Performance of Penang's Manufacturing Investments in 2005

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PENANG ECONOMIC MONTHLY

In This Issue

2005 was a brilliant year for Penang as the State successfully secured RM4.81 billion worth of total approved manufacturing investments. Approved manufacturing investments had increased by more than two-fold in 2005 whereby total capital investments surged from a modest RM2.03 billion in 2004 to a remarkable RM4.81 billion in 2005.

Table 1: Penang - Approved Manufacturing Projects, Employment & Capital Investments, 1996 - 2005

Year	No. of Projects	Employ-ment	Domestic Investment (RM million)	Foreign Investment (RM million)	Total Capital Investment (RM million)
1996	97	11,993	1,093.42	2,091.98	3,185.40
1997	90	9,736	1,030.77	418.29	1,449.06
1998	104	10,911	1,410.62	1,274.66	2,685.29
1999	95	14,928	180.81	4,597.00	4,777.80
2000	132	15,327	895.12	3,564.48	4,459.60
2001	124	14,630	259.53	3,577.72	3,837.25
2002	110	13,487	411.36	1,986.96	2,398.32
2003	137	9,890	467.17	1,455.82	1,922.99
2004	144	9,235	1,014.41	1,015.74	2,030.15
2005	**148**	**21,904**	**717.35**	**4,090.83**	**4,808.18**

Source: Malaysian Industrial Development Authority (MIDA)

On the overall, a total of 148 projects were approved in 2005, 4 up from the total number of projects approved in 2004. The RM4.81 billion worth of approved investments is by far the highest amount recorded in the last 10 years. The number of potential employment created through last year's approved investments had more than doubled, with 2005's total exceeding the total of both 2003 and 2004 added together. On the other hand, we can also observe that domestic investments have suffered a huge drop after its impressive achievement of breaking through the RM1-billion barrier in 2004. For 2005, domestic investments were recorded at RM717 million as opposed to the amount of RM1.01 billion registered in 2004. However, the drop in domestic investments was cushioned by a phenomenal increase in the amount of foreign investments (FDI) into the State. Penang received a total of RM4.09 billion worth of FDI in manufacturing last year, the highest so far since the turn of the new millennium. Total capital investments to Penang constitute 15.5 percent of the total manufacturing investment of Malaysia. In that, foreign direct investments into Penang make up 22.9 percent of the total manufacturing FDI in the country.

Table 2: Penang - Approved Manufacturing Projects, Employment & Capital Investments by Quarter, 2005

Period	No. of Projects	Employ-ment	Domestic Investment (RM Million)	Foreign Investment (RM Million)	Total Capital Investment (RM Million)
Q1	29	2,678	208.19	152.55	360.73
Q2	34	7,623	172.35	302.49	474.84
Q3	44	3,749	134.73	1,056.56	1,191.30
Q4	41	7,854	202.08	2,579.23	2,781.31
Total	**148**	**21,904**	**717.35**	**4,090.83**	**4,808.18**

Source: Malaysian Industrial Development Authority (MIDA)

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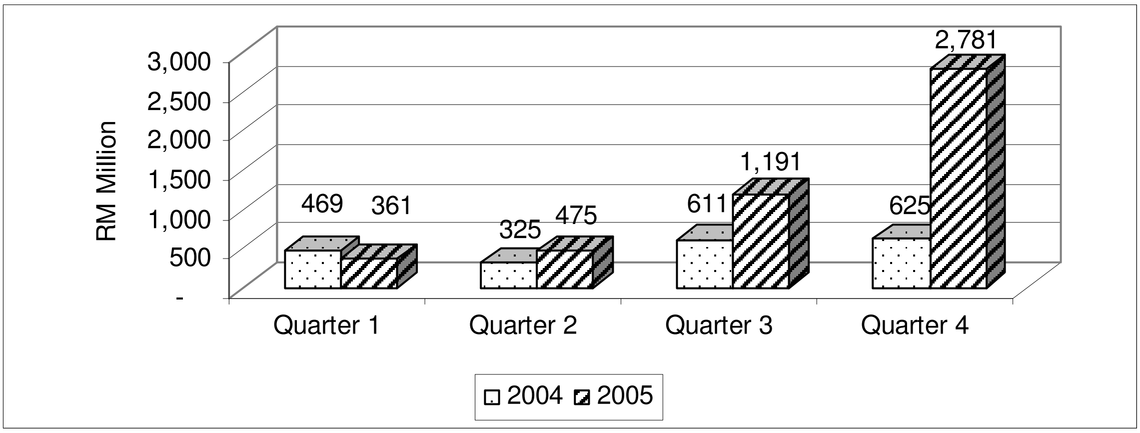
Looking at the figures across the year, we can see that the bulk of the investments were approved in the 4th quarter of 2005. As can be seen from Table 2, Quarter 1 and Quarter 2 were relatively slow in terms of investments approved, as there were less than RM900 million worth of investments approved in the 1st half of the year. The pivot point began in Quarter 3 and the inflow of total investments approved in Quarter 4 sealed a strong performance for Penang. Chart 1 shows that apart from the first 3 months of the year, total capital investments for each quarter of 2005 has shown healthier performance in comparison with 2004.

Chart 1: Total Approved Manufacturing Investments, Quarters 1 – 4, 2004 & 2005



Source: Malaysian Industrial Development Authority (MIDA)

Table 3: Penang – Approved Manufacturing Investments by Status, 2005

Type	No. of Projects	Employ-ment	Domestic Investment	Foreign Investment	Total Capital Investment
New	49.3%	37.8%	78.7%	15.1%	24.5%
Expansion / Diversification	50.7%	62.2%	21.3%	84.9%	75.5%

Source: Malaysian Industrial Development Authority (MIDA)

Key reasons behind the remarkable surge… improvement of MIDA's delivery system, Penang regaining its former strength in attracting new investments and having continuous support from existing investors.

One of the key reasons behind the remarkable surge is due to the improvement of the delivery system of the Malaysian Industrial Development Authority (MIDA), which is the government's principal agency for the promotion and coordination of industrial development, in executing the investment proposals. The success of the State in securing more manufacturing investments than before could also be hinged on the fact that Penang is on the rebound of regaining its former strength in attracting new investments into the state coupled with the support from both existing domestic and foreign investors who continued to show their interest and confidence in Penang by expanding their ventures here.

As can be seen from Table 3, the breakdown of projects between the number of investment projects which were new and the number of projects which were expansion / diversification plans of existing firms was a near 50-50 . A little over 75 percent of the total capital investment in 2005 was the result of expansion and diversification of the existing manufacturing firms here and out of this total, 85 percent of them came from the existing foreign entities here, generating more than 60 percent of the total new potential employment opportunities for locals. New investments only made up 25 percent of the total approved investments last year of which 80 percent were actually domestic investments. Whether this signifies the advent of domestic led investments is yet to be known but the State will still have to look into ways of encouraging more local investments and at the same time sustain the level of FDI inflow into Penang.

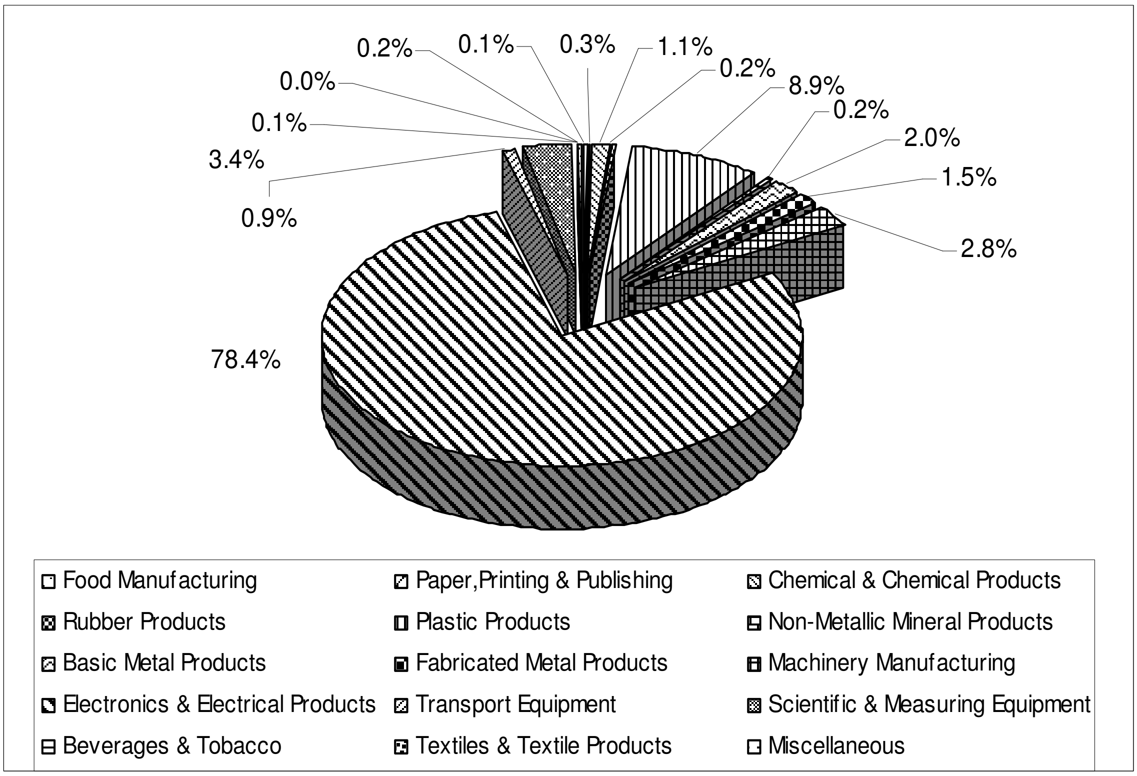
As the electrical and electronics (E&E) manufacturing sector has always been the driving force of the growth of the Penang economy, it is not surprising to see the industry leading in terms of total investments received in 2005 for Penang. The E&E sector was boosted by a very healthy RM3.77 billion injection of approved capital investments last year. Total foreign investments that flowed into the E&E industry in Penang last year made up 30.3 percent of the nation's total investments in the E&E industry. In 2005, major E&E firms such as Intel, Solectron, Osram and Flextronics had expanded their investments here while new ventures were also set up, as in the case of the Avago Technologies. Investments were also strong in the other industries like plastic products (RM426.0 million), scientific & measuring equipment (RM161.5 million) and machinery manufacturing (RM135.6 million).

Table 3: Penang - Approved Manufacturing Investments By Industry, 2005 (RM million)

Industry	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total 2005
Electronics & Electrical Products	234.08	308.39	683.86	2,544.97	3,771.30
Plastic Products	15.94	32.95	377.15	-	426.04
Scientific & Measuring Equipment	7,22	-	41.84	112.48	161.54
Machinery Manufacturing	12.60	79.90	20.88	22.24	135.62
Basic Metal Products	25.50	39.80	-	28.70	94.00
Fabricated Metal Products	34.01	5.41	26.80	6.84	73.06
Chemical & Chemical Products	0.93	-	-	51.83	52.75
Transport Equipment	-	-	39.71	1.49	41.20
Paper, Printing & Publishing	11.88	-	-	0.74	12.62
Rubber Products	10.27	-	-	0.66	10.93
Non-Metallic Mineral Products	-	8.4	-	-	8.40
Food Manufacturing	-	-	-	6.94	6.94
Textiles & Textile Products	-	-		4.42	4.42
Beverages & Tobacco	-	-	1.06	-	1.06
Miscellaneous	8.3	-	-	-	8.30
TOTAL	**360.73**	**474.84**	**1,191.30**	**2,781.31**	**4,808.18**

Source: Malaysian Industrial Development Authority (MIDA)

Chart 2: Penang – Approved Manufacturing Investments by Industry in 2005 in Percentage Share



Source: Malaysian Industrial Development Authority (MIDA)

Table 4: Penang - Approved Manufacturing Investments By Location, 2005 (% share)

Location	No. of Projects	Employment	Total Capital Investment
Prai Industrial Estate	14.9	33.4	12.5
Prai FTZ	6.1	3.9	9.1
Mak Mandin Industrial Estate	1.4	0.9	0.5
Butterworth	1.4	-	0.1
Bayan Lepas I Industrial Estate	2.0	0.2	0.1
Bayan Lepas Phase I FTZ	2.7	1.5	3.7
Bayan Lepas Phase III FTZ	1.4	2.5	2.9
Seberang Jaya Complex Industrial Estate (Bagan Serai)	0.7	-	0.1
Bayan Lepas II Industrial Estate	0.7	0.5	0.2
Bayan Lepas Phase II FTZ	1.4	0.1	0.2
Bayan Lepas Phase IV FTZ	8.1	13.1	20.2
Prai IV Industrial Estate	4.7	0.7	0.9
Bayan Baru	1.4	0.5	0.1
Bayan Lepas	13.5	17.2	11.7
Bukit Mertajam	7.4	1.4	0.6
Bukit Minyak	6.1	11.3	8.5
Jelutong	0.7	0.7	0.1
Nibong Tebal	1.4	0.4	0.1
Prai IV	0.7	3.6	0.5
Seberang Jaya	1.4	0.1	0.1
Seberang Prai	8.1	3.4	3.6
Tasek Gelugor	0.7	0.1	0.0
Other Areas	13.5	4.4	24.2
TOTAL	100.0%	100.0%	100.0%

Source: Malaysian Industrial Development Authority (MIDA)

As can be seen from Table 4, most of the manufacturing projects approved were located at the Prai Industrial Estate and in Bayan Lepas while most of the total capital investment inflows were concentrated at the Bayan Lepas Free Trade Zone and other areas. Most of the potential employment generated will be based at the Prai Industrial Estate.

Table 5: Approved Manufacturing Investments By State, 2004 - 2005 (% share)

State	2005					2004	
	No. of Projects	Employ-ment	Domestic Investment	Foreign Investment	Total Capital Investment (RM million)	No. of Projects	Total Capital Investment (RM million)
Selangor	32.7	19.5	35.3	21.3	8,467.39	30.4	6,050.27
Johor	22.8	35.8	18.2	33.0	8,291.26	23.3	3,987.06
Penang	14.4	19.1	5.4	22.9	4,808.18	13.1	2,030.27
Pahang	1.8	1.6	14.4	1.7	2,203.17	1.6	994.71
Kedah	4.3	6.9	1.9	8.4	1,763.42	5.9	5,245.43
Perak	5.1	4.5	4.0	4.9	1,397.35	4.9	1,316.00
Sabah	4.0	1.9	7.0	1.6	1,204.49	3.6	338.48
Melaka	5.1	4.3	3.0	3.6	1,039.04	5.1	1,194.06
Sarawak	3.3	2.5	4.2	1.7	859.65	4.1	5,901.20
Negeri Sembilan	2.5	1.2	1.8	0.6	351.63	4.0	1,054.32
Terengganu	0.8	0.7	2.5	-	327.74	0.5	138.42
Kuala Lumpur	1.9	0.9	1.0	0.1	149.54	2.4	163.76
Kelantan	0.8	0.6	0.9	-	124.90	0.8	106.56
Perlis	0.2	0.3	0.2	-	31.41	0.1	0.5
W.P.Labuan	0.2	0.1	0.2	-	20.30	-	-
Undecided	0.2	0.1	-	0.1	17.16	0.3	252.42
TOTAL	1,026	114,956	RM13,174 mil	RM17,883 mil	RM31,057 mil	1,101	RM28,773 mil

Source: Malaysian Industrial Development Authority (MIDA)

Most of the projects approved last year were based in Selangor, Johor and Penang and the total capital investments from these 3 leading States amount to nearly 70 percent of the total investments into Malaysia last year. Although Penang trailed behind Johor, the State had performed relatively better than Selangor in terms of having more foreign investments. Most of the states in Malaysia had recorded a rise in the total capital investments received in 2005 in comparison to 2004 with the exception of Kedah, Kuala Lumpur, Melaka, Sarawak and Negeri Sembilan.

Table 6: Penang – Sources of Approved Foreign Investments, 2004 - 2005

Country	2005			2004		
	No. of Projects	Employ-ment	Foreign Investment (RM million)	No. of Projects	Employ-ment	Foreign Investment (RM million)
USA	14	5,033	2,335.72	9	1,349	459.36
Singapore	9	5,159	531.08	10	899	132.61
Netherlands	5	6,985	476.63	4	536	80.95
Japan	9	364	422.06	13	462	130.48
Germany	2	21	87.40	1	28	1.15
Cayman Islands	1	56	72.29	2	64	23.3
Taiwan	16	463	56.28	17	921	40.69
Canada	1	38	39.00	-	-	-
Denmark	2	-	28.11	-	-	-
Others	10	528	19.00	18	980	32.74
Australia	2	16	8.73	2	155	50.82
United Kingdom	2	165	5.88	1	196	6.45
Bermuda	2	19	2.88	-	-	-
Hong Kong	3	154	2.16	1	-	-
British Virgin Islands	2	3	2.00	3	291	1.95
Korea, Rep.	1	-	1.43	1	10	3.83
China	1	53	0.20	-	-	-
France	-	-	-	1	185	19.5
India	-	-	-	1	21	0.21
Italy	-	-	-	1	291	0.01
Thailand	-	-	-	1	95	1.70
Finland	-	-	-	1	414	30.00
Total	**82**	**19,057**	**4,090.83**	**87**	**6,897**	**1,015.74**

Source: Malaysian Industrial Development Authority (MIDA)

The United States of America (USA) continued to be the leading investor in Penang as total capital investments from the US summed up to RM2.3 billion, representing more than 50 percent of the total foreign investments into Penang. This is a 4-fold rise from last year. The State's next biggest investor for 2005 was Singapore with investments totaling to more than RM500 million. There was also a large increase in investments from Germany and Netherlands, whose presence are represented by companies like B Braun Medical Devices and Flextronics Technology respectively. On the flip side, there was a slump in the amount of investments from South Korea whereby the figure has dropped by over 50 percent from RM3.8 million to RM1.4 million.

Conclusion

Attaining RM4.8 billion worth of investments is not a small feat but this achievement would also mean that the State and its relevant authorities need to continue to work hard to ensure that the flow of investments into the state is sustained and will continue to increase. Rampant competition for investments will be inevitable and thus more efforts are needed to ensure that Penang will not lose its shines as one of the top investment spots in Malaysia. ***§ Tan Yin Hooi***

Penang GRP 2005

Table 1: Penang - Economic Indicators

	2001	2002	2003	2004	2005
GRP (RM million)	16,773	17,501	18,788	20,032	21,128
GRP (percentage y-o-y)	-2.5	4.3	4.2	6.6	5.5
Agriculture	17.6	3.6	3.4	4.5	2.7
Mining	5.9	-3.1	-4.6	-7.4	-3.0
Manufacturing	-11.9	4.5	4.1	9.6	5.9
Construction	-3.1	-8.8	3.3	-11.1	-1.3
Services	5.4	5.0	4.5	5.4	5.6
Total Capital Investment (RM million)	3,837	2,398	1,923	2,030	4,808
Domestic Investment (RM million)	260	411	467	1,014	717
Foreign Investment (RM million)	3,578	1,987	1,456	1,016	4,090
Registration of New Motor Vehicles (percentage growth y-o-y)	-0.1	-0.7	12.1	18.8	9.9
Average Hotel Occupancy Rate (percentage)	54.8%	53.9%	49.8%	60.2%	60.2%*

Source: SERI, MIDA, Road Transport Department (JPJ)

* *Note: In actual fact, hotel occupancy rates for 2005 were lower than 2004. However the number of hotel rooms available in Penang for 2005 were less than 2004 given the closure of Rasa Sayang Hotel, Hotel 1926 and Garden Inn.*

Table 2: Penang GRP 2005 – Sectoral Share (%)

Sectors	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual 2005
Agriculture	1.5	1.5	1.5	1.5	1.5
Mining & Quarrying	0.9	0.8	0.8	0.8	0.9
Manufacturing	42.6	42.6	42.6	42.8	42.9
Construction	1.7	1.7	1.6	1.5	1.7
Tertiary	53.4	53.4	53.6	53.4	53.1
Total	100.0	100.0	100.0	100.0	100.0

Source: SERI

Table 3: Penang – Sectoral Growth for 2005 (%)

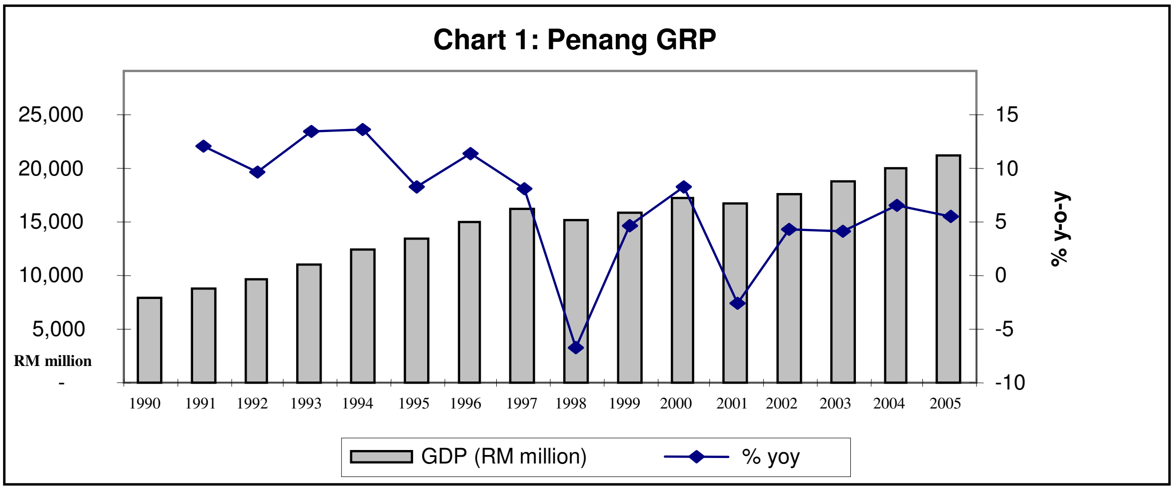
Sectors	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual 2005
Agriculture	3.8	1.9	1.8	3.5	**2.7%**
Mining & Quarrying	-5.6	-4.6	-1.1	-0.5	**-3.0%**
Manufacturing	6.2	5.0	5.4	6.9	**5.9%**
Construction	-8.5	-1.2	1.9	2.5	**-1.3%**
Tertiary	6.5	4.7	5.3	5.9	**5.6%**
GDP Growth	**5.9%**	**4.6%**	**5.2%**	**6.2%**	**5.5%**

Source: SERI

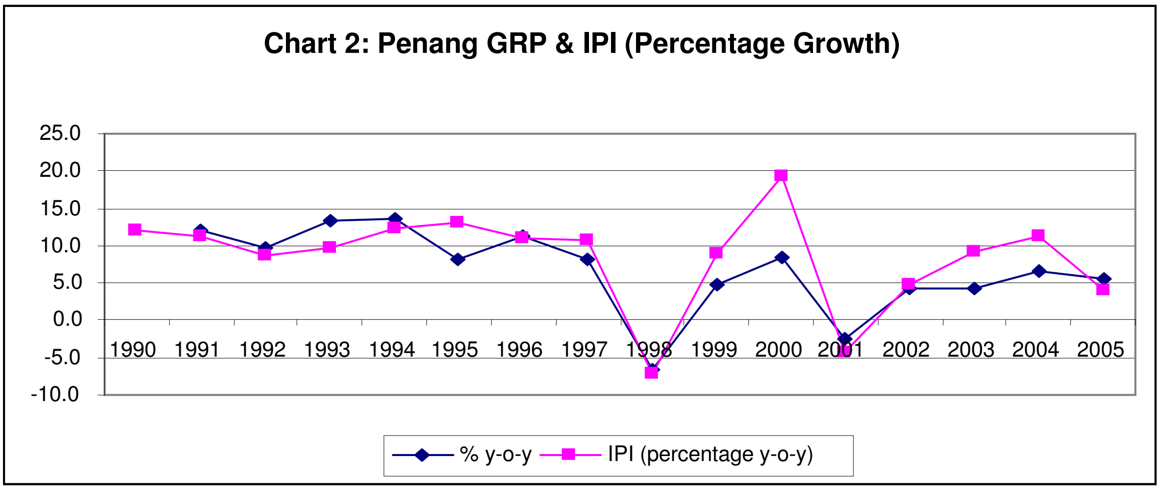
Table 4: Malaysia: Economic Indicators

	2001	2002	2003	2004	2005
GDP (percentage y-o-y)	0.3	4.4	5.4	7.1	5.3
CPI (percentage y-o-y)	1.4	1.8	1.2	1.4	3.0
IPI (index)	180.4	188.8	206.3	229.6	238.9

Source: Bank Negara Malaysia (BNM)



Source: SERI



Source: SERI, BNM

For the year 2005 Penang registered an average growth rate of 5.5 percent, 0.2 percent higher than the national growth rate. The economic growth in Penang remains driven by private sector growth, underpinned by strong expansion in global growth, supportive macroeconomic policies and favourable financial conditions. The positive business environment has also led to buoyancy of consumer spending and consumption patterns. The higher fuel prices have also had a minimal effect on private consumption. Penang also witnessed remarkable surge in the total value of approved investments for the year 2005 at RM 4.8 billion.

The recent release of the 9MP highlights that for the period of 2001-2005, the CAGR for the Northern Region is 4.4 percent. The Northern Region on this context encompasses the States of Penang, Kedah, Perlis and Perak. Penang is the only State which performance measured as 5.0 percent surpassed the regional average. For the period 2001-2005, Penang GDP growth is the 3rd highest after Selangor and Johor. Thus, Penang stands steadfast as a key contributor of the Malaysian economy. In so far as the Development Composite Index (DCI) is concerned, Penang ranks second at 105.7, after the Federal Territory at 109.6, indicating higher levels of economic activity and quality of life for Penang for the year 2005.

The release of the State GRP figures in 9MP as compiled by the Economic Planning Unit (EPU) provides SERI with a point of reference for its GRP projections for the State. SERI's estimates of GRP are compiled and projected based on data available at the State level. To a large extent it is dependent upon the cooperation of both public and private sectors in voluntary and timely disclosure and reporting of data. Based on SERI's estimates, the Compound Annual Growth Rate (CAGR) for Penang for the period 2001 to 2005 is 4.7 percent. For the same period, the 9MP states that Penang achieved a CAGR of 5.0 percent. It is not surprising for numbers projected "bottom-up" to be more conservative than numbers disbursed "top-down" because there are many investment decisions that are decided upon from without which could be missed in the former. For example, lumpy public investments such as highways and public infrastructure as well as large private projects tend to be approved from the nation's capital; and therefore it is not possible to actively track this information at the state level.*§ Poh Heem Heem*

The Report Card for 2005: Malaysia's National Account Numbers

PENANG ECONOMIC MONTHLY

Introduction

Bank Negara Malaysia released its report as scheduled on 22 March 2006 for the country's economy in 2005. We learnt that the gross domestic product (GDP) grew in real terms by 5.3% having retreated from 7.1% in 2004.[1] Meanwhile real growth in the gross national product (GNP) was 6.4% in 2005, i.e., moderated from 7.3% the year before. Thus, bottom line, even though the numbers have somewhat softened, the nation's economy performed decently. The full report runs through 262 pages plus another 90 pages of tables in the appendices. Those interested to know the details can download a PDF version from Bank Negara's homepage at the following url: http://www.bnm.gov.my/index.php?ch=109&pg=333&ac=31&yr=2005 [2]

We will not repackage information from Bank Negara here. Instead, following the tradition we have adopted (beginning with our March 2004 issue), our concern has been to focus instead on the health (rather than performance) of the economy, because this is given less emphasis elsewhere. As was done last year and the year before, our approach is to examine the various components of Malaysia's national accounts: I) production and output, II) income and outlay, III) accumulation, IV) external or rest of the world accounts, which can be laid out in a matrix as shown on Table 1.[3] Such national account figures for Malaysia are rarely presented in a single framework as is done here, but they provide an important snapshot of how money is earned and spent collectively as a nation. How they tally gives a good indication about the health of the economy and whether the potential for growth remains sustainable.

Table 1: System of National Accounts, Malaysia, 2005 (Current RM million) – Bank Negara Malaysia (preliminary)

Account:	I	II	III	IV	Total
I		C+G = 280,468	I = 96,812	X - M = 116,205	493,485
II	GDP =Y - P = 494,544			P= -21,470	GNP= 473,074
II	D = -1,059	S = 175,643			174,584
IV		T = 16,963	CA = 77,772		94,735
Total	493,485	473,074	174,584	94,735	

Source: Developed from numbers reported in Bank Negara Report 2005 (released March 2006)

Note:
C+G = pvt. and govt. consumption, I = investment, P = net factor payments abroad (negative numbers indicate outflow), D = change in stock (negative numbers indicate decrease in the stock level), S= savings, T = net transfers abroad (positive numbers indicate outflow), CA = current account balance (positive numbers means a surplus, implying financial investment outflows).

[1] In 1987 prices, the GDP figures were RM232.4, RM249.0 and RM262.0 billion for 2003, 2004 and 2005.
[2] It is very encouraging that Bank Negara is making its report easily available to the public. Although selling of government reports has been a revenue source to the government, the amount earned is actually far less than the benefit of greater awareness among the citizenry arising from widening the readership through easy access. Other government agencies, such as the Dept. of Statistics might consider putting its reports on the web as well.
[3] See our March 2004 and April 2005 issues for our previous presentation of Malaysia's national accounts. The national accounts is based on United Nations (1968) A System of National Accounts. Studies in Methods Series F No.2, United Nations Statistical Office, New York.

The status of the component accounts 2004 through 2006

The status of the component accounts is best understood by breaking down the total national income (i.e., the gross national product or GNP) into the various proportions that make up consumption, investment, savings, and cross border transactions. Table 2, shows such proportions within the four sub-accounts for the years 2004 through 2006 based on numbers found in the Bank Negara Report that was just released.

Table 2: System of National Accounts, Malaysia 2004-2006 (% of GNP)

Account:	Yr	I	Yr	II	Yr	III	Yr	IV	Yr	Total
I	04		04	59.31	04	26.31	04	22.51	04	108.13
	05		05	59.29	05	20.46	05	24.56	05	104.31
	06		06	58.99	06	21.15	06	24.69	06	104.83
II	04	105.78	04		04		04	-5.78	04	100.00
	05	104.54	05		05		05	-4.54	05	100.00
	06	104.57	06		06		06	-4.57	06	100.00
III	04	2.35	04	37.25	04		04		04	39.61
	05	-0.22	05	37.13	05		05		05	36.90
	06	0.26	06	38.12	06		06		06	38.37
IV	04		04	3.44	04	13.29	04		04	16.74
	05		05	3.59	05	16.44	05		05	20.03
	06		06	2.89	06	17.23	06		06	20.12
Total	04	108.13	04	100.00	04	39.61	04	16.74		
	05	104.31	05	100.00	05	36.90	05	20.03		
	06	104.83	06	100.00	06	38.37	06	20.12		

Source: Developed from Bank Negara Report 2005. The 2005 numbers are preliminary and the 2006 numbers are the forecast as designated in the report. The 2004 numbers are now final and official and are slightly varied from their preliminary status announced in last years Bank Negara Report.

Account I: production output and demand (C+G+I+(X-M) = Y-P+D)[4]

The gross domestic product (GDP) for 2005 was RM494.6 billion in current dollars. The GDP was 4.6% higher than the national income (i.e., gross national product or GNP), which amounted to RM473.1 billion. This difference between GNP and GDP was even larger the year before by 5.8% (See column under I on Tables 1 and 2). Whenever GNP is lower than the GDP (as is traditionally the case for Malaysia), net factor payments abroad by way of salaries, profits, rental and interests is negative, indicating a net outflow (See column under IV of Table 2). This means that factor payments accrued to Malaysians from the different economies across the world is less than factor payments to non-nationals obtained from production in Malaysia's economy. A net outflow in factor payments means that foreign participation in Malaysia's economy is more than Malaysian participation in economies abroad.

The direction of factor payments is an important policy issue that concerns economic production and national income. GDP being higher than GNP is the result of policies that emphasizes economic production and economic growth. If production is the result of domestic investments, then the GNP will move in tandem with GDP. However, as it is typical of developing economies, much of domestic economy has been fueled by foreign direct investments or FDI (not only for the investment funds but more important for the technology that FDI brings). This being the case, returns to investments accrued to foreign direct investors (expatriate salaries, profits, rental and interests, i.e., factor payment) have to be deducted from the GDP before arriving at the figure of the national income or GNP.

[4] The labels for the different elements in the component accounts can be found in the rows and columns of Table 1.

A policy that focuses instead on national income as opposed to economic growth would reduce emphasis on foreign direct investments in favour for outward (reverse) investments by Malaysians into economies abroad and earn salaries, rental and interests from outside Malaysia. Doing this will allow the negative factor payments gap currently experienced to narrow or even move in the other direction over time. In fact, Malaysia's outward investments have gone on for many years as could be seen in Table 3.[5]

Table 3: Direct Investments Abroad by Malaysia by Regions, 1998 - 2003 (RM million)

	Africa & Central / South America	North America & Europe	West & South Asia	ASEAN	North-East Asia	Others
1998	387	5,050	49	1,692	301	292
1999	883	1,859	190	1,088	634	125
2000	106	1,250	85	1,374	235	762
2001	164	2,234	67	1,949	396	769
2002	1,837	1,975	169	1,194	475	1,601
2003	749	671	92	516	1,107	392

Source: Chan Huan Chiang (2005), "Boosting competitiveness through reverse investments" National Economic Outlook 2006-2007 Conference: Enhancing Competitiveness for Economic Growth, Malaysian Institute of Economic Research, 6-7 December, Kuala Lumpur.

Public and private consumption amounted to 59.3% of the national income in 2004 and 2005 and forecast to retreat marginally to 59.0% of the GNP in 2006 (See column under II on Table 2). Domestic investments by both the public and private sectors have also fallen from 26.3% of the GNP to around the 21% mark in both 2005 and the forecast for 2006 (Column under III). However, the share of export earnings (net of imports) for merchandised goods and services has increased from 22.5% of the GNP in 2004 into the mid 24% range for both 2005 and the forecast for 2006 (Column IV). Despite contemporary news over rising oil prices, Bank Negara's report shows optimism by projecting an increase in 2006 in the share of export earnings in contributing towards Malaysia's GDP.

The building up of stock level in 2004 by 2.35% of the GNP was indicative of weaker demand levels in the economy then (Column I). In 2005, there was, instead, a draw down of stock levels by 0.22% of the GNP. The forecast in 2006 indicates a build up of stock levels by a marginal 0.26% of GNP. Stock level changes are the difference between GDP production on the supply side and the sum of consumption, investments and net exports on the demand side.

Whenever we measure economic growth and performance by real (i.e. inflation adjusted) changes to the GDP, this is done on the demand side: that is based on levels of consumption, investments and net exports. The demand side tends to follow cyclical movements that flip-flop about the supply side numbers. GDP on the supply side is known as potential output, because supply is the result of factor inputs (i.e., labour, capital and their productivity).[6]

The difference between the potential GDP and the demand side is called the output gap Although stock level changes will not fully account for the output gap they provide a quick gauge to whether demand levels is outpacing or falling short of production capacity. This gap is thus indicative of an economy becoming inflationary or recessionary (i.e., overheating or cooling). The narrowing of the stock level changes to 0.2% levels in 2005 and projected for 2006, which are only a tenth of the 2004 level of 2.35%, shows that the demand and supply sides have become better matched with one another.

[5] UNCTAD's World Investment Report 2005: Transnational Corporations and the Internationalization of R&D observed the emerging phenomenon it calls the new geography of international trade and investments in which developing countries are found to have been actively involved in investments and R&D activities outside of their national borders. In other words, development strategies being adopted are not limited only to GDP boosting domestic production activities but to GNP potentials brought by increasing participation in foreign economies.

[6] In Chapter 1 of the Bank Negara report, a box article has been included in which the potential output of the Malaysian economy is discussed.

Account II: income and outlay (Y = C+G+T+S)

The total national income (GNP) goes into four possible elements: private consumption, government consumption, transferred abroad or saved. Across the years, 2004 through 2006, Malaysia's public and private sectors consumed less than six-tenths of the total national income (Column II). Transfers abroad, i.e., cross border flows unrelated to factor payments or trade (goods or services) related activities, make up between 3% and 4% of the GNP. After these deductions from the national income, what is left is between 37% and 38% of the GNP that make up the national savings.

Account III: accumulation (S+D = I+CA)

In a closed economy, total national savings (plus stock changes) must equal total investments or S+D = I. In an open economy, on the other hand, it is possible to also fund domestic investments by using foreign funds but every dollar of foreign direct investment (capital inflow), as an accounting convention, will register as a current account deficit. In other words, S+D-(-CA) = I indicating that total domestic investments is the sum of S+D minus the negative of the current account.

On the other hand, whenever the current account is positive, it means that domestic investments have fallen short of the available funding. It also means that a positive current account is a capital outflow (investing abroad), in which case, S+D = I+CA. This indicates that S+D is equal to domestic investments (I) and investments abroad (CA).

In the years 2004 through 2006, the Bank Negara Report shows an expanding positive current account from 13% to more than 17% caused by excesses of savings over investments (i.e., negative resource gap). This suggests that Malaysia is either saving too much or investing too little domestically. Technically, a nation should strive to achieve a current account balance as close to zero as possible. This will also help keep exchange rate stabilised, because inward and outward capital movements will be more balanced. In scenarios where current account surpluses are built up to facilitate outward (or reverse) investments, denial of investing domestically will make sense only if investing abroad brings better long run returns. Thus looking further into what happens with Malaysia's current account surplus would be a useful exercise.

Cross border capital flows

Technically, balance of payments (current account surpluses minus capital account outflows or vice versa) is always zero. Thus, a current account (the balance for goods and services) surplus is met by an equal amount of capital account outflow and a current account deficit by an equal amount of capital account inflow. Basically, the relationship between the current account and capital flows is reflective of excess of domestic investments over national savings (the resource gap), which has to be met by foreign funding in order to achieve a zero balance of payments.

In real life, however, as we will observe in the capital account flows for Malaysia in Table 4, the numbers are usually not so neat. In 2004, the current account was RM56.5 billion in surplus (13.2% of GNP) as indicated in section A of Table 4. In 2005, the surplus was even larger by RM77.8 billion (16.4% of GNP).

The expectation then is that when the various elements of the capital account flows in section B is added up, we should arrive at a figure equal or at least close to the current account. Unfortunately, this was clearly not the case. In 2004, while capital account flows should be outwards (i.e., negative), in response to the positive current account, the flows were instead counter-intuitively inwards thus further aggravating the balance of payments. The 2005 numbers were more intuitive, that is, RM77.8 billion from the current account surplus to flowed out as Malaysia's investments abroad. From this amount, Malaysia put in RM12.9 billion of outward direct investments. Meanwhile foreign direct investments inflows amounted to RM15.6 billion. We can thus see that direct investment outflows are beginning to catch up with direct investment inflows. If such a trend continues, there will be prospects of a narrowing gap between the GDP and the GNP, because factor payment flows in both directions will be more balanced.

Table 4 : Malaysia's Capital Flows 2003-2004 (RM million)

	2003	2004	2005
A. Current Account:		**56511**	**77772**
B. Capital Account (negative numbers indicate outflows)			
Reverse (Outward) FDI		-7833	-12931
FDI		17572	15642
Portfolio investments		33829	-11881
Other investments		-28485	-32782
Total Capital Flows		**15083**	**-41952**
C. Current AC and Capital Balance		**71594**	**35820**
Errors and omissions		11467	-23000
Overall Balance		**83061**	**12820**
D. Foreign Reserves:	**2003**	**2004**	**2005**
Ringgit	170453	253514	266334
In U.S.dollars	44856	66714	70483
Months retained imports	6.6	7.9	7.8

Source: Adapted from Table A.6, Balance of Payments in the Bank Negara Report 2005.

Portfolio investments into markets abroad (RM11.9 billion), as well as other forms of outward investments (RM32.8 billion) by Malaysians have also increased substantially. However, despite the relatively sizable capital outflow of RM41.9 billion, the amount was still well below the current account surplus for 2005. The result of this, as shown in section C, is a current and capital account (balance of payments), balance of RM35.8 billion for 2005, narrowed from RM71.6 billion in 2004. Even after adjusting for errors and omissions, the balance of payments is still far from zero by RM12.8 billion for 2005 and RM83 billion for 2004.

So where did the RM12.8 billion and RM83 billion go within our accounting framework for 2005 and 2004? Answer: they went into the country's foreign exchange reserves. As section D shows, from the RM170 billion worth of reserves in 2003, the overall balance of RM83 is added to make up RM253.5 billion worth of reserves in 2004. Consequently the further addition of the RM12.8 billion of overall balance in 2005, brought the total reserves for 2005 to RM266.3 billion or the equivalent of US$70.5 billion, enough to satisfy 7.8 months of retained imports.[7]

To become a foreign reserve, the additional RM12.8 billion and RM83 billion accumulated during 2005 and 2004 cannot be kept in local currency, because if Malaysia wants more local currency, it can merely mint more of it. Instead, the RM12.8 billion and RM83 billion were used to buy a foreign asset of relatively little or no risk. Traditionally, U.S. Treasury bonds have been a popular form of investment because they have near zero default risk. Furthermore, the dollar has long been the favoured anchor currency with which much of trade is invoiced and through which most currencies in the world are converted. U.S. Treasuries, used to pay only around 1.75% returns but even though rates are on the rise due to increasing Fed rates, such returns are still far below those that could be earned if the money has ended up as either domestic or foreign direct investments. Of course the 1.75% is earned just sitting around doing nothing while returns to direct investments will require factor as well as technological inputs along with some risks.

Thus, the overall balance of payments turned up to be zero after all, since when used to buy foreign assets, the RM12.8 billion and RM83 billion also became capital outflows. When these are added with the items in section B and C on Table 4 the total will exactly match the capital account surpluses for 2005 and 2004 making the overall balance of payments zero.

[7] Retained imports falling below 2 months is considered critical. 4 or more months of retained imports would be considered healthy, which means that with a level of nearly 8 months, Malaysia's foreign reserves is very healthy indeed.

Account IV: external or rest of the world (T+CA = (X-M)+P)

The trade balance (merchandise goods and services) amounted to 24.6% of the GNP in 2005, which is higher than the 22.5% figure for the year before (Column under IV in Table 2).

Conclusions

Examining the country's economy by laying out the four sub accounts that constitute Malaysia's system of national accounts (SNA) is not often done. In fact, other than attempts to assemble these sub accounts for Malaysia here and in our March 2004 and April 2005 issues, analysis of Malaysia's national accounts in this format could only be found in the study by Bhanoji Rao way back in 1976.[8]

In the analysis made here, the relative proportions that go into the various subcomponents of the country's national accounts have not change much between 2004 and the projections for 2006 as shown in Table 2. This means that the country's economy is holding a steady path in which case course alterations have not been necessary in pursuit of the nation's economic objectives (basically, economic stability and growth). Furthermore, the present course is highly sustainable (maybe too sustainable) since national savings is way up there approaching the 40% mark, which is very high by international standards.[9] Net factor payments abroad is in the 4% to 5% range of the GNP, which is reasonable given that foreign direct investments have played a major role in Malaysia's economy for many decades. Given that Malaysia has begun to actively invest abroad, this move is a mitigating factor in controlling factor payments abroad as returns from economic participation overseas will help increase factor payment inflows into Malaysia.

The difficult thing to explain is Malaysia's huge foreign reserves. If Bank Negara were to mint more ringgit for use by Malaysians, the ringgit's strength in terms of its ratio against the size of reserves will not be affected. Malaysians will certainly become richer but that will only mean higher inflation, implying that purchasing power will not likely improve. The cause of the ballooning reserves is obviously the huge current account surplus also known as the negative resource gap. Malaysia invests 37% of its GNP but invest only 21% of the GNP thus leaving a surplus of 14% of GNP. A zero current account surplus is a balanced economy. A surplus of 5% of GNP is like a buffer, but a surplus well in excess of 10% may suggest over-protection. If one were to take a textbook perspective of this, one would imagine that there is a lot of money around to facilitate investments, yet this is not happening.

Why? To take a guess, we wonder if the reason is that looking at costs and benefits of possible investment projects, the rate of return numbers relative to risks have not been very good and that is why such investments are not made. In other words, we are back to the issue that the nation has long debated over the past 15 or so years. Productivity rates must go up to make investments work. It is one thing to enjoy the fruits of progress brought by a growing economy but to continue to grow money alone will not be enough (necessary condition). We also have to work harder as a nation (sufficient condition). ***§ Dr. Chan Huan Chiang***

[8] Bhanoji Rao, V.V. (1976), National Accounts of West Malaysia 1947-1971, Hienemann Asia, Singapore.

[9] National savings of more than 20% of the national income is considered high. The U.S., for example has managed nationals savings of only between 1%-2% annually. Because Americans make huge investments, the lack of savings lead to a current account deficit.

Thailand's GDP Growth Slows
7 March 2006, WSJ Asia

Thailand's State Economic-Planning Agency said fourth-quarter gross domestic product expanded at a seasonally adjusted 0.9% from the previous quarter, slowing from a revised 2.3% increase in the third-quarter, and cut its 2006 growth forecast to 4.5% - 5.5% as the economy faces uncertain politics, oil prices and interest rates in the months ahead. The National Economic and Social Development Board said the economy expanded 4.5% for all of 2005, slowing from the revised 6.2% growth rate of 2004.

Singapore Economists Forecast 5.9% Growth This Year
10 March 2006, The Star

Singapore's economy will grow at 5.9 percent in 2006, at the top end of a government forecast, but slower than last year's 6.4 percent pace, according to a quarterly central bank survey of economists published Friday. The figures are based on the median forecast of 19 economists polled by the Monetary Authority of Singapore. The growth forecast for 2006 is higher than the 5 percent projection made in the December survey after the economy grew at a faster-than-expected 8.7 percent in the last quarter, the central bank said. The latest forecast, based on expectations that global demand for key electronics will remain strong this year, is also at the upper end of the government's official forecast range of 4 percent to 6 percent. The survey predicted that the economy will grow 7.5 percent in the first quarter before easing to 6.5 percent in the second quarter, with growth to moderate further in the second half amid expectations for a global economic slowdown.

Small Downward Revision in Japan's GDP Growth
13 March 2006, The Star

Japan's economy grew more a bit more slowly in the fourth-quarter than originally estimated - 5.4 percent at an annual pace instead of 5.5 percent - revised government data showed Monday. Still, that reflects robust growth in Japan, and shows the economy is emerging from more than a decade of stagnation. The revised figure is still the fastest rate of expansion since the first quarter and the fourth straight quarter of growth. According to the revision, Japan's gross domestic product - the value of goods and services it produces - rose 1.3 percent in the October-December quarter from the previous quarter, slightly less than the 1.4 percent growth released in February as preliminary data. The downward revision reflected a lower rise in capital expenditure, which was revised to a 0.4 percent rise on the quarter, compared to a preliminary reading of a 1.7 percent gain. Overall, corporate profits have started to recover after Japan's major companies cut costs and banks wrote off mountains of bad debt. Growth in China and the U.S. has also sustained demand for Japanese exports. Japan's trade balance in January swung to a deficit of 209.4 billion yen (US$1.76 billion, Euro1.48 billion) from a surplus of 332.3 billion yen (US$2.80 billion, euro2.34 billion) in the same period a year earlier as high oil prices continued to inflate the cost of Japan's energy imports.

Growing US current account deficit could hurt global economy
16 March 2006, The Star

The bulging U.S. current account deficit and other imbalances in the U.S. economy could threaten the health of the global economy, Japanese financial officials said Thursday. Japanese Economy Minister Kaoru Yosano said U.S. economic imbalances could lead to a "day of reckoning," while Finance Minister Sadakazu Tanigaki urged Washington to reduce its current account gap. Figures released on Tuesday showed the U.S. current account deficit in the fourth quarter widened by 21.3 percent on quarter to a record US$224.90 billion (euro187.01 billion). The deficit in the U.S. current account - a broad measure of trade that includes merchandise and investment flows - is due mostly to its trade deficit, which in January expanded to a record $68.51 billion (Euro56.97 billion), up 5.3 percent from December. The U.S. current account deficit stood at a record high 7 percent of GDP in the fourth quarter, according to data released this week.

Singapore's Exports Climb 16.5%
20 March 2006, WSJ Asia

Singapore's key exports grew at a slower-than-expected pace in February as strong electronics shipments were offset by a slowdown in the drug sector following two months of exceptional growth. Nonoil domestic exports grew 16.5% from a year earlier to S$12.85 billion (US$7.95 billion) according to International Enterprise Singapore. That was below the average forecast of 20.9% in a Dow Jones Newswires poll of analysts. Analysts had forecast stronger numbers because of a low base last year, but were cheered by the continued growth in electronics, which account for half of nonoil exports. Electronics exports were fuelled by strong growth in shipments of semiconductors and computer parts.

China Projects Gradual Slowdown
28 March 2006, WSJ Asia

China's economic growth is expected to slow to 8.9% this year while consumer prices will rise about 2%, the central bank's research department said in a report. The report, carried in the China Securities Journal, predicted gross domestic product would grow 9.2% in the first quarter from the same period a year earlier, 9% during the second quarter, 8.9% in the third quarter and 8.7% during the fourth. It expects consumer prices to rise 1.5%, 2.1%, 2.1% and 2% for each quarter, compared with the comparable quarters a year earlier. China's GDP grew 9.9% last year, while consumer prices rose 1.8%.

Report: China's Foreign Reserves, At Record US$853.7 billion
28 March 2006, The Star

China's foreign currency reserves reached US$853.7 billion (Euro710 billion) by the end of February, likely topping Japan's to become the world's largest, a state-run newspaper reported Tuesday, citing an unnamed source. Japan's foreign currency reserves - the amount of currency from abroad the government holds in its accounts - totaled US$850 billion (Euro707 billion) at the end of February, Tokyo announced earlier. Chinese central bank officials refused comment on the latest figures, reported in the newspaper China Business News, saying data on foreign exchange reserves are only released quarterly. Those figures are due to be issued in mid-April. At current rates of growth, Beijing's foreign exchange reserves could reach US$1 trillion (Euro830 billion) this year.

US Fed Boosts Key Interest Rate for 15th Time
29 March 2006, The Star

The Federal Reserve on Tuesday boosted a key interest rate to the highest level in five years as new Chairman Ben Bernanke followed the Alan Greenspan inflation-fighting formula. The action, the 15th consecutive quarter-point move, left the federal funds rate at 4.75 percent, its highest level since April 2001. Fed officials, who were holding their first interest rate meeting under Bernanke, left the door open for further rate increases although private economists believe only one or two more rate hikes are likely. The quarter-point rate hike had been widely expected. Bernanke has emphasized since being chosen by President George W. Bush that he planned to continue Greenspan's approach toward setting interest rates.

In conjunction with the release of the 9th Malaysia Plan, SERI will be organizing the seminar below:

"The 9th Malaysian Plan and Its Implications on the Penang Economy"

Date: ***29 April 2006 (Saturday)***
Time: ***2.00pm*** - ***4.30pm***
Venue: ***Cititel Penang***

Key Speaker: ***Y.Bhg Dato' Halipah Esa***
Director-General, Economic Planning Unit,
Prime Minister's Office

Guest Speaker: ***Dr. Chan Huan Chiang***
Center of Policy Research
Universiti Sains Malaysia

Moderator: ***YB Dato' Dr Toh Kin Woon***
SERI Chairman

Interested participants are encouraged to register with ***Pn. Rohana*** *of SERI at* ***04-2283306.***

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