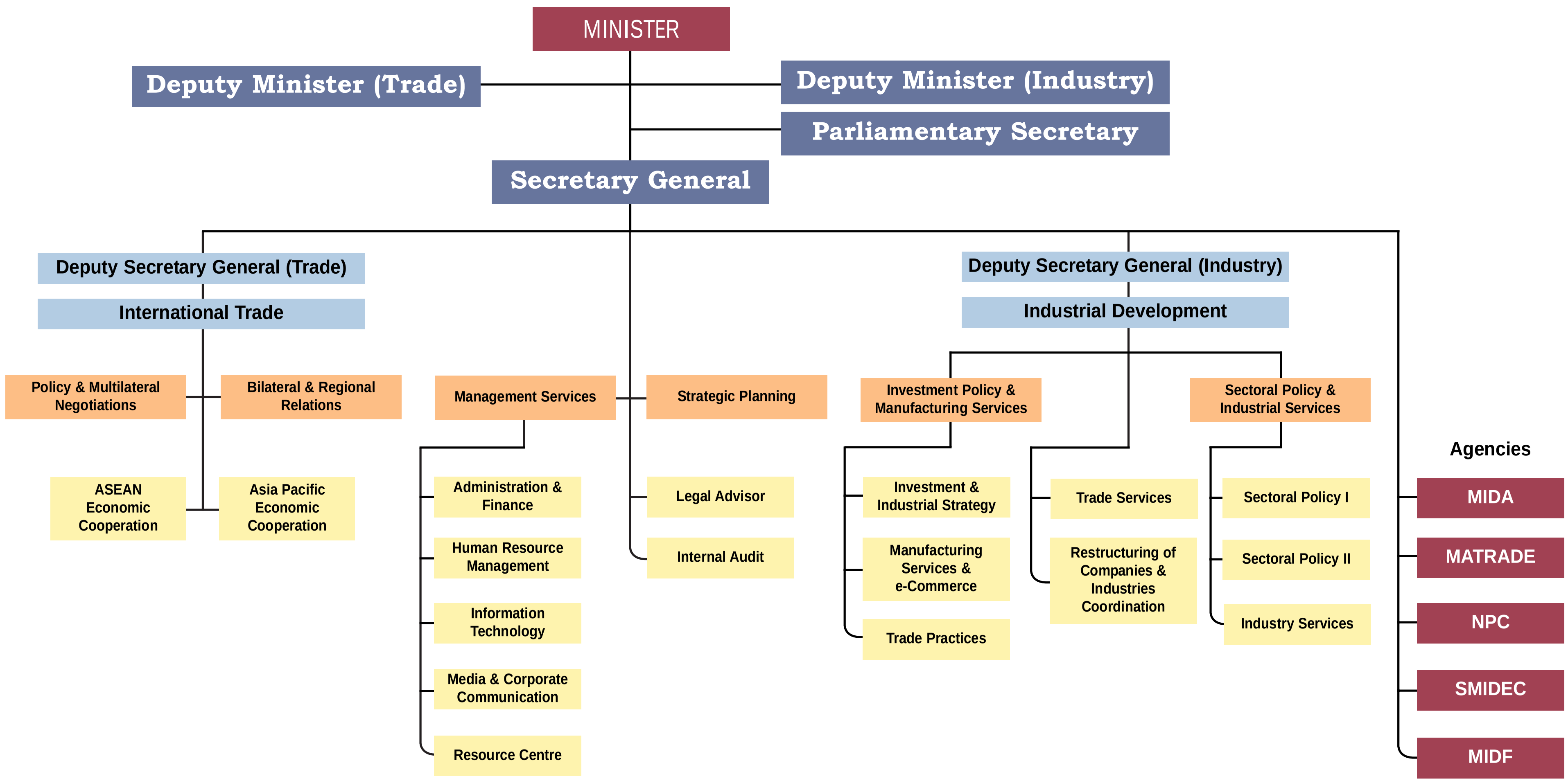
<u>Industries Closed Only to Foreign Investors.</u>
Fishing.
Foreign investment shall not be licensed.

Exploitation of gemstones.
Fishing-net production.
No new licence will be issued.

<u>Industries Open With Restrictions to Foreign Investors</u>
Exploitation, processing of rare and precious minerals, raw materials, exploitation of clay for production of exportation of high-quality sand for production of construction and technical glasses.
Subject to planning of the Government.

Appendix 6 MITI And Its Agencies-Organisation Charts And Addresses

MITI ORGANISATION CHART



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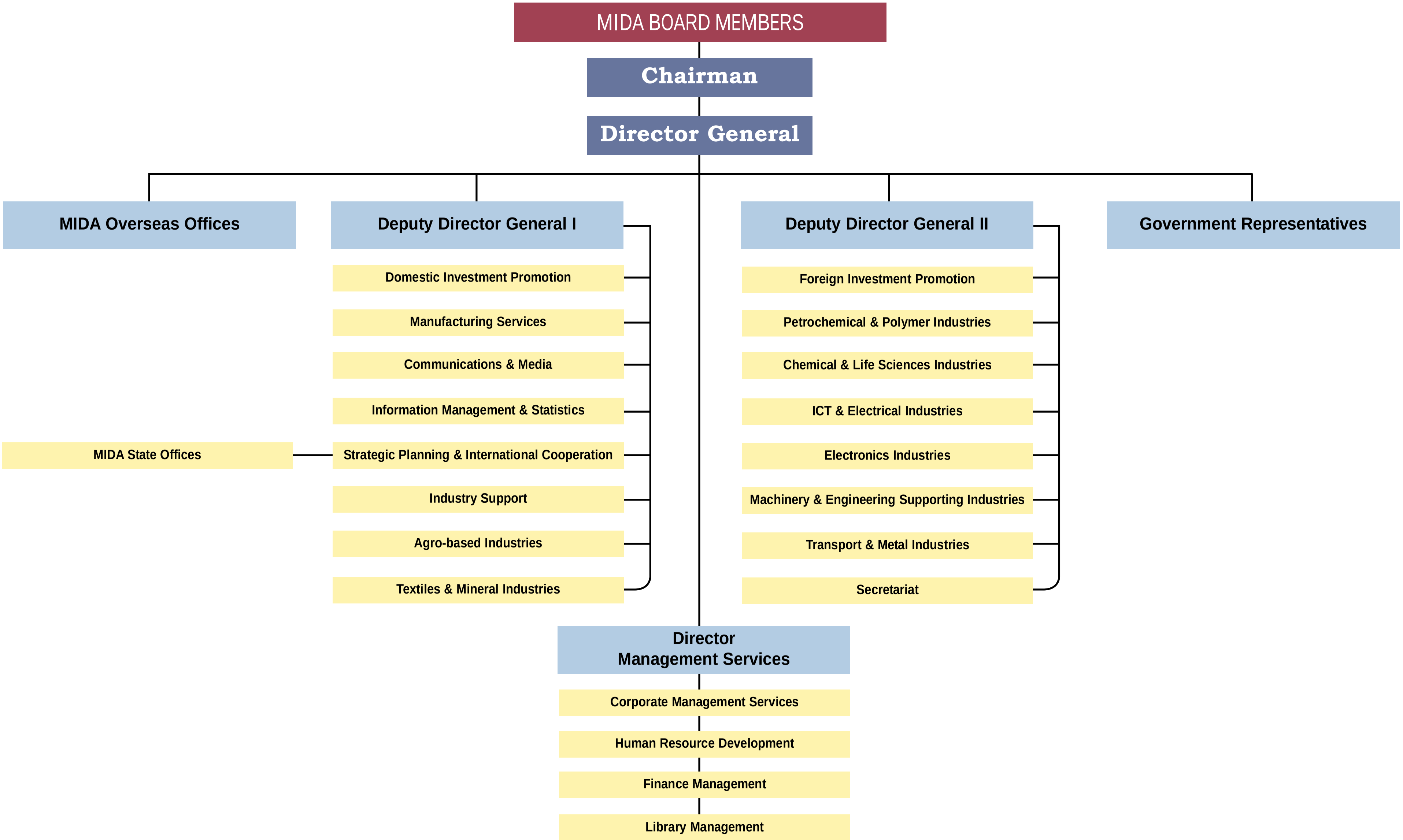
MIDA ORGANISATION CHART



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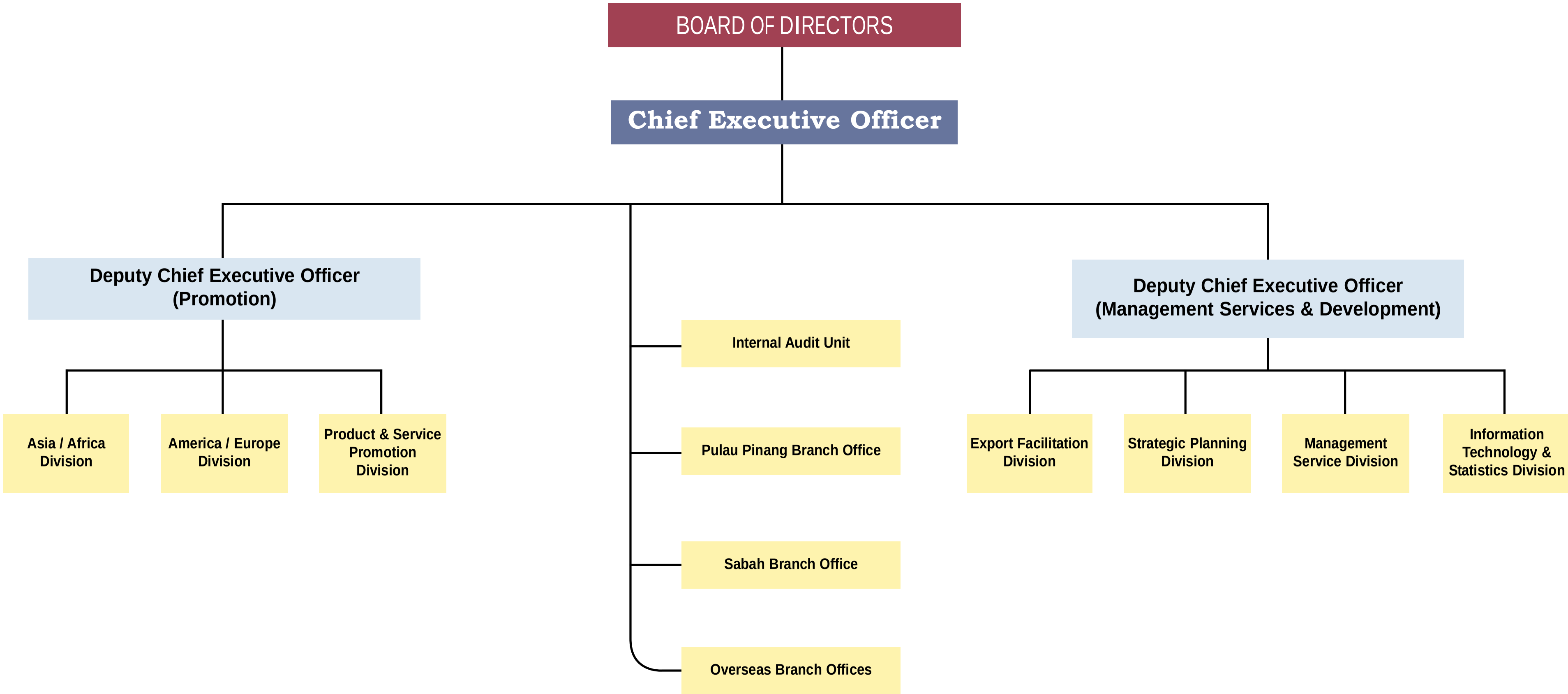

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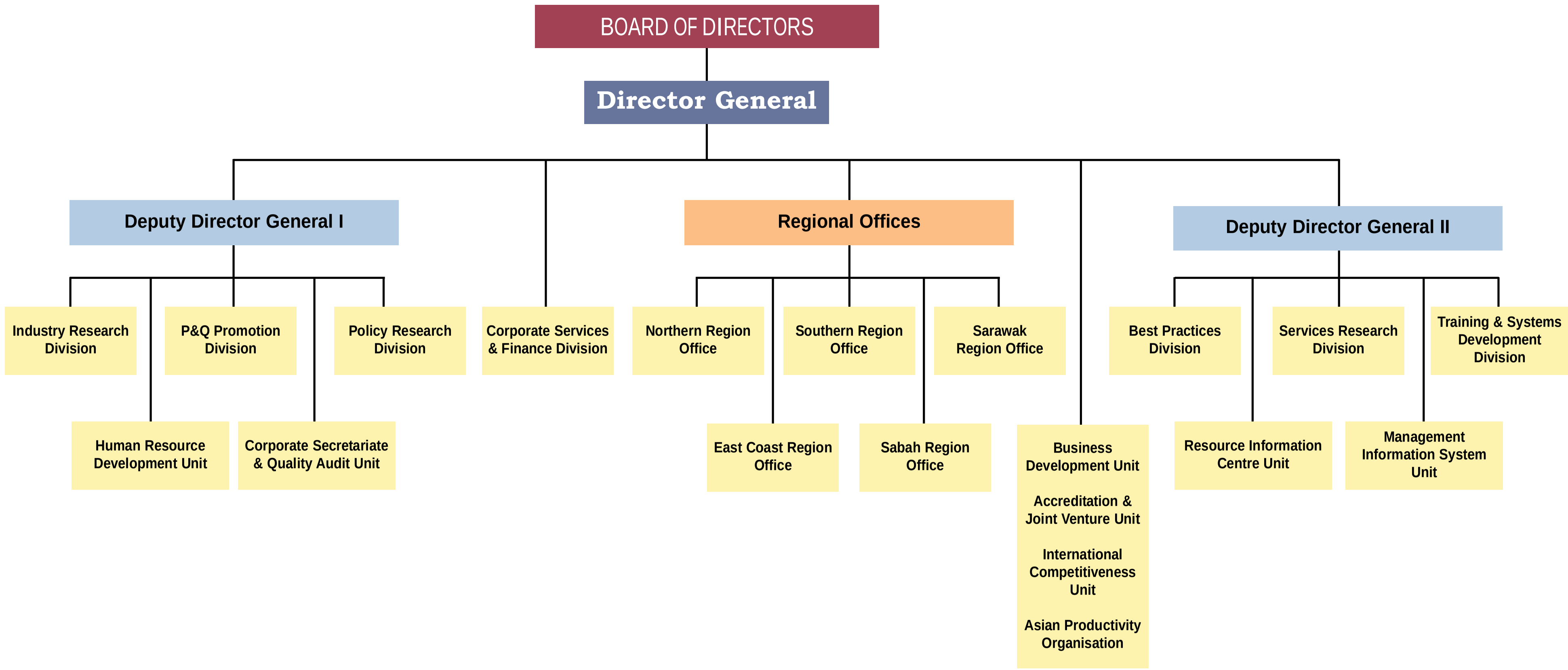
NPC ORGANISATION CHART



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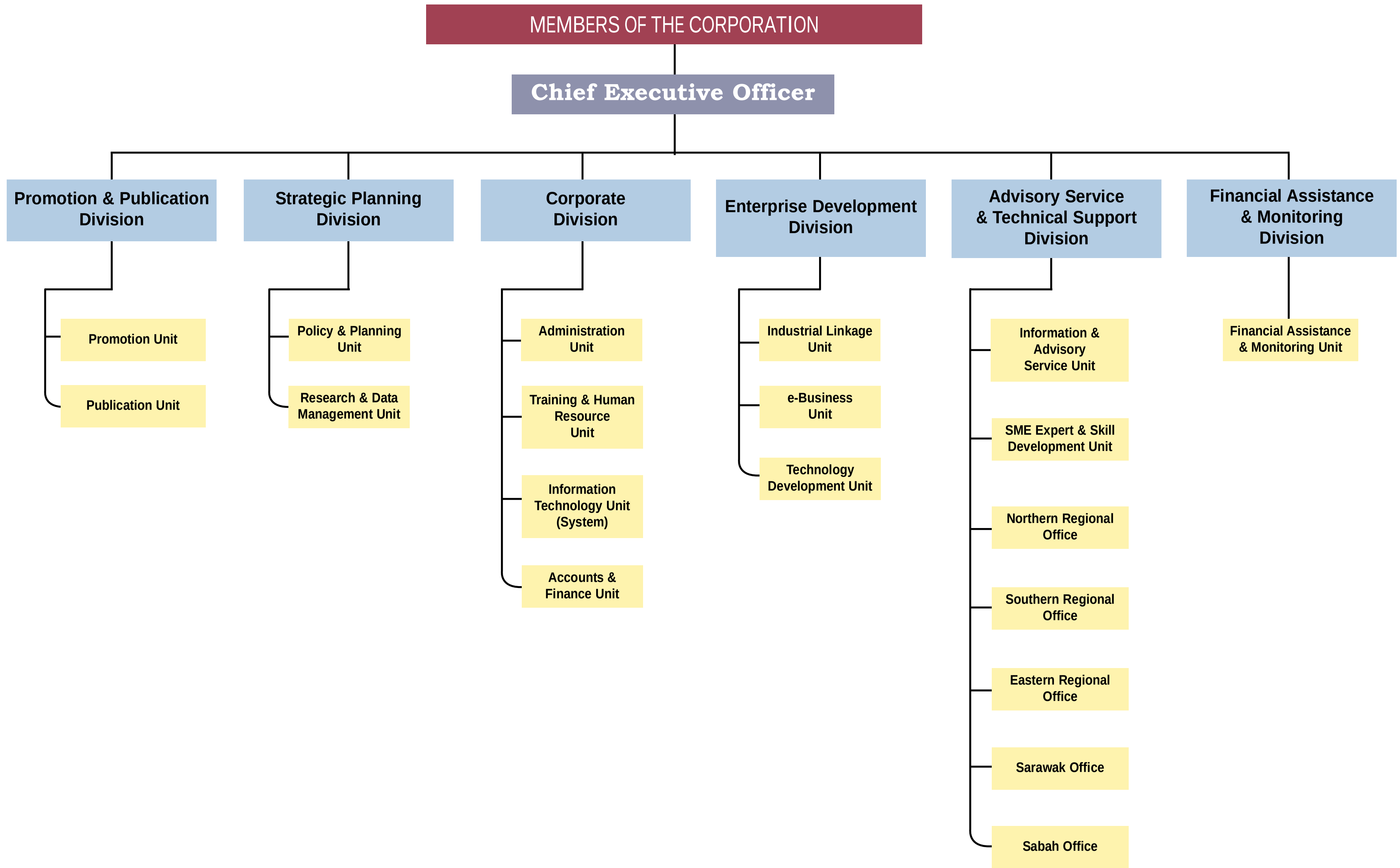

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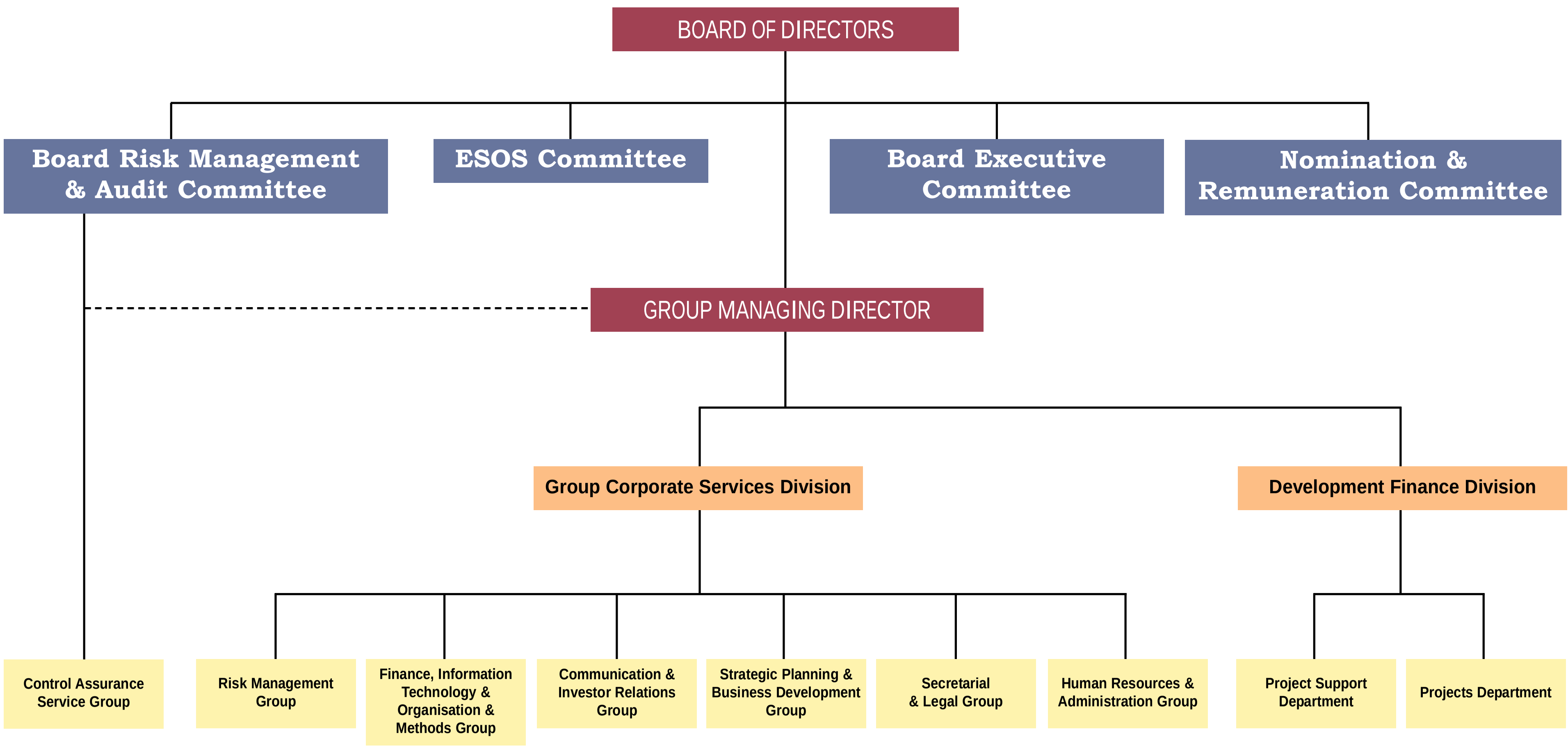

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Appendix 7 Abbreviations And Acronyms

3G	Third Generation
4WD	Four-Wheel Drive
ACS	Assemblies for Construction Sites
AFAS	ASEAN Framework Agreement on Services
AFTA	ASEAN Free Trade Area
AHTN	ASEAN Harmonised Tariff Nomenclature
AIA	ASEAN Investment Area
AICO	ASEAN Industrial Cooperation
AIDS/HIV	Acquired Immunodeficiency Syndrome/Human Immunodeficiency Virus
AISP	ASEAN Integration System of Preferences
AMBDC	ASEAN Mekong Basin Development Cooperation
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
ASEAN 6	Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand
ASEAN+3	ASEAN, People's Republic of China, Japan and Republic of Korea
ASEM	Asia-Europe Meeting
B2B	Business-to-Business
B2C	Business-to-Consumer
BIMP-EAGA	Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area
BOP	Balance of Payments
CARICOM	Caribbean Community and Common Market
CBU	Completely Built-Up
CCC mark	China Compulsory Certification Mark
CD-ROM	Compact Disc Read-Only Memory
CeBIT	Centre for Office and Information Technology
CEP	Comprehensive Economic Partnership
CEPT	Common Effective Preferential Tariff
CIDB	Construction Industry Development Board
CIPE	Capital Investment per Employee Ratio
CKD	Completely Knocked-Down
CLMV	Cambodia, Lao PDR, Myanmar and Viet Nam
COMCEC	Standing Committee on Economic and Trade Cooperation
CRC	Cold-Rolled Coils
D-8	Group of Eight Developing Countries
DEHP	Di (2-ethylhexyl) phthalate
DWT	Dead Weight Tonnes
E&E	Electrical and Electronics
EAFTA	East Asia Free Trade Area
EC	European Commission
ECOTECH	Steering Committee on Economic and Technical Cooperation
EFTA	European Free Trade Association
EHP	Early Harvest Programme
EU	European Union

FDI	Foreign Direct Investment
FTAs	Free Trade Agreements
G-15	Group of Fifteen
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs And Trade
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GMP	Good Manufacturing Practice
GSP	Generalised System of Preferences
GSTP	Global System of Trade Preferences
HACCP	Hazard Analysis Critical Control Point
HRC	Hot-Rolled Coils
HS	Customs Harmonised System
IAI	Initiative for ASEAN Integration
ICDT	Islamic Centre for Development of Trade
ICs	Integrated Circuits
ICS	International Classification for Standards
ICT	Information and Communication Technology
IDB	Islamic Development Bank
ILP	Industrial Linkage Programme
IMF	International Monetary Fund
IMP2	Second Industrial Master Plan
IMP3	Third Industrial Master Plan
IMT-GT	Indonesia-Malaysia-Thailand Growth Triangle
IOR-ARC	Indian Ocean Rim-Association for Regional Cooperation
IP Code	International Protection Code
IPCs	International Procurement Centres
IPR	Intellectual Property Rights
ISO/TS	International Organisation for Standards/Technical Specification
IT	Information Technology
JAKIM	Jabatan Kemajuan Islam Malaysia
JMEPA	Japan-Malaysia Economic Partnership Agreement
LDCs	Least Development Countries
LNG	Liquefied Natural Gas
M&E	Machinery and Equipment
MATRADE	Malaysia External Trade Development Corporation
MDC	Multimedia Development Corporation
MEAs	Multilateral Environmental Agreements
MERCOSUR	Latin American Southern Cone Common Market
MFA	Multi Fibre Agreement
MFN	Most Favoured Nation
MICCI	Malaysian International Chamber of Commerce and Industry
MICE	Meetings, Incentives, Conferences and Exhibitions
MIDA	Malaysian Industrial Development Authority
MIDF	Malaysian Industrial Development Finance Berhad
MIHAS	Malaysian International Halal Showcase
MISIF	Malaysian Iron and Steel Industry Federation
MITI	Ministry of International Trade and Industry
MNCs	Multinational Corporations
MP3	Media Players

MPOB	Malaysian Palm Oil Board
MPVs	Multi-purpose Vehicles
MRA	Mutual Recognition Arrangement
MS	Malaysian Standard
MS IEC	Malaysian Standards International Electrotechnical Commission
MSC Malaysia	Multimedia Super Corridor of Malaysia (effective 7 April 2006)
MTCC	Malaysian Timber Certification Council
MTCP	Malaysian Technical Cooperation Programme
MyICMS886	Malaysian Information, Communication and Multimedia Services 886
NAFTA	North America Free Trade Area
NAMA	Non-Agriculture Market Access
NAP	National Automotive Policy
NPC	National Productivity Corporation
OECD	Organisation for Economic Cooperation and Development
OHQs	Operational Headquarters
OIC	Organisation of Islamic Conference
PEKEMA	Persatuan Pengimport dan Peniaga Kenderaan Melayu
PERODUA	Perusahaan Otomobil Kedua
PIKOM	Association of the Computer and Multimedia Industry, Malaysia
PROTON	Perusahaan Otomobil Nasional
PTA	Preferential Trading Arrangement
PTP	Port of Tanjung Pelepas
R&D	Research and Development
RBD	Refined, Bleached & Deodorised
RDCs	Regional Distribution Centres
REACH	Registration, Evaluation and Authorisation of Chemicals
RTAs	Regional Trade Arrangements
S&D	Special and Differential
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
SLFR	Soft Loan for Factory Relocation
SLICT	Soft Loan for ICT Adoption
SLSME	Soft Loan for Small and Medium Enterprises
SMEs	Small and Medium Enterprises
SMIDEC	Small and Medium Industries Development Corporation
SOMTI	Senior Officials Meetings on Trade and Investment
SPS	Sanitary and Phytosanitary Standards
TBT	Technical Barriers to Trade
TFP	Total Factor Productivity
TNC	Trade Negotiation Committee
TPS-OIC	Trade Preferential System Among the Member States of the OIC
TRIPs	Agreement on Trade-Related Aspects of Intellectual Property Rights
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America
WCO	World Customs Organisation
WTO	World Trade Organisation

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