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MALAYSIAN ECONOMY: ANALYSIS OF PERFORMANCE IN 1990, AND ISSUES BEYOND

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Introduction

The Malaysian economy enjoyed a buoyant economic growth in 1990 despite signs of the onslaught of economic recession in the industrial nations. Real Gross Domestic Product grew at a high rate of 10%. This is the highest growth rate ever achieved by the country since 1976, when the growth rate was then 11.6 per cent. This remarkable performance of the economy was chiefly attributed to the strong domestic demand which contributed 13.6 per cent to the overall real GDP growth. The private sector played an important role in this surge in domestic demand. Private investment rose by about 31% in 1990, out of which a significant portion was direct foreign investment amounting to $13,317.1 million, representing an increase of about 60%. However, growth in merchandise export slowed down in in 1990 amidst falling economic growth in the industrialized nations.

This article consists of 2 parts. Part I analyzes the performance of the Malaysian economy in 1990, and part II evaluates the isues that may affect the future growth of the economy.

Part I Performance in 1990

1 Gross Domestic Product

Table 1: Gross Domestic Product by Industrial Origin in Constant 1978 Prices.

	1988	1989	1990p	1991f
	$ million			
Agriculture, forestry and fishing	13,928	14,737	14,985	15,277
Mining and quarrying	6,803	7,385	7,691	8,022
Manufacturing	16,151	18,089	21,381	23,957
Construction	2,133	2,380	2,761	3,161
Electricity, gas and water	1,211	1,344	1,512	1,698
Transport, storage, and communication	4,412	4,856	5,438	6,036
Wholesale and retail trade, hotel and restaurants	6,988	7,748	8,755	9,762
Finance, insurance and real estate (including ownership of dwellings) and business services	6,088	6,770	7,684	8,683
Government services	7,819	8,132	8,482	8,868
Other services	1,454	1,520	1,657	1,806

Less Imputed bank service charges	2,820	3,356	4,010	4,732
Plus Import duties	2,131	2,529	3,035	3,425
GDP in purchaser's values	66,298	72,134	79,370	85,963

Note: p Preliminary
f Forecast

Manufacturing was not only the fastest growing sector but also the greatest contributor to GDP of 26.6% in 1990. The strong performance of this sector was chiefly attributed to the increase in total investment in manufacturing projects and strong domestic demand with a stable external demand . With the expection of non-ferrons metal industry, output in all manufacturing industries continued to expand in 1990. Remarkable output growth performance was recorded particularly in electrical machinery and electronics, wood and wood product, textiles and wearing apparel and transport equipment industry.

The agricultural sector recorded a disappointing performance in 1990. Contribution of this sector to GDP continued to decline as a result of falling demand and depressed prices for most agricultural commodities. Agriculture contributed 19.4% to real GDP in 1990, a decline of 1% compared to 1989. Table 1 indicated that value added of the agricultural sector totalled $15,282 million in 1990, a fall of about 3.7% compared with output in 1990. The decline in output was largely due to the fall in the production of rubber, and all other agricultural crops apart from palm oil and cocoa which expanded by quite a substantial amount. The poultry and fishery products increased marginally during this period.

Growth in the mining sector also slowed down in 1990. Output from this sector totalled $7,739 million in 1990, an increase of about 4.8% compared to 1989. The slowdown in growth was mainly due to the poor performance of tin. Depressed tin prices in 1990, caused many mines to cut production and some to cease operations.

The construction sector, fuelled by the high domestic demand of residential, industrial, and commercial buildngs, showed a high growth performance of 15% in 1990 compared with 1989. However, its size and contribution to GDP was still relatively insignificant.

The overall service sector with the largest share of GDP of 42.2%, grew about 9.5% in 1990. The significant growth performance of the sector was mainly the result of a substantial increase in output in the various subsectors notably the wholesale and retail trade, hotels and restaurants, and the finance, insurance, real estate and business services.

2 Commodities and Manufactured Exports

Table 2: Gross Exports of Major Commodities

Major Commodities	1990 $M	1990 %	1989 Change in %	1990p Change in %
Agriculture	17,740	22.3	2.4	– 7.8
Rubber	3,028	3.8	–24.9	–23.3
Saw logs	4,041	5.1	8.7	– 7.2
Sawn timber	3,067	3.8	57.7	5.5
Palm oil	4,409	5.5	3.3	– 6.0
Palm kernel oil	523	0.7	19.1	–30.7
Other	2,672	3.4	1.2	3.5
Minerals	14,158	17.8	25.2	22.9
Tin	902	1.1	27.5	–22.3
Petroleum	10,637	13.4	29.1	34.8
LNG	2,228	2.8	12.4	7.9
Other	391	0.5	23.5	– 6.7
Manufactures	47,170	59.3	36.2	29.0
Other	482	0.6	18.4	– 2.6
Total	79,550	100.0	22.7	17.3

Note: p Preliminary

Source: Economic Report 1990–1991

Growth in the exports of major primary commodities registered only 2.9% increase in 1990. Though export of most commodities showed an increase in volume, export earnings from major primary commodities particularly rubber, palm oil, sawlogs, tin, and cocoa recorded a significant decline. The fall in export earnings for these commodties was chiefly attributed to depressed commodities prices throughout 1990. Crude petroleum and liquefied natural gas were the only two commodities which performed remarkably well in 1990. In fact crude petroleum was the single largest commodity export earner for Malaysia. Export volume of crude petroleum increased by 5.9% while its export earnings appreciated by a sizeable proportion fo 34.8% in 1990. This substantial increase was mainly due to the higher world crude oil prices in the last five months of the year, subsequent to the gulf crisis following Iraqi invasion of Kuwait. Exports of liquefied natural gas (LNG) increased marginally from 6.2 million tonnes in 1989 to 6.7 million tones in 1990, representing an increase of 0.3%. However, it contributed 18.2% to total export earnings (Economic Report 1990: 148). This high value in export earning was due to the large increase in unit value of LNG of about 17.7% in 1990.

Export earnings from tin and rubber recorded the largest reduction of 22.3% and 23.3% respective in 1990. The dismal export performance of tin was due to the persistently low prices of tin, oversupply and weak demand in the world market. Export of rubber had been declining both in terms of volume and earnings since 1989. The low unit price of rubber and weak external demand depressed the export earnings of this commodity in 1990.

Manufactured goods contributed approximately 59.3% to total export earnings in 1990. Total export earnings from manufactured goods, estimated at $47,170 million, showed an increase of 29% compared to 1989. The increase in export earnings was largely due to the strong external demand for manufacturing goods as a result of the continued weakening of the ringgit compared with the major curruncies in the world. Electrical machinery and electronic products, and textiles, clothing and footwear were the two main contributors to export earnings of manufactured goods in 1990. Significant export expansion was also evident in manufactured goods like transport equipment, jewellery, gold and silver.

3 Balance of Payment

Table 3: Balance of Payment

	1988	1989	1990
	$ million		
Merchandise exports f.o.b.	54,607	67,247	78,284
Merchandise imports f.o.b.	40,083	56,685	73,674
Merchandise balance	14,524	10,562	4,610
Services receipts	9,420	10,959	15,791
Services payments	19,581	22,160	25,425
Services balance	–10,161	–11,210	–9,634
Transfers (net)	395	208	333
Goods, services and transfers	4,758	– 431	–4,691
Official long-term capital (net)	– 5,102	– 1,816	– 887
Corporate investment (net)	1,884	5,000	8,000
Long-term capital (net)	– 3,218	3,184	7,113
Basic balance	1,540	2,753	2,422
Private financial capital (net)	– 2,914	1,569	1,612
Errors and omissions (net)	270	– 990	1,331

Overall balance	– 1,104	3,332	5,365
Allocation of SDRs	–	–	–
IMF Resources	–	–	–
Central Bank reserves	1,104	– 3,332	–5,365
SDRs	– 31	– 19	– 71
IMF reserve position	– 87	19	23
Gold and foreign exchange	1,222	– 3,335	–5,271

Source: Annual Report 1990
Though the overall balance of payment imporved in 1990, the deficit on account deteriorated further to –4,691 million. Table 3 shows that the merchandise account recorded a surplus of 4,610 million in 1990.

The deficit in service account improved in 1990 due to the higher receipts on travel as a result of the 'Visit Malaysia Year' campaign by the government. However, this increase was not sufficient to offset the increase in merchandise import, thus worsening the current account deficit in 1990.

The balance on long-term capital account showed a significant improvement in 1990 with a massive inflow of long-term capital totalling 7,113 million, representing an increase of 123.4% compared to 1989. The huge surplus on long-term capital account was mainly due to the large increase in corporate investment inflows in 1990. The marked improvement in the long-term capital balance offsetted the current account deficit to give the larger surplus of 5,365 million in the overall balance of payment.

4 Public Sector Finance

Table 4: Consolidated Public Sector Finance

	1989	1990p	1991 Budget
	$ billion		
Revenue[1]	32.4	36.2	36.7
Operating expenditure[1]	27.3	28.9	32.1
Current surplus[1]	+ 5.1	+ 7.3	+ 4.6
Current surplus of NFPEs[2]	+ 5.2	+ 5.3	+ 5.4
Public sector current surplus	+ 10.3	+ 12.6	+ 10.0
Development expenditure	12.9	16.3	16.5
General Government	8.2	11.3	11.3
NFPEs	4.7	5.0	5.2

Overall financing deificit	– 2.6	– 3.7	– 5.3
% of GNP	– 2.7	– 3.3	– 5.3

1 Includes Federal and State Governments, Statutory Authorities and Local Governments:
2 Includes 52 NFPEs in 1989 and 50 in 1990
p Preliminary

Source: Annual Report 1990

The consolidated financial position of the public sector deteriorated in 1990 with an overall deficit of 3.7 billion or 3.3% of GNP. In fact, the collection of revenue actually increased by 3.8 billion or 11.7% in 1990 compared to 1989. However, operating expenditure appreciated by 1.6 billion (5.9), while development expenditure jumped by 3.4 billion (26.3%) in 1990 compared to the previous year, thus resulting in a huge budget deficit amounting to 3.7 billion.

This large overall public sector deficit has led to accumulating domestic and foreign debts. The public sector outstanding debt rose by 5.2% to 94.7 billion in 1990, out of which 73.8% (70 billion) was domestic debt and 26.2% (24.7 billion) foreign debt. This increase in public debt was due in part to the the depreciation of the Malaysian ringgit against the Japanese Yen and the major European currencies.

5 Inflation and Unemployment

Table 5: Prices Indices for Malaysia.

Weight	Weight	1988	1989	1990
		Change		
Consumer price index (1980{ 100)	100.0	2.5	2.8	3.1
Food	36.9	3.8	3.7	4.2
Beverages and tobacco	4.7	1.5	1.4	3.5
Clothing and footwear	4.8	2.1	1.7	1.7
Gross rent, fuel and power	18.7	–2.0	–0.8	0.4
Furniture, furnishings and household equipment	5.8	2.9	2.8	1.8
Medical care and health expenses	1.2	1.5	1.7	2.6
Transport and communications	16.0	6.7	6.9	5.0
Recreation, entertainment, education and cultural services	6.4	1.6	0.6	0.8
Miscellaneous goods and services	5.5	1.9	2.6	3.0

Peninsular Malaysia CPI	100.0	2.7	2.9	3.2
Sabah CPI	100.0	0.7	2.2	2.4
Sarawak CPI	100.0	2.5	2.9	2.7
Producer Price Index (1978 { 100)	100.0	7.4	4.0	0.9
PPI for local production	71.8	8.6	3.8	0.2
PPI for imports	28.2	4.3	4.7	2.5

Source: Economic Report 1990 – 1991

5.1 The Consumer Price Index (CPI), the yardstick used to ascertain the inflation level, rose by 3.1% in 1990. The highest rate of growth was recorded in sub-indices: food, beverages and tobacco, transport and communication. Growth in the other sub-indices was only marginal. Two main factors accounted for the upward trend in prices. Firstly, the fall in the value of the ringgit, compared to most major currencies in the world, had resulted in the higher prices of imported goods. This in turn raised the general price level in the country. Secondly, strong economy recovery with high domestic demand had led sellers to mark up prices on their products. Fortunately, price increase is still moderate, but could be serious if left unchecked.

5.2

Table 6: Employment by Sectors

	1989		1990	
	'000	% share	'000	% share
Agriculture, forestry and fishing	1,958	30.8	1,975	29.8
Mining	38	0.6	39	0.6
Manufacturing	1,097	17.0	1,169	17.7
Construction	386	6.1	427	6.4
Electricity, gas and water	45	0.7	46	0.7
Wholesale & retail trade, hotels and restaurants	1,157	18.2	1,240	18.7
Finance, insurance, real estate, business services	222	3.5	231	3.5
Transport, storage and communications	269	4.2	279	4.2
Government services	847	13.3	850	12.8
Other services	349	5.5	365	5.5
Total	6,350	100.0	6,621	100.0

Source: Annual Report 1990

Unemployment showed a significant improvement following the high economic growth in 1990. Not only was the unemployment rate down from 7.1% in 1989 to 6.3% in 1990, the total number of unemployment was reduced by 24,000 during this period of time. The increase in new jobs created especially in the secondary and tertiary sectors contributed to the fall in unemployment rate in 1990. It is estimated that about 252,500 new jobs were created in 1990. (Economic Report 1990/1991, p. 214). The slower growth rate of labour force of 3.1% was another contributing factor to the fall in unemployment rate.

Employment by sector revealed that the tertiary sector was the largest employer, employing about 45.5% of the total labour force. Employment in the manufacturing sector registered a strong growth of 8.3%, providing employment to 17.7% of the total labour force last year. The agricultural, foresty and fishing sector, the largest employer of labour force in the 1960's and 1970's, reduced its share of total employment to 29.8% last year.

Part II

Issues that May Affect the Future Growth of the Economy

With the economy growth of major industrial nations, particularly the United States, expected to slow down to 1.5% this year as an after effect of the Gulf War, coupled with high interest rate and reduced capital spending in Europe, the Malaysian economy is likely to sag this year. The Treasury forecasted a 8.3 per cent GDP growth in 1991, based on a projected oil price of US$20 per barrel. To date, with oil price at $19 per barrel, growth rate may be very close to the forecasted rate. However, there are areas of concern which need to be managed carefully to ensure the continual growth of the economy.

1. The widening in current account deficit is a major concern to the nation. Being an open economy, Malaysia seems to be vulnerable to the changing economic environment that emanates principally from the industrial nations in the west. The present slowdown in the economy of these industrialized nations is likely to dampen external demand for export of commodities. This would further deteriorate deficit in the balance of payment if imports continue to rise sharply. The adverse out-look on the balance of payment situation would be more profound if oil prices fell significantly during the year. At present, capital inflow helps to cover the deficit in the balance of payment. However, in the long term additional inflow of capital may be needed to service debt principal repayment, and payment of interest on loans, and profits of foreign firms. Therefore large inflow of capital is good in the short run but this gives rise to structural problems in the long run.

2. The rising amount of public debt poses another threat to the nation. A large amount of public debt means that an increasing amount of government fund is needed for loan repayment and debt servicing each year, and reduced amount of money available for development purpose. Debt service charge for the federal government increased from 6.7 billion in 1989 to an estimated 7.0 billion in 1990. Though the increase is marginal, it takes up a large portion of federal government operating expenditure. In 1990, total debt service charges (payment of interest only) represented 27% of total federal government operating expenditure. This implies that out of $1 allocation for operation expenditure, the federal government spent about 27 cents on interest payment on outstanding debt last year. High debt service charges also contribute to deficit in service account. Total federal

government expenditure last year. With an increase in expenditure, and with no corresponding increase in revenue, total public debt is expected to rise. Therefore it is time that the government should be more prudent in public spending.While it is essential to provide for basic infrastructure facilities, expensive projects with low economic values should be shelved.

3. The price level in the country is expected to rise further as a result of strong domestic demand. The Treasury forecasted that the CPI would increase to about 4.5% this year. Signs of the upward trend in the price level can be seen in the large increase in money supply. In 1990, M_1 which consists of currency in circulation and demand deposits rose by 14.1% from a year earlier. The board monetary agregate, $_2$ which comprises private sector holdings of currency and deposits with the commercial banks and central bank, including negotiable certificates of deposit, increased by 12.8% during this period. The government currently absorbs part of the increase in prices of petroleum and petroleum products through subsidies and lower taxes. Should the government decide to withdraw petroleum price subsidies, this would push up the energy prices, causing the price level to rise further. A recent cabinet decision to grant all civil servants a 5% salary raise will add to inflationary pressure as it would lead to an increase in consumer spending.

4. The Treasury predicted that the rate of unemployment would fall to 5.8 per cent this year. However, with the upward pressure on wages for most sectors, and the presence of labour shortages, particularly skilled labour in some sectors, the rate of unemployment may fall lower than the predicted figure. Amongst all the sectors, services and manufacturing are expected to be in the forefront in generating employment opportunities in 1991. However, the employment prospect in the traditional agricultural sector is expected to be sluggish in the near future. Though the unemployment problem has improved, the labour market is plagued by shortages of skilled labour in construction and manufacturing sectors. The problem of mismatch between labour training and requirement of labour market still exists. For example graduate unemployment is still substantial though its number is reduced. By the end of August 1990, about 5,186 or 7.2% of total unemployment were graduates from colleges, institutes and universities. There is a need to revamp the curricula of universities, institutes, polytechnic and vacational schools to reflect the needs of the labour market. The private sector should be encouraged to play a greater role in the area of education and training and to provide more on-the-job training.

Conclusion

Amidst the general slowdown in the world economy, the Malaysian economy outperformed most Asean countries with a growth rate of 10% in 1990. The manufacturing sector not only registered the highest growth was also the biggest contributor to GDP. Construction and services were the other two leading growth sectors in the economy. However, the role agricultural, foresty and fishery sectors in the national economy continued to declined as a result of falling output and depressed prices for most agricultural commodities. The overall balance of payment improved last year but deficit on current account deteriorated further as a result of a sharp rise in import and service account deficit. Even though the federal government deficit had improved, it still experienced a huge deficit mainly the result of a sharp rise in development expenditure. The general price level rose to 3.2% last year. The upward trend in price level is cushioned by government subsidies on petroleum and petroleum products and price control on certain essential items. Unemployment rate has fallen to a low 6.3%,the lowest rate since 1984.

The outlook for the Malaysian economy in 1991 is less optimistic. Growth rate might hover around 8%. To improve the financial position of the public sector, the government needs to curb its spending especially on costly but non essential projects. Measures have to instituted to solve the problem of graduate unemployment and the skills gap, the low indigenous technological developments, the huge current account deficit in the balance of payment, and the upward surge in the general price level.

The potential and prospect for the Malaysian economy depend not only on the developments of the world economy, but also on economic and political developments on the domestic front.

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