

## Chapter 13

# MALAYSIA

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### Malaysia

Area:	330,000 km <sup>2</sup>
Population:	26.13 million (FY2005 government estimate)
Capital:	Kuala Lumpur
Language:	Bahasa Melayu as well as Chinese, Tamil, and English
Religion:	Islam as well as Buddhism and Hinduism
Government type:	Constitutional monarchy
Chief of state:	Tuanku Syed Sirajuddin (King) (coronation on December 13, 2001)
Currency:	ringgit (MYR) (US\$1 = 3.7800 ringgit; as of end of 2005. On July 21, 2005, the ringgit changed from a fixed exchange rate system to a managed floating exchange rate system.)
Fiscal year:	Calendar year

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# Long Journey to Structural Reform

MASASHI NAKAMURA and SO UMEZAKI

**F**or the Abdullah Ahmad Badawi administration, 2005 was the year to indicate the direction of a medium- to long-term policy. At the General Assembly of the United Malays National Organisation (UMNO), of which the prime minister himself was the president, he explained the negative aspects of the public support for Malays heretofore and sought to free Malay entrepreneurs from dependence on the government. In particular, he focused on the problem of small Bumiputera contractors who depend on public investment and encouraged their entry into agriculture and agriculture-related industries which can expect to earn income over the long term.

However, in 2005, events occurred that displayed the deep-rooted nature of the collusion between Malay entrepreneurs and politicians as well as the difficulty of resolving the problem. One was the exposure of vote-buying behavior in the UMNO elections in September 2004, and the other was a controversy surrounding the Approved Permit (AP) for importation of motor vehicles. In the AP problem, it was revealed that some Malay entrepreneurs were selling import APs for profit.

The GDP growth rate in 2005 declined from 7.1 percent the previous year to 5.3 percent due to a slowdown in the manufacturing industry, but it may be said that the real economy sectors were relatively stable. Rather, the outstanding features of the Malaysian economy in 2005 are visible in the financial aspects. Immediately after China announced that it was switching to a managed floating system on July 21, Malaysia likewise abandoned the fixed exchange rate system it had used since September 1998 and introduced a managed floating system based on a currency bas-

ket of its major trading partners. Looking at the performance until the end of 2005, the exit from the fixed exchange rate system is proceeding successfully. Oil prices which are skyrocketing worldwide are also pressuring the Malaysia's budget because of the subsidy expenditures, etc., being made from the budget. The prices of domestic petroleum products were raised progressively in three stages during 2005. For this reason, the inflation rate rose to 3.0 percent, its highest since 1998, and this upward trend continues. To cope with this rising inflationary trend and the capital outflow due to the real interest rate gap between Malaysia and other countries, the central bank, Bank Negara Malaysia (BNM), raised its Overnight Policy Rate (OPR) at the end of November.

## DOMESTIC POLITICS

### *The Direction Indicated in the Prime Minister's Two Speeches*

For Prime Minister Abdullah, one important issue in 2005 was to indicate the concept for the future development policy. The existing five-year plan which was prepared by the previous administration was due to conclude at the end of 2005. Therefore, 2005 was the year for preparing the Ninth Malaysia Plan (9MP), which was the first five-year plan prepared under the Abdullah administration. In 2004, the general elections and the election of UMNO officials were finished, thus the phase of seeking a policy aimed at political support which pleased everyone and offended no one ended. In 2005, it was necessary to proceed with the preparation of the 9MP, which entailed the coordination of the interests at various levels of society while indicating more specific policy ideas.

In mid-2005, Prime Minister Abdullah indicated his current understanding of economic and social development in two speeches and clarified the direction of future efforts and the more specific tasks. One was the speech presented at the Harvard Club on May 5, and the other was the opening speech at the UMNO General Assembly on July 21.

In his Harvard Club speech, the prime minister first indicated his current understanding that "cultural and ethical development" had not caught up with material development. Next, he stated that it is necessary to alter the mentality of the people in the future and to construct "a sound value system," holding up as a specific topic the escape from the three "addictions."

The first of the three addictions is dependence on foreign workers. The prime minister said that Malaysian companies were overly dependent on cheap-wage foreign labor, and he expressed concern that Malaysia was lagging behind in improvement of efficiency through introduction of high technology. The prime minister also stated that companies were trying to secure foreign labor by pressuring the government.

The second addiction is dependence on subsidies. The prime minister criticized companies that are too stingy to invest in improvement of energy efficiency but demand price controls. The prime minister did not make a definite statement, but when he spoke he did have in mind the problem of subsidies for petroleum products, which have ballooned due to skyrocketing crude oil prices (see “Economy” section).

The third addiction is the “rent-seeking addiction.” This refers to the trend where companies neglect efforts to obtain management know-how and indulge in forming connections with influential persons (“know who”). All three of these “addictions” refer to a state where companies rely on political pressure and connections. Therefore, escape from these addictions means independence from the government for the companies.

At the UMNO General Assembly in July, the problem of how to deploy a public support policy for Malays henceforth, considering the administrative schedule for the preparation of the 9MP, was positioned as the main topic for discussion. This issue was named the “Malay agenda,” and it was featured widely by the mass media prior to the general assembly.

In the opening address of the UMNO General Assembly, the prime minister reiterated his own ideas concerning the Malay agenda. In that speech, he focused on the behavior and attitude of Malay entrepreneurs and made the same assertions as in his Harvard Club speech. In short, the prime minister demanded that Malay entrepreneurs break away from their dependence on the government.

The prime minister first asserted that the reason why the government had not reached its goal to increase Bumiputeras’ share of capital up to 30 percent was not because the government had failed but because there had been a leak in the implementation stage. The leak in the implementation stage refers to the fact that Bumiputera companies sold for a profit the licenses and contracts received from the government to non-Bumiputera companies.

To move beyond the current state where “middlemen culture” flourishes, the prime minister emphasized the necessity of capability building and human capital development and stated that the main pillar of the sup-

port policy for Malays henceforth would be education and training. He also mentioned that the selection procedures need to be revised so as to offer opportunities to Malays who have real qualifications and abilities.

### ***Impasse of Pork Barrel Politics***

In these speeches, the prime minister picked up the construction contractors in particular as an example of the Bumiputera companies that depend excessively on the government, and he set forth the current condition and measures for the future. If one looks in detail at where this came from, it can be seen that the policies proposed by the prime minister immediately after he took office were countermeasures for the impasse of “pork barrel politics” premised upon the collusion between politicians and contractors.

According to the prime minister’s speech, the number of Bumiputera construction contractors grew sharply from 2,049 companies in 1992 to approximately 46,000 companies in 2005. Of these, nearly 42,000 are small-scale Class F contractors. Class F is one type of license given to contractors by the Contractor Service Centre, or *Pusat Khidmat Kontraktor* (PKK), under the Ministry of Entrepreneur and Co-operative Development, and it is given to contractors who come under the smallest classification. Public projects of 100,000 ringgit or less is contracted to Class F contractors.

Caution is necessary because the figures presented by the prime minister differ from those released by the Ministry of Entrepreneur and Co-operative Development in April 2005. The Ministry of Entrepreneur and Co-operative Development stated that 42,313 companies are Class F contractors, and of these, 35,253 are Bumiputera contractors.

However in any case, it is clear the small-scale Bumiputera contractors have increased too much. Class F contractors totally rely on the government projects. However because the number of contractors has rapidly increased, there are companies experiencing management crises because they cannot obtain contracts for government projects. For this reason, the industry body Malay Contractors’ Association of Malaysia, or *Persatuan Kontraktor Melayu Malaysia* (PKMM) requested the government to stop issuing new Class F licenses to protect the profits of the existing companies. At the beginning of 2005, the Ministry of Entrepreneur and Co-operative Development halted issuance of new licenses.

In his speech at the Umno General Assembly, the prime minister revealed that in 2000 the government had to order 3 million ringgit worth of public projects for *each parliamentary constituency* in order to save

Class F Malay contractors who were suffering from the sluggish economy. It is not difficult to imagine that this was a repayment for the support in the 1999 general elections, where the UMNO had a hard campaign due to the Anwar Ibrahim issue, or a measure in expectation of political support in the future.

In Malaysia, construction works were pushed forward at an astounding pace during the high-growth period starting from the end of the 1980s, and the construction sector posted double-digit growth every year. As stated by the prime minister, during this period the number of Bumiputera contractors increased sharply.

After the currency crisis in 1997, the construction industry entered a long slack period. However, because the government increased public works projects to boost the economy, the number of Bumiputera contractors did not decline but increased instead. Meanwhile, the federal government budget had remained in deficit for the eight years since 1998. Thus, it was clear that the method of pork barrel politics where the government feeds contractors with public spending, and in return obtains political support from them, had reached an impasse. In his speech, the prime minister stated definitively, “The Government can not play the role of Santa Claus, perpetually handing out gifts.”

So, what could be done to break free of this situation? The prime minister called on contractors to move into sectors with latent potential to produce long-term profit, and as examples of such sectors, he mentioned agriculture, fishery, and related industries. The prime minister cited the Netherlands, a country that is strong agriculturally, to support his case, and emphasized the importance of this sector. He explained that, if biotechnology is used, profits to match the investment can be anticipated.

Promotion of agriculture, agriculture-related industries, and biotechnology is part of the main policy indicated by the Abdullah administration shortly after it was launched. Former Prime Minister Dr. Mahathir preferred large-scale infrastructure development, and he was not enthusiastic about promotion of agriculture. Conversely Prime Minister Abdullah, while hammering out a policy that attached importance to agriculture, decided to freeze large-scale projects which had been planned by the previous administration. In his UMNO General Assembly address, it was clear that there was a sense of crisis over the impasse of pork barrel politics behind the revision in the course of development policy.

Escape from the third “addiction” and diversification of contractors’ projects is not something that can be achieved in a short time. The prime

minister himself recognized this, and while he has shown his resolution to implement his policy even if it is unpopular, he asked that expectations not be excessive. First, it is worth noting what sorts of programs are set forth in the 9MP.

### ***Discipline of Federal Territories Minister Mohamad Isa Samad***

The “rent-seeking addiction” mentioned to by Prime Minister Abdullah refers to the situation where entrepreneurs make money by getting advantages from politically influential persons. In these relationships, it seems unlikely that the entrepreneurs are one-sidedly receiving benefits, and it is natural to assume that the politicians are also receiving something from the entrepreneurs in return.

The increase in the number of Bumiputera contractors and implementation of public projects involving reckless spending are phenomena that indicate the flow of profit from politicians to entrepreneurs. So, what are politicians receiving from the entrepreneurs? It is probably support to establish and maintain their position as influential figures. To be more specific, support in the form of monetary political contributions, for example, is likely.

The contribution of political funds from entrepreneurs to politicians is something that is seen in all countries. However in Malaysia, there is no law equivalent to Japan’s Political Funds Control Law, and so the flow of money in politics is never publicly known.

Concurrent with the prevalence of rent-seeking during the high-growth period of the 1990s, vote buying in the UMNO Party election also ran rampant. This suggested that money returned by the entrepreneurs was being used as “live ammunition” in the battle to advance within UMNO. Even former prime minister Dr. Mahathir admitted the fact that money politics was prevalent within the party and let tears flow when making reference to that abuse at a general assembly. Prime Minister Abdullah also upheld the goal of sweeping away corruption and money politics immediately after assuming office.

In 2005, the “results” of anti-money politics measures appeared. It was discovered that Federal Territories Minister Mohd. Isa Samad, UMNO vice president, had bought votes in the Party election in September 2004, and as discipline he was suspended for three years from official positions.

Mohd. Isa assumed office as chief minister, or *Mentri Besar*, of the state of Negeri Sembilan in 1982, in the first election under the Mahathir

administration, and for 22 years, he maintained that position. In the March 2004 general election, he transferred to the House of Representatives and was appointed as federal territories minister, a position newly established after the elections. While the state chief minister possesses strong authority over state administration, the authority of the newly established federal territories minister position was relatively weak. Mohd. Isa's transfer to the central government was probably not at his own wish, but rather was a demotion decided by Prime Minister Abdullah, who had the right to select candidates. It seems that the prime minister regarded Mohd. Isa as a *persona non grata* from prior to the UMNO party election.

On June 24, 2005, the UMNO Disciplinary Board issued the punishment of suspension from the party for six years to Mohd. Isa on the grounds of wrongdoing (vote buying, etc.) in the party election. In this election where seven candidates ran for the three posts of vice president, Mohd. Isa was able to win with the most votes of any candidate. However, the losing candidates complained that there had been vote buying, hinting at wrongdoing on the part of the winners. The following day when the UMNO Disciplinary Board announced its discipline of Mohd. Isa, the prime minister, together with stating his trust of the board, said that there was a possibility that the Anti-Corruption Agency (ACA) would conduct an investigation into the wrongdoing in the election.

Because Mohd. Isa lodged a protest against the judgment of the Disciplinary Board, the party investigated again, and at the Supreme Council meeting on October 7, it was decided to amend the discipline to three years' suspension from official positions. Mohd. Isa also resigned from the post of federal territories minister on October 15. As reasons why the discipline was lighter than that decided by the Disciplinary Board, the prime minister mentioned two points: Mohd. Isa had contributed to the party for many years, and he had maintained an obedient attitude toward the party with regard to the disciplinary problem.

The vote buying in the UMNO party election is contrary to the party's ethics regulations, but it is not illegal. Therefore, Mohd. Isa was not arrested and kept his position as a member of the House of Representatives. Supposing that the ACA and the police had intervened in the case, there probably would have been an investigation on the aspect of how Mohd. Isa acquired the funds. However, the criminal investigation authorities were not involved, the full picture of the flow of funds was never brought to light.

There is the undeniable impression that the discipline of Mohd. Isa was ultimately more lenient than was suggested by the strong ardor of the prime minister when the case was first discovered. It may be said that this was a case that highlighted how difficult it is to escape from the “rent-seeking addiction.”

### ***Dispute Surrounding Approved Permits for Motor Vehicle Importation***

The motor vehicle import industry has long been known as an example of the “middleman” business of Malays. In 2005, this problem began to gather unexpected notice. The trigger was a statement by former prime minister Dr. Mahathir, who was employed as an advisor to the national car maker Proton. On July 5, Dr. Mahathir said that there was misconduct in the issuance of Approved Permits (AP).

Only dealers authorized by the Ministry of International Trade and Industry (MITI) can import finished vehicles for the purpose of selling them. The number of vehicles to be imported by an authorized dealer is decided each year by MITI, and one AP for each vehicle is issued. The main objective of this system, which started in 1970, was to support the entry of Malays into trade, and most of the authorized dealers were companies where Malays were the major shareholders. There are some dealers who take a middleman’s profits by selling these APs. According to newspaper reports, one AP has a market value of between 20,000 ringgits and 40,000 ringgits (*New Straits Times*, July 19, 2005).

Where Dr. Mahathir discovered problems was in dishonest reporting of the number of APs issued and the price of imported vehicles. Together with asserting that too many APs were issued, Dr. Mahathir pointed out that some manufacturers were reporting prices that were too low. Behind the statement of Dr. Mahathir was the sudden drop in the market share of Proton due to the lower prices of imported vehicles. The share (vehicles) of Proton in domestic passenger car sales declined from 60 percent in 2002 to 41 percent in 2005.

After Dr. Mahathir’s statement, on July 18 the Prime Minister’s Department made the bold move of disclosing a list of the authorized import dealers, their major shareholders, and the number of APs issued in 2005 to each company. This list clearly proved that, of the 67,158 APs issued in 2005, a little over 28,000 found their way into the hands of four companies, with the most, 12,524, acquired by Nasimuddin Amin, the managing director of Naza Motor Group.

The fact that numerous APs went to a handful of entrepreneurs created a huge public response. Suspicion was cast upon International Trade and Industry Minister Rafidah Aziz, who was the minister with jurisdiction over APs, and there were rumors (denied by Rafidah) that she was a blood relative of Nasimuddin.

Rafidah explained that most of the APs that Nasimuddin and the others received were “franchise APs.” The “franchise APs” are APs given to companies that have contracted as exclusive domestic dealers with foreign manufacturers. The selection of the dealers is done by the manufacturers. Rafidah asserted that entrepreneurs who acquired many APs were dealers recognized for their real ability by foreign manufacturers, and she stated that MITI was not involved in the selecting who received APs.

Former prime minister Dr. Mahathir was not convinced by the explanation of Rafidah, and over the course of several times, he engaged in a battle of words with Rafidah in the media. Due to this, popular interest in the AP problem grew even greater, and the government was forced to respond. International Trade and Industry Deputy Minister Mah Siew Keong first stated that sales of APs were not prohibited, but later indicated a plan to stop issuing APs to persons who sold or misused them.

Up until then, Proton had been seen as a symbol of the policy for state-led development and nurturing of Malay entrepreneurs under the Mahathir administration. The dispute this time made clear the fact that the import restrictions policy, which is the flip side of the policy to nurture the national car manufacturer, also involves vested interests, as well as the fact that expansion of imports under the existing system leads to an expansion of the related vested interests.

In the series of disputes, Prime Minister Abdullah was unable to display prominent leadership. This was due to his noncommittal attitude to the National Car Project. The Prime Minister’s Department issued a new National Automotive Policy in October, but it failed to outline a convincing new direction (see “Economy” section). To sweep away the vested interests surrounding automobiles, the only solution was to resolutely carry out drastic deregulation, including the abolishment of the AP system. However, together with promoting the advancement of Chinese companies and foreign-owned car dealers, there was a strong possibility that would further promote foreign cars by lowering the cost of selling them, which would accelerate the decline of Proton.

Former prime minister Dr. Mahathir who complained about unfairness in the issuing of APs, sought to have the AP system operate in a

stricter manner (to maintain the price differential between Proton and foreign cars), and his disclosure of suspicions about government-private collusion involving APs was part of his strategy to achieve this. If Prime Minister Abdullah can make the sweeping away of rent seeking his highest priority issue, then by using Mahathir's argument, he should have chosen to abolish the AP system itself, which is a source of government-private collusion. However, the prime minister was unable to choose this option which would have essentially led to the abandonment of the National Car Project that had been going on for many years. So in the end, the strategy of Dr. Mahathir met with success. It may be said that the AP problem is also a phenomenon that indicates the difficulty involved in the issue of independence of Malay companies.

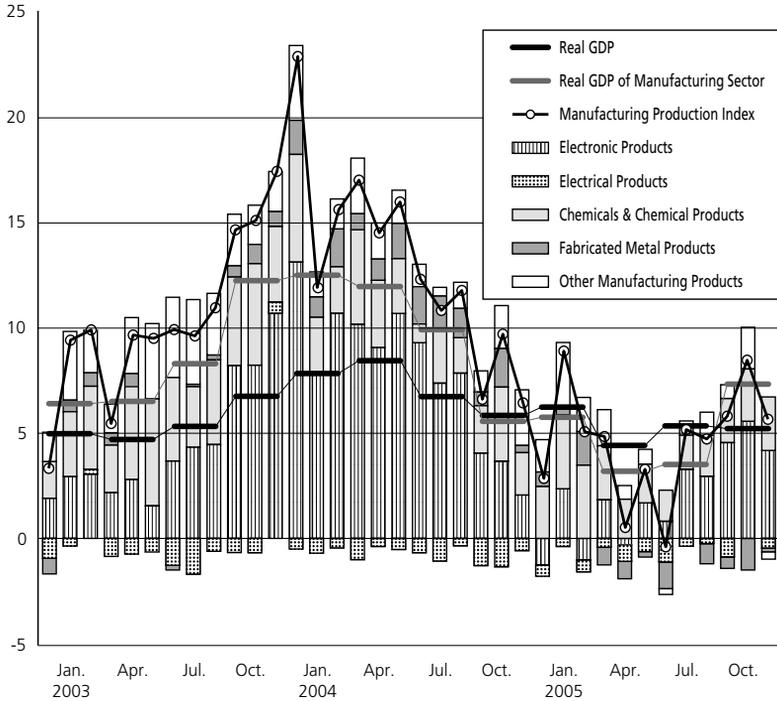
(by Masashi Nakamura)

## ECONOMY

### *Decline in the GDP Growth Rate due to Inventory Adjustment and Signs of Recovery*

Malaysia's real GDP growth rate in 2005 slowed from 7.1 percent the previous year to 5.3 percent. This was because the GDP growth rate in the manufacturing sector plunged from 9.8 percent in 2004 to 4.9 percent in 2005. Looking at the industrial structure, the service sector accounts for approximately 60 percent, agriculture and mining for approximately 10 percent, and the manufacturing sector for only about 30 percent. However, the fluctuations in Malaysia's economic growth rate are strongly correlated with the trends in the manufacturing sector (Figure 13.1). Moreover, looking at the breakdown of the manufacturing sector, it can be seen that the trend of the manufacturing sector overall is reliant on the electronics industry. The electronics industry was the driving force of economic growth all year long in 2004, but due to inventory adjustment, a slowdown became apparent in the fourth quarter of 2004; in the first half of 2005, the electronics industry even dipped into negative growth. However after that, as a result of inventory adjustment, supported by vigorous foreign demand, reaching completion, signs of recovery were visible in the second half of 2005. The growth rate of the value added in the manufacturing sector and of the real GDP displayed the same fluctuations as the electronics industry, and headed toward recovery in the latter half of 2005.

**Figure 13.1. Year-on-Year Percentage Change in Real GDP and Manufacturing Production Index**



Source: Bank Negara Malaysia, *Monthly Statistical Bulletin*, February 2006.

Note: GDP figures are quarterly, and manufacturing production indexes are monthly. The bar graph represents contribution ratios of major manufacturing sectors to the rate of change of the manufacturing production index.

Looking at demand components, private consumption, which increased 9.2 percent, and government consumption, which increased 5.9 percent, slowed slightly from the previous year, but still displayed solid growth. While private investment slowed from a 25.8 percent increase in 2004 to a 10.8 percent increase in 2005, public investment recovered from a negative growth of 8.7 percent in 2004 to a 0.4 percent increase in 2005. Consequently, gross investment increased 4.7 percent, accelerating compared to the 3.1 percent of the previous year. Because the real increase rate of exports was 8.4 percent, exceeding the 7.6 percent of imports, net exports, which had experienced a downturn in 2004, increased 19.3 percent. The reason why the GDP growth rate declined even though the internal demand and external demand were so firm is

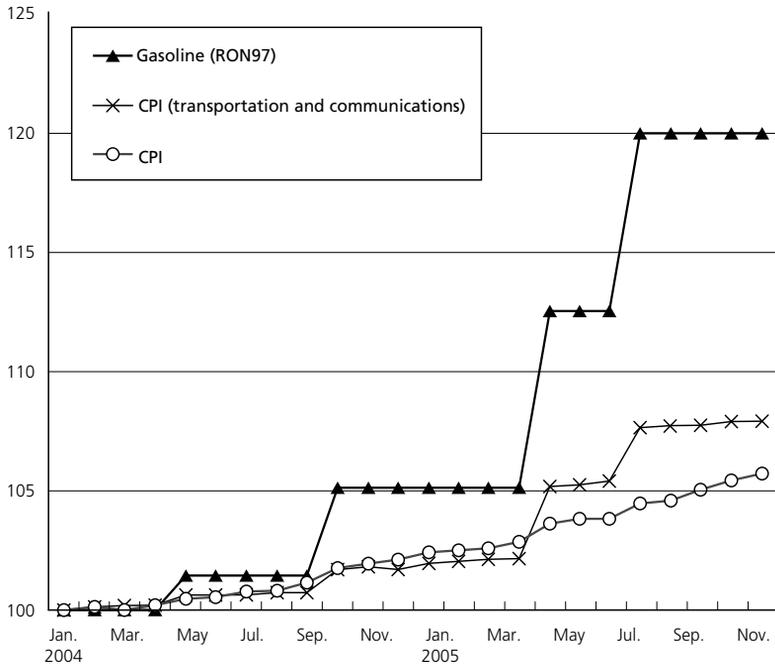
because of the steady advancement of inventory adjustment, against the backdrop of high growth in 2004 in the manufacturing sector, particularly in the electronics industry.

On a customs clearance basis, exports (fob) increased 11.0 percent, to 533.8 billion ringgits, and imports (cif) increased 8.5 percent, to 434.0 billion ringgits, resulting in the posting of a trade surplus of 99.8 billion ringgits (20.2 percent of GDP). In trade with the United States, which is Malaysia's largest trading partner, because exports increased 16.5 percent while imports decreased 3.4 percent, the trade surplus with the United States expanded to 49.1 billion ringgits. This represents approximately a half of Malaysia's total trade surplus. Trade with the major ASEAN countries displayed growth in both imports and exports that exceeded the overall growth rate, and so trade in the region is becoming even more brisk. In trade with China, because exports increased 9.6 percent but imports expanded much more, by 27.0 percent, the trade deficit with China more than doubled compared to the previous year, to 14.7 billion ringgits. The largest contributor to the increase in exports was, not surprisingly, the electronics industry. Semiconductor exports rose only slightly (0.7 percent), but exports of electronic equipment, which composes more than 20 percent of exports, grew greatly by 19.1 percent. The export volume of crude oil and petroleum products declined 6.1 percent, but the export value increased 31.5 percent due to skyrocketing prices. Meanwhile, the import volume of crude oil and petroleum products increased 1.6 percent, and the import value grew 43.2 percent.

### ***Skyrocketing Crude Oil Prices and Fiscal and Monetary Policy***

The skyrocketing crude oil prices are causing cost-push inflation in Malaysia. In Malaysia, the government regulates the domestic retail price of petroleum products such as gasoline and diesel. For this reason, the government pays subsidies to oil companies including the national oil company, Petroliaam Nasional Berhad (PETRONAS), and allows exemptions on sales tax. However, due to the continuing skyrocketing crude oil prices, the burden placed on the budget by price supports is rapidly expanding. The Malaysian government, which has been in pursuit of fiscal consolidation from the aftermath of the Asian currency crisis, has set forth a policy to gradually reduce subsidies, given the continued skyrocketing crude oil prices. In 2005 as well, the government phased in increases in the price of petroleum products in three stages, on March 1, May 5, and

Figure 13.2. Gasoline Prices and the Consumer Price Index (Jan. 2004 = 100)



Source: Prepared by author from Bank Negara Malaysia, *Monthly Statistical Bulletin*, January 2006, and other reports.

August 1 and worked to reduce subsidies for price supports.

Petroleum products have only a 5.1 percent weight in Malaysia’s consumer price index (CPI), but because they are input to a broad variety of industries, they cause a large ripple effect (Figure 13.2). The CPI of the transport and communication sector increased in response to higher gasoline prices, and the overall CPI also gradually rose. In 2005 as a whole, the CPI of the transport and communication sector rose 4.4 percent, and the overall CPI rose 3.0 percent. The inflation rate of 3.0 percent was the highest rate since 1998 (5.3 percent) in the midst of the Asian currency crisis. Moreover, the uptrend in the inflation rate continued in 2005, with the inflation rate which was 2.4 percent in January (YOY) advancing significantly to 3.5 percent in December (YOY).

On November 30, the president of Bank Negara, Zeti Akhtar Aziz, while stating that “inflation is not expected to intensify but its rate could remain at current levels for some time,” raised the overnight policy rate

(OPR) from 2.70 percent to 3.00 percent. This was the first interest rate increase since April 26, 2004, when the policy interest rate was changed from the three-month intervention rate to the OPR.

Moreover, behind the interest rate increase was the influence of the US monetary policy which had been growing tighter since 2004. The real interest rate, which is the overnight policy rate minus the CPI inflation rate, continued to be 2.5 to 3.5 percent points higher in Malaysia than the United States until the first half of 2004. However, because the United States switched to monetary tightening and the federal fund rate increased while inflation accelerated in Malaysia, the real interest rate gap between the two countries rapidly shrank, and in May 2005, it reversed. For this reason, an outflow of short-term capital began, and selling pressure increased on the ringgit. Central Bank President Zeti held that “short-term capital outflows were within expectation” and “the central bank is not defending the ringgit” and indicated that the interest rate increase was a countermeasure against domestic inflation, saying “the increase was made based on domestic considerations and not concerns of capital outflow.” However, despite those intentions, the interest rate increase was also effective as an underlying support for the exchange rate.

As stated above, the skyrocketing crude oil prices exerted a large effect on the budget of Malaysia through the subsidy expenditures and the sales tax exemptions which were for the purpose of controlling the price of petroleum products. According to the report that the Prime Minister’s Department released on July 31, the burden placed on the budget by the subsidies and the exemptions ranged from 7.5 billion ringgits, to 4.2 billion ringgits, to 6.6 billion ringgits during the years from FY2001 to FY2003. In FY2004, the amount doubled to 11.9 billion ringgits, and in FY2005 it is forecast to reach 15.4 billion ringgits. This is equivalent to 15.6 percent of the 99.0 billion ringgits in annual revenue in the FY2005 budget. However, in actuality the oil-related annual revenue comes from various sources, including petroleum income tax, export duties, sales tax, royalties, and PETRONAS dividends, and so even if subsidies and exemptions are taken into consideration, the effect of skyrocketing crude oil prices on the budget are positive in the short term. The report was written in a form to respond to public concerns and called for their understanding concerning the progressive reduction of subsidies by explaining that the price of petroleum products in Malaysia even after the price hike on August 1 was still the cheapest of any neighboring countries except Brunei, that illegal acts such as smuggling had been occurring because of

the relative cheapness of petroleum products, that Malaysia would become a net importer of oil by 2009 unless new oil fields were discovered, and that Malaysian oil fields would be exhausted in 19 years.

In the FY2006 budget plan announced on September 30, the proposed amount of subsidies was slightly less than the estimated actual amount in FY2005. The FY2006 budget was compiled based on the economic forecast that the real GDP growth rate would be 5.5 percent and the inflation rate (GDP deflator) would be 3.2 percent. Compared to the estimated actual amounts in FY2005, revenue increased by 9.2 percent, operating expenditures increased by 3.1 percent, and net development expenditures increased by 24.6 percent. As a result, the budget deficit as a share of the GDP is expected to decline from 3.8 percent in FY2005 to 3.5 percent.

### *Switch to a Managed Floating Exchange Rate System*

On July 21, the Chinese government announced that, together with switching to a managed floating exchange rate system, it was revaluing the renminbi/dollar exchange rate by approximately 2 percent. Several hours later, Bank Negara also announced that Malaysia was switching to a managed floating exchange rate system. This ended the fixed exchange rate system that had been introduced on September 2, 1998.

While it is extremely difficult to maintain a fixed exchange rate permanently, it is also extremely difficult to successfully exit from a fixed exchange rate once it has been introduced. When the market judges that it has become difficult to maintain a fixed exchange rate due to deterioration of economic fundamentals, etc., speculative attacks on the currency could occur regardless of whether or not that judgment was correct and destroy the fixed exchange rate. Conversely, during periods in time when the fundamentals are sound and there seems to be no obstacle whatsoever to maintaining the fixed exchange rate, “expectations” may arise that the fixed exchange rate will be abandoned just because it is such a period in time, leading to currency speculation and the collapse of the fixed exchange rate. One measure to avoid these kinds of speculative attacks on the currency is capital control, and capital controls are one reason why China was able to maintain a fixed exchange rate even though it was pressured by international society.

On September 1, 1998, in the midst of the Asian currency crisis, Malaysia put in place extensive capital controls and introduced a fixed exchange rate on the following day, which effectively froze international trading of the ringgit. Subsequently as the economy recovered, the capital

controls were gradually relaxed. Even in 2005, regulations were liberalized on April 1 on ringgit-denominated fund raising by nonresidents, on the opening and holding of foreign currency-denominated accounts by residents, and so on. At this point in time, the only major remaining differences with the time before the currency crisis were the fixed exchange rate system and the prohibition against ringgit trading outside the country. Compared to China which retained relatively strict capital control, it may be said that Malaysia's condition made the exit from the fixed exchange rate more difficult. However on the other hand, it was fortunate for Malaysia that the world's attention was focused on China. As China's abandonment of the fixed exchange rate system had come to be seen as a matter of time, it appears that the movements of China were closely watched after Malaysia became ready to switch to a managed floating exchange rate system.

The managed floating exchange rate system introduced by Malaysia is a system that fixes the ringgit against a currency basket weighted according to the value of trade with major countries. As a matter of fact, it may be viewed as a return to the exchange rate system used prior to the introduction of the fixed exchange rate. Meanwhile, it is said that there was no large fluctuation because the exchange rate level at the time of introduction was appropriate given the fundamentals. On July 21, the first day of the new system, the ringgit/dollar exchange rate was revalued by 0.5 percent to 3.7825 ringgit/dollar, and on August 2, the ringgit had appreciated to 3.7460 ringgit/dollar.

However after that, the ringgit began to depreciate, and it is stably fluctuating in the range of 3.77 to 3.78 ringgit/dollar. The renminbi was revalued on July 21 by 2.0 percent against the US dollar as publicly promised, to 8.111 renminbi/dollar. Subsequently the renminbi, unlike the ringgit, gradually appreciated throughout 2005, reaching 8.0702 renminbi/dollar on December 30. As a result, from July 21 to December 30 the ringgit depreciated by approximately 2 percent against the renminbi. Their trends vis-à-vis the US dollar exchange rate differ, but both countries' currencies are fluctuating stably, and so it may be said the switch to a managed floating exchange rate system was carried out successfully.

### ***The Straying National Automotive Policy***

On October 19, the Prime Minister's Department announced a new National Automotive Policy Framework (NAP). The objective of this framework was to make Malaysia into a regional hub of auto production,

together with boosting the international competitiveness of the national car makers (Proton and Perodua). Simultaneously, the objective was endorsed of promoting the participation of the Bumiputra in the sectors of auto manufacturing, distribution, import, and parts industries.

One central feature of NAP was the revision of the tax structure for car imports; completely built-up (CBU) and completely knocked-down (CKD) (Table 13.1). According to the stated objectives of NAP, a reduction of the effective tax rates would be expected, but that has not necessarily happened. In the January 2005 revision, only the effective rates applicable to imports from countries in the ASEAN region were reduced, and only taxed items of imports from other countries changed, leaving their effective rates unchanged. In NAP, the effective rate on autos is reduced regardless of who the exporter is, but the tax rate on multi-purpose vehicles (MPV) is raised. This is because NAP implements a tax-on-tax where import duties are levied on the CIF price and then excise duties are levied on the total amount of the import duties and the CIF price. If the conventional method were applied where both import duty and excise duty are levied on the CIF price, the effective rate would have been expected to decline on MPVs over 2.0 liters from the ASEAN region.

In the process of negotiating the Economic Partnership Agreement (EPA) with Japan which was signed in December 2005, strong interest was expressed in Malaysia's protectionist policies for the automotive industry. In recent years, Malaysia has frequently reviewed taxation of imported automobiles, but although superficial changes were seen, in fact no change was seen in the strong desire to protect the domestic automobile industry.

(by So Umezaki)

Table 13.1. Tax Structure and Effective Tax Rates for Imported CBU Cars (%)

## A. From Countries in ASEAN

	Jan. 2004				Jan. 2005					Oct. 2005 (NAP)				
	Imp. Duty Rate	Excise Duty Rate	Sales Tax Rate	Effective Tax Rate	Imp. Duty Rate	Excise Duty Rate	Sales Tax Rate	Effective Tax Rate	Change	Imp. Duty Rate	Excise Duty Rate	Sales Tax Rate	Effective Tax Rate	Change
Passenger cars:														
Under 1.8 l	70	60	10	153	20	90	10	131	-22	15	80	10	128	-3
1.8 l to under 2.0 l	90	70	10	186	20	120	10	164	-22	15	100	10	153	-11
2.0 l to under 2.5 l	110	80	10	219	20	150	10	197	-22	15	125	10	185	-12
2.5 l to under 3.0 l	150	90	10	274	20	200	10	252	-22	15	160	10	229	-23
3.0 l and above	190	100	10	329	20	250	10	37	-22	15	200	10	280	-28
-----														
Multipurpose vehicles (MPV):														
Under 1.5 l	40	30	10	87	20	40	10	76	-11	15	55	10	96	20
1.5 l to under 1.8 l	40	30	10	87	20	40	10	76	-11	15	55	10	96	20
1.8 l to under 2.0 l	50	40	10	109	20	60	10	98	-11	15	75	10	121	23
2.0 l to under 2.5 l	90	70	10	186	20	120	10	164	-22	15	115	10	172	8
2.5 l to under 3.0 l	110	80	10	219	20	150	10	197	-22	15	140	10	204	7
3.0 l and above	120	90	10	241	20	170	10	219	-22	15	160	10	229	10

## B. From Countries outside ASEAN

	Jan. 2004				Jan. 2005					Oct. 2005 (NAP)				
	Imp. Duty Rate	Excise Duty Rate	Sales Tax Rate	Effective Tax Rate	Imp. Duty Rate	Excise Duty Rate	Sales Tax Rate	Effective Tax Rate	Change	Imp. Duty Rate	Excise Duty Rate	Sales Tax Rate	Effective Tax Rate	Change
Passenger cars:														
Under 1.8 l	80	60	10	164	50	90	10	164	0	30	80	10	157	-7
1.8 l to under 2.0 l	100	70	10	197	50	120	10	197	0	30	100	10	186	-11
2.0 l to under 2.5 l	120	80	10	230	50	150	10	230	0	30	125	10	222	-8
2.5 l to under 3.0 l	160	90	10	285	50	200	10	285	0	30	160	10	272	-13
3.0 l and above	200	100	10	340	50	250	10	340	0	30	200	10	329	-11
-----														
Multipurpose vehicles (MPV):														
Under 1.5 l	60	30	10	109	50	40	10	109	0	30	55	10	122	13
1.5 l to under 1.8 l	60	30	10	109	50	40	10	109	0	30	55	10	122	13
1.8 l to under 2.0 l	70	40	10	131	50	60	10	131	0	30	75	10	150	19
2.0 l to under 2.5 l	100	70	10	197	50	120	10	197	0	30	115	10	207	10
2.5 l to under 3.0 l	120	80	10	230	50	150	10	230	0	30	140	10	243	13
3.0 l and above	130	90	10	252	50	170	10	252	0	30	160	10	272	20

Source: Prepared by author from various reports.

## FOREIGN RELATIONS

### *ASEAN-related Conferences Held in Kuala Lumpur*

In 2005, Malaysia was the country-in-chair of ASEAN, and so in December ASEAN-related conferences were held in Kuala Lumpur. From December 12 to 14, in addition to the regular ASEAN summit meeting and an ASEAN Plus Three summit meeting, the first East Asia Summit was held with the participation of Australia, New Zealand, and India in addition to ASEAN Plus Three.

The main outcome of the ASEAN summit meeting was the adoption of the Kuala Lumpur Declaration regarding the enactment of the ASEAN Charter. Based on this declaration, the Eminent Persons Group, which would make recommendations on the charter, was established. Moreover, this time ASEAN held a summit meeting with Russia (on December 13) for the first time and signed a joint statement mentioning promotion of dialogue and strengthening of cooperation by both parties.

At the East Asia Summit which attracted attention from Japan as well, it was decided to make the summit a regular event (to be held annually in conjunction with the ASEAN summit meeting) and to discuss at the next summit meeting (in Manila) how to handle Russia, which also desired membership.

Ever since former prime minister Dr. Mahathir proposed the establishment of the East Asian Economic Group (EAEG) in 1991, the formation of an economic cooperation framework in the Asian region had been a long-cherished ambition of Malaysia. However, the East Asia Summit did not gratify Malaysia's wishes. Initially, Malaysia wanted to limit the countries participating in the East Asia Summit to ASEAN Plus Three. On March 17, Deputy Prime Minister Najib Razak stated that Malaysia did not desire the participation of Australia, New Zealand, and India in the East Asian Summit. However, due to consultations with the countries involved after that, Malaysia was forced to accept the participation of the three countries.

Malaysia appeared to fear a decline in the influence of ASEAN if the number of countries participating in the East Asia Summit expanded. At the press conference after the meeting, Prime Minister Abdullah emphasized that ASEAN fills the role of leader at the East Asian Summit. The prime minister also stated that the East Asian Summit was a place for top-down discussion, different from ASEAN where decisions were made through a bottom-up process of meetings among high-level officials and

ministerial meetings. This probably means that the role of the East Asia Summit is as a forum of vague discussions rather than a place for substantial decision making.

Along with the ASEAN summit meeting, meetings were held by some of the member countries to promote regional economic cooperation. On December 11, a summit meeting of the Golden Triangle (IMT-GT) composed of Indonesia (Sumatra), Malaysia (northern peninsula), and Thailand (southern) was held, and a summit meeting of the East ASEAN Growth Area (BIMP-EAGA) composed of Brunei, Indonesia (Kalimantan, etc.), Malaysia (Sabah and Sarawak), and the Philippines (southeast) was held.

The ministerial meetings and senior official's meetings of the IMT-GT, launched in 1993, and the BIMP-EAGA, launched in 1994, were held many times, but in recent years the presence of both has faded compared to when they were first launched. This time, behind the holding of summit meetings of regional cooperation framework was the anxiety of the countries involved over the deterioration in public security in southern Thailand and the southern Philippines. Countries involved agreed to endeavor to improve security level, which is the key to enticement of investment in these two areas.

### ***Problem of Foreign Workers***

The Malaysian government had been encouraging the repatriation of illegal foreign workers to their countries since October 2004, and this continued in early 2005. The government initially set an amnesty period from October 29 to November 14, 2004, and indicated that it would not prosecute illegal workers who repatriated during this period. Subsequently, upon the request of Indonesia, the country from which the workers came, the Malaysian government extended the amnesty period several times. Ultimately, the amnesty continued until February 28, 2005, and then a large-scale crackdown began in March. At the same time, the government halted new acceptance of foreign workers. The number of illegal workers who left Malaysia during the amnesty period amounted to 382,000 persons, of which more than 330,000 were Indonesians.

The purpose of the repatriation was not to reduce the number of foreign workers but to strengthen immigration control. After having the illegal workers leave, the government intended to have them return again through legal processes. Malaysia had repeatedly consulted with the illegal workers' country of origin since 2002 and searched for a method of

controlling the number of foreign workers with the agreement and cooperation of the country of origin. The “legalization” of illegal workers was a method for controlling them, with the agreement of the governments involved.

However, time was required for the illegal workers who repatriated to reenter Malaysia through proper channels. At the beginning of April, two months after the end of the amnesty period, only 11,000 Indonesians had reentered Malaysia. For that reason, a severe labor shortage occurred in the first half of 2005. As of April, a labor shortage of 370,000 workers was reported, including 200,000 in manufacturing, 150,000 in construction, 50,000 in the plantation industry, and 20,000 in the service industry. This figure basically matches the number of illegal workers who left during the amnesty period. The Malaysian economy was dependent on these foreign workers, and companies could not operate normally without them.

Starting in April, the government implemented deregulation measures one after the other for foreign workers. On April 4, the government decided to start accepting new workers, and on the following day, April 5, it decided to abolish the system for regulating the industries where workers could be employed by country of origin. This system had been introduced in 2002 mainly with the aim of limiting entry by Indonesians. On May 25, the Cabinet decided to allow former illegal workers who had left during the amnesty period to reenter for the purpose of working on tourist visas. Faced with the serious labor shortage, it may be said that the government shelved, *de facto*, its original objective of strengthening the immigration control system.

According to the statement of Deputy Prime Minister Najib, as of April 2005 the number of legal foreign workers was 1.5 million and within the year was expected to exceed 2 million. On April 5, the deputy prime minister stated, “We accept them when necessary, and when the need for them declines, we reduce their numbers.” However, this method of exploiting foreigners as an adjustment valve for the labor market in economic cycles incurred the wrath of the government of the workers’ country of origin and the wrath of public opinion.

### *Friction with Indonesia and Thailand*

In the first half of 2005, conflict continued with the workers’ country of origin, Indonesia. The first point at issue was the problem of unpaid wages owed to Indonesian workers. Because the illegal workers were forced to leave Malaysia, there were employers who did not pay them

their wages. Some of these employers were arrested and taken to court, but their punishment was light, such that it ended up further angering the Indonesian people. On February 8, Indonesia's Manpower and Transmigration Minister Fahmi Idris protested that the Malaysian court had not issued a sentence of whipping. The Indonesian government began studying the filing of legal action against the Malaysian employers who did not pay wages. Given this, on March 1 Malaysian Deputy Prime Minister Najib promised to take decisive action against employers who did not pay wages to foreign workers.

While anti-Malaysian sentiments were growing in Indonesia due to the problem of unpaid wages, a dispute flared over territorial rights in the Ambalat ocean area, off the coast of Sabah (off the coast of East Kalimantan). On February 16, Malaysia's national petroleum company, Petronas, its subsidiary, and Shell Malaysia signed a production-sharing contract in two oil and gas-drilling areas established in that same ocean area. The Indonesian government protested this contract and claimed territorial rights over the area.

After the territory problem surfaced, the naval forces of both countries boosted their patrol activities in the Ambalat area. As a result, an incident occurred on April 8 where battleships of the two countries collided. On April 9, Indonesian Navy Chief Salemet Subyanto explained that the collision occurred when Indonesia attempted to drive out the Malaysian battleship which had infringed on Indonesian waters off the coast of East Kalimantan. On the following day of April 10, the Indonesian daily newspaper *Kompas* reported that after the Malaysian battleship engaged in provocative acts, it intentionally rammed the Indonesian battleship. In response, Deputy Prime Minister Najib, who held dual office as the minister of defense, declared that there had been no provocation on the part of Malaysia.

Immediately after the incident, the leaders of both countries talked by telephone and agreed to avoid playing the blame game and to cooperate to prevent the reoccurrence of a collision. However even after that, reverberations continued, with *Kompas* reporting that Deputy Prime Minister Najib had apologized to Indonesia for the collision incident, the deputy prime minister's denial of the apology, and Prime Minister Abdullah's criticism of the reporting of *Kompas*. In Indonesia, a protest demonstration against Malaysia was held, and on May 7, Indonesian President Susilo Bambang Yudhoyono himself boarded a battleship and inspected the Ambalat area.

In the latter half of 2005, a confrontation occurred with the Thai government over the treatment of refugees from southern Thailand. On August 31, at two mosques in Kelantan near the Thai border, 131 Thai Muslims, who had crossed the border out of fears over the deterioration of public safety in Thailand, requested protection. The following day, Malaysian Foreign Minister Syed Hamid Albar indicated that the government's decision was to not recognize the 131 people as refugees. However, the Malaysian government did not send them back to Thailand, and it requested that the Thai government endeavor to improve public safety in southern Thailand.

In 2004, the Thai security authorities, in their activities to crackdown on Islamic extremist groups, triggered incidents where large numbers of people were killed, and for this they were heavily criticized by Islamic organizations in Malaysia. If the 131 persons were forcibly repatriated, it would unavoidably invite a strong negative reaction in public opinion. Meanwhile, a massive influx of refugees was not desirable, and so the Malaysian government was placed in a difficult position.

Until the end of 2005, the Malaysian government maintained its stance of requesting the Thai government to improve public security, while Malaysia detained the refugees in camps. In October, Syed Hamid declared that the refugees would be repatriated if protection of their safety and human rights could be ensured. However, this statement angered the Thai government, leading Thailand to summon the Malaysian ambassador in Bangkok to protest. What steps to take to repatriate the refugees and also how to prevent the occurrence of similar incidents will continue to be important diplomatic issues for the Malaysian government.

(by Masashi Nakamura)

## ISSUES IN 2006

For the Abdullah administration, 2006 will be a year when it can devote itself wholeheartedly to the administration of government, in continuation from the previous year. In the first half of the year, the Ninth Malaysian Plan, which covers until 2010, is scheduled for release. Attention will be focused on the shape taken by the prime minister's line of policy, which is attempting to promote agricultural development based on local agricultural products such as oil palm, and to promote diversification of the industrial structure. Regarding the fiscal policy, reduction of

the budget deficit will continue to be the major issue. The exchange rate policy and the monetary policy, amidst anxiety over further advances in the inflation rate, will also be important issues. The exchange rate, which performed stably during 2005, began gaining value from the beginning of 2006, and during the first two months of the year, the ringgit appreciated by approximately 2.0 percent and 1.6 percent against the US dollar and the renminbi, respectively. Furthermore, in February 2006, the OPR was again raised from 3.00 percent to 3.25 percent. In the new policy environment of the managed floating exchange rate system, 2006 will be a year when Bank Negara's competency to actualize stable growth will be tested.

\* The original Japanese version of this article was published in 2006.

## IMPORTANT DATES IN 2005

### *January*

- 1: Sales of diesel oil were rationed to suppress smuggling, and subsequently lack of supply became a problem.
- 3: The Securities Commission (SC) released the guidelines for the Real Estate Investment Trust (REIT).
- 7: The central bank, in order to stimulate the bond market, announced use of repurchase agreements as monetary instrument.
- 11: Mitsubishi Corporation sold Proton stock to Khazanah Nasional, a government investment company.
- 13: Complete electrical blackout during two daytime hours in the capital, etc., due to trouble at a power plant.
- 17: A constitutional amendment concerning rights over water use was tabled in the House of Representatives and was passed by both houses by January 20.
- 31: The amnesty period for illegal foreigners ended. A total of 376,274 foreigners, including 330,000 Indonesians, left the country during the amnesty period that started on October 29, 2004.
  - The prime minister (serving concurrently as the first finance minister) announced a plan to establish a new bank for small and medium companies.

### *February*

- 2: At the request of Indonesian President Yudhoyono, the government extended the amnesty period for illegal foreign workers.
- 11: The minister of home affairs announced that National Registration Department (NRD) personnel had been arrested for involvement in wrongdoings with ID cards.
- 14: Indonesian President Yudhoyono visited, met with Prime Minister Abdullah Ahmad Badawi, and agreed to March 1 as the deadline for illegal foreigners to leave Malaysia.
- 16: The national oil company Petronas, its subsidiary, and Shell Malaysia signed a production-sharing contract for two oil and gas-drilling areas off the coast of Sabah.
- 20: The Malaysian Indian Congress (MIC) held a forum to compile recommendations for the Ninth Malaysia Plan (9MP).
- 22: The Ministry of Works proposed public works consisting of 1,286 projects of 56 billion ringgits in the Ninth Malaysia Plan.
- 25: A financial support center for small and medium companies (Laman Informasi Nasihat dan Khidmat [LINK]) was established in the central bank.

- 28: The prime minister revealed that the Indonesian government had protested concerning the production-sharing contract signed by Petronas and Shell, etc., and claimed that ocean area as Malaysian territory.
- The government decided to raise the retail price of diesel oil for the purpose of reducing subsidies, and the higher price went into effect the next day.

### *March*

- 1: Singaporean Senior Minister Goh visited and held discussion with Prime Minister Abdullah on disputes between the two countries. They agreed not to disclose details of the discussion.
- The central bank announced that it had eased the foreign investment cap to 49 percent on investments in Islamic banking subsidiaries by the local bank groups. On this day, the RHB group announced the establishment of a subsidiary for Islamic banking.
- 2: Crackdown began on illegal foreign workers. The Achenese, who suffered from the tsunami, were excluded from the crackdown.
- The human resources minister announced a repatriation initiative for Malaysians who possess skills such as doctors, etc.
- 7: The prime minister talked by telephone with Indonesian President Yudhoyono, and they agreed to resolve the problem of territorial rights in the oil and gas-drilling ocean areas through negotiations between the foreign ministers. On this day, Indonesian President Yudhoyono made an inspection of that ocean area.
- 17: The Home Minister revealed that Malaysia had agreed with the Pakistan government to accept 100,000 Pakistani workers.
- The Domestic Trade and Consumer Affairs Minister released new guidelines seeking introduction of 30 percent Bumiputera capital in foreign-owned restaurants.
- 31: The prime minister held talks with New Zealand's Prime Minister Clark, in New Zealand, and agreed to work toward the signing of an FTA.
- The government announced the first increase in taxi and bus fares since 1996, to be implemented on May 1.
  - The Japan Bank for International Cooperation (JBIC) agreed to provide a yen loan for a water supply project, the purpose of which was to stabilize the water supply in the Kuala Lumpur area. Total loan amount: 82.0 billion yen (3.8 billion ringgits); interest rate: 0.95 percent; repayment period: 40 years.

### *April*

- 4: Acceptance of new foreign workers began again.

- 7: During a trip Australia, Prime Minister Abdullah held talks with Australian Prime Minister John Howard and agreed to begin FTA negotiations in May, to take effect by early 2007.
- 13: The deputy prime minister (concurrently minister of defense) announced the appointment of Navy Chief Adm. Mohamad Anwar as armed forces chief, marking the first time in history that an armed forces chief was selected from the navy.
- 14: International Trade and Industry Minister Rafidah Aziz inquired concerning deregulation of the service industry in annual dialogue with economic groups.

## May

- 1: The Social Securities Act (Amendment) came into effect. The maximum allowable monthly salary for receiving benefits from the Social Security Organisation (Socso) was raised from 2,000 ringgits to 3,000 ringgits.
- 5: Due to reductions of subsidies, the retail price of gasoline and diesel oil rose by 7 percent and 23 percent, respectively.
  - The prime minister spoke at the Harvard Club. He said that dependence on foreign workers and subsidies and rampant rent-seeking were eroding competitiveness.
- 6: Pakistani Prime Minister Shaukat Aziz visited, met with Prime Minister Abdullah, and agreed to work toward the signing of an FTA by the end of the year.
- 9: The cabinet approved a National Physical Plan.
- 10: A cabinet meeting of the Non-Aligned Movement was held in Putrajaya. The meeting adopted the Putrajaya Declaration, which mentioned expansion of the rights of women and gender equality, etc.
- 15: The government announced a plan to introduce classes in Chinese and the Tamil language at national schools for the purpose of encouraging non-Malays to enter national schools (Malay language elementary schools).
- 16: The Royal Commission of Inquiry into the Conduct and Management of the Royal Malaysia Police issued a report to the government.
- 16–21: The prime minister officially visited Germany and the Netherlands.
- 25: The prime minister visited Japan, held talks with Japanese Prime Minister Koizumi, and reached basic agreement on a bilateral Economic Partnership Agreement (EPA).
  - The minister of home affairs announced a cabinet decision to permit reentry into Malaysia for the purpose of work on a tourist visa by former illegal workers who repatriated during the amnesty period. This was a countermeasure for the serious labor shortage.
- 26: The prime minister expressed his opposition to the proposal of the United Malays National Organisation (UMNO) that the position of chief minister of Penang be filled by rotation.

## June

- 5: The election of the officials of Parti Islam Se-Malaysia (PAS). In the deputy president election, Nasharuddin Mat Isa, a progressive, won by defeating the incumbent Hassan Shukri, a conservative.
- 15: UMNO's Vice President Muhyiddin Yassin disclosed four types of reform proposals for party elections.
- 22: The prime minister issued a three-month suspension from duties to Deputy Natural Resources and Environment Minister Sothnathan Sinna Gounder. The reason was his objection to Deputy Health Minister Abdul Latiff Ahmad in his explanation in the House of Representatives.
- 24: The UMNO Disciplinary Committee issued a six-year suspension to UMNO Vice President Mohd. Isa Samad, on the grounds of vote buying in the officials' election.
- 29: The prime minister mentioned the necessity of downward revision in the long-term economic outlook due to skyrocketing crude oil prices.
- 30: Petronas posted its highest profit ever in its FY2004 yearend statement because of the skyrocketing crude oil prices. Profits increased 50.3 percent YOY, to 35.56 million ringgits.

## July

- 1: The first stage of customs tax reductions was implemented under the ASEAN-China FTA. On July 20, the second stage of reductions was implemented.
  - The five-day work week was introduced for civil servants.
- 5: Former prime minister Dr. Mahathir Mohamad mentioned the possibility of corruption in the allocation of Approved Permits (AP), which are permits to import automobiles, and false reporting of prices of imports.
  - Taxes raised on foreign labor employment.
- 21: The central bank announced a switch from a fixed exchange rate system to a managed floating system. This occurred immediately after China announced the expansion of band of fluctuation of the renminbi.
- 21–23: UMNO General Assembly held. The prime minister gave the opening speech and declared a plan to revise the policy for nurturing Bumiputera entrepreneurs.
- 31: The government raised the retail price of petroleum products such as gasoline and diesel oil.

## August

- 2: Haze damage occurred in Kuala Lumpur and surrounding cities due to forest fires on Sumatra Island.
- 10: The prime minister referred to the National Biofuel Policy then being drafted and revealed plans such as for construction of a refinery for demonstration purposes.

- 11: The government declared a state of emergency in two cities near the capital due to worsening of air pollution by haze and ordered the stoppage of factory operations and civil engineering work (repealed on August 13).
- 15: The government instructed cell phone companies to begin registering users of prepaid cell phones by the end of the year, with the objective of preventing abuses such as usage of the phones in crimes.
- 15–16: The first meeting of the International Advisory Panel concerning the development strategy of Malaysia was held. The panel was chaired by the prime minister, and members included academics, representatives of investment institutions, etc.
- 20: Malaysian Chinese Association (MCA) officials' elections held. Party President Ong Ka Ting and Deputy President Chang Kong Choy were both reelected.
- 22: Malaysia Airline System (MAS) posted its largest deficit ever for the first quarter, and its president resigned.  
- A sentence of two years in prison was issued for former Perak State Exco member Azman Mahalan, who was charged with corruption.
- 25: Human Resources Minister Fong Chan Onn revealed that the same Employment Act would be applied in the states Sabah and Sarawak as on the peninsula, from October 1.
- 27: The officials' elections of the Parti Gerakan Rakyat Malaysia (Gerakan) are held. The incumbent president, Lim Keng Yaik, was reelected, beating his challenger Kerk Choo Ting, the vice president. As the new vice president, Koh Tsu Koon, chief minister of Penang, was elected.
- 28: The prime minister stated that there was no need to remove the losers in each of the party elections from their cabinet posts.
- 31: In two mosques in the state of Kelantan near the Thai border, protection was sought by 131 Thai Muslims who crossed the border due to fear of the deteriorating public security in southern Thailand.

### *September*

- 2: The government announced that it would raise the retirement age for civil servants from 55 to 58 starting the following month.  
- The government signed a memorandum on defense cooperation with China. The memorandum set arrangements concerning training and exchange of information and personnel.
- 3: The government announced a plan to begin construction on a bridge to replace the Causeway without the agreement of the Singaporean government.
- 6: A small bomb that appeared to be handmade exploded in a used car lot in Sitiawan, Perak. The objective was extortion, and no one was injured.
- 7: As countermeasures to the inflation accompanying the higher crude oil prices, the government announced that it would defer hikes for the

- remainder of the year in the retail price of gasoline and in expressway tolls and that it would lower the road tax by 25 percent.
- 12: The prime minister held an investment seminar with fund managers in London. On September 14, the prime minister held a seminar in New York, which he was visiting for the purpose of attending the United Nations General Assembly.
- 19: The deputy prime minister stated that he would seek, through the Malaysian Embassy in Jakarta, the release of two Malaysian accountants arrested on suspicion of working illegally by the Indonesian police on August 17.
- 23: Former prime minister Anwar Ibrahim made a request through an attorney to former prime minister Dr. Mahathir for an apology and one hundred million ringgit as compensation for defamation of character.
- 26: It was discovered that a customs tax employee gave illegal exemptions to an auto importer.
- 27: From the end of August, cases of dengue fever rapidly increased. On this day, the minister of health called for caution.  
- The Ministry of Domestic Trade and Consumer Affairs showed to the companies involved the proposal to lift the freeze on new stores of large-scale retailers in the capital area, Penan, and Johor Bahru, provided there are conditions such as Bumiputera capital participation, etc.
- 30: The government put before the Parliament the FY2006 budget bill (see main text).

### *October*

- 2: The major bank, Maybank, announced a plan to reduce employees in order to cut costs.
- 3: The prime minister stated that the government would not block a merger by Proton, Volkswagen, and other foreign automakers.
- 7: The UMNO Supreme Council decided to suspend Federal Territories Minister Mohd. Isa Samad for three years from holding party office. On October 16, Mohd. Isa resigned from his position as federal territories minister. Women, Family and Community Development Minister Shahrizat Abdul Aziz took up dual office as acting federal territories minister.  
- Bank Islam Malaysia Berhad (BMIB) disclosed it had a loss of 460 million ringgits. This marked the first time in the 22 years since its founding that BMIB posted a deficit.
- 13: The House of Representatives approved almost unanimously the revival of the Parliament Service Act 1963 which had been abolished in 1992. This was a law that prescribed the independence of Parliament staff from the Public Service Department (PSD).

- 19: The government announced the National Automotive Policy Framework, the main point of which was to lower the import tax and commodity tax, etc.  
 - Malaysia Airlines filed a lawsuit seeking damages from former chairman Tajudin Ramli and other former management personnel.
- 20: The prime minister's wife, Endon Mahmood, died.
- 22: The vice prime minister, in reference to reports that Thailand was watching movements of Malaysian military near the border, stated that Malaysia would also strengthen patrols.
- 24: Second Finance Minister Nor Mohamed said that he would leave it to the judgment of the manufacturers and importers whether or not to lower the prices of automobiles given the tax cuts.
- 27: Deputy Prime Minister Najib held talks with the Thai deputy prime minister. Thailand guaranteed the physical safety of the 131 Thai refugees. Both sides agreed to interviews of the refugees by the Thai authorities.

### *November*

- 9: Malaysian Azahari Husin, a member of Jemaah Islamiah (JI) involved in terrorism in Indonesia, was shot dead by the Indonesian police
- 11: The magistrate court issued a guilty verdict to former secretary-general of the Rural Development Ministry, Abdul Aziz Muhamad, on charges of suggestion of embezzlement of public funds.
- 14: The prime minister asserted that, if the Barisan Nasional (BN) candidate won in the by-election to fill a vacancy on the Kelantan State Legislative Council scheduled for December, PAS should dissolve the council.
- 17: The prime minister visited Busan, South Korea, to attend the APEC (Asia-Pacific Economic Cooperation) summit meeting.  
 - Prime Minister's Department Minister Mohamed Nazri Abdul Aziz revealed that the Cabinet had directed the Immigration Department to stop interrogating female travelers from China.
- 21: Regarding the problem where many Chinese tourists appear to be illegally overstaying or leaving illegally to a third country, the prime minister directed a criminal investigation by the relevant authorities in cooperation with the Chinese Embassy.
- 24: A member of Parliament belonging to the Democratic Action Party (DAP) revealed that there existed a video showing a woman who appeared to be Chinese who was forced by the police to squat while naked.

### *December*

- 1: The prime minister visited Kelantan to campaign for. He promised to establish a university in that state.
- 5: The government sent Home Minister Azmi Khalid to China as a special envoy on the problem of dealing with tourists.

- 6: The special election to fill a vacancy on the Kelantan State Legislative Council was won by Hanafi Mamat, a candidate of Barisan Nasional (BN).
- 11: Foreign Minister Syed Hamid Albar held talks with Myanmar Foreign Minister Nyan Win. Myanmar gave no firm answer to Malaysia, which desires democratization.
- 12–14: The East Asia Summit was held in Kuala Lumpur. On December 13, Prime Minister Abdullah signed an EPA with Japanese Prime Minister Koizumi.
- 16: The prime minister announced a Small and Medium-sized Enterprises Action Plan with a budget expenditures of 3.2 billion ringgits.
- 21: Kedah Mentri Besar Syed Razak Syed Zain, who was undergoing treatment for illness, resigned. On December 28, Mahdzir Kalid was appointed as the new MB.

## **APPENDIX 13.1: THE ABDULLAH ADMINISTRATION** (As of the end of 2005)

### ***Prime Minister's Department***

*Prime Minister:* Abdullah Ahmad Badawi (UMNO)

*Deputy Prime Minister:* Mohd Najib Abdul Razak (UMNO)

*Ministers:* Bernard Giluk Dompok (UPKO), Mohamad Nazri Abdul Aziz (UMNO), Mustapa Mohamed (UMNO), Mohd Radzi Sheikh Ahmad (UMNO), Abdullah Mohd Zin (UMNO), Maximus Ongkili (PBS)

*Deputy Ministers:* M. Kayveas (PPP), Joseph Entulu Belaun (PBB)

### ***Ministry of Finance***

*First Minister:* Office held by Prime Minister

*Second Minister:* Nor Mohamed Yakcop (Senator)

*Deputy Minister:* Ng Yen Yen (MCA), Tengku Putera Tengku Awang (UMNO)

### ***Ministry of Defence***

*Minister:* Office held by Deputy Prime Minister

*Deputy Minister:* Zainal Abidin Zin (UMNO)

### ***Ministry of Internal Security***

*Minister:* Office held by Prime Minister

*Deputy Ministers:* Noh Omar (UMNO), Chia Kwang Chye (Gerakan)

### ***Ministry of Home Affairs***

*Minister:* Azmi Khalid (UMNO)

*Deputy Minister:* Tan Chai Ho (MCA)

### ***Ministry of Housing and Local Government***

*Minister:* Ong Ka Ting (MCA)

*Deputy Ministers:* Azizah Mohd Dun (UMNO), Robert Lau Hoi Chew (SUPP)

### ***Ministry of Public Works***

*Minister:* S. Samy Vellu (MIC)

*Deputy Minister:* Mohd Zain Mohamad (UMNO)

### ***Ministry of International Trade and Industry***

*Minister:* Rafidah Aziz (UMNO)

*Deputy Ministers:* Ahmad Husni Mohamad Hanazlah (UMNO), Mah Siew

Keong (Gerakan)

**Ministry of Foreign Affairs**

*Minister:* Syed Hamid Syed Jaafar Albar (UMNO)

*Deputy Minister:* Joseph Salang Gandum

**Ministry of Information**

*Minister:* Abdul Kadir Sheikh Fadzir (UMNO)

*Deputy Ministers:* Zainuddin Maidin (UMNO), Donald Lim Siang Chai (MCA)

**Ministry of Human Resources**

*Minister:* Fong Chan Onn (MCA)

*Deputy Minister:* Abdul Rahman Bakar (UMNO)

**Ministry of Youth and Sports**

*Minister:* Azalina Othman (UMNO)

*Deputy Minister:* Ong Tee Keat (MCA)

**Ministry of Domestic Trade and Consumer Affairs**

*Minister:* Mohd Shafie Apdal (UMNO)

*Deputy Minister:* S. Veerasingam (MIC)

**Ministry of Energy, Water, and Communications**

*Minister:* Lim Keng Yaik (Gerakan)

*Deputy Minister:* Shaziman Abu Mansor (UMNO)

**Ministry of Education**

*Minister:* Hishammuddin Hussein (UMNO)

*Deputy Ministers:* Hong Choon Kin (MCA), Mahadzir Mohd Khir (UMNO)

**Ministry of Higher Education**

*Minister:* Shafie Mohd Salleh (UMNO)

*Deputy Minister:* Fu Ah Kiow (MCA)

**Ministry of Entrepreneur and Co-operative Development**

*Minister:* Mohamed Khaled Nordin (UMNO)

*Deputy Minister:* Khamsiyah Yeop (UMNO)

**Ministry of Natural Resources and Environment**

*Minister:* Adenan Satem (PBB)

*Deputy Minister:* Sothinathan Sinna Gounder (MIC)

### ***Ministry of Agriculture and Agro-based Industry***

*Minister:* Muhyiddin Mohd Yassin (UMNO)

*Deputy Ministers:* Mohd Shariff Omar (UMNO), Kerk Choo Ting (Gerakan)

### ***Ministry of Transport***

*Minister:* Chang Kong Choy (MCA)

*Deputy Ministers:* Tengku Azlan Sultan Abu Bakar (UMNO), Douglas Uggah Embas (PBB)

### ***Ministry of Science, Technology and Innovation***

*Minister:* Jamaluddin Mohd Jarjis (UMNO)

*Deputy Minister:* Kong Cho Ha (MCA)

### ***Ministry of Tourism***

*Minister:* Leo Michael Toyad (PBB)

*Deputy Minister:* Ahmad Zahid Hamidi (UMNO)

### ***Ministry of Culture, Arts, and Heritage***

*Minister:* Rais Yatim (UMNO)

*Deputy Minister:* Wong Kam Hoong (MCA)

### ***Ministry of Women, Family, and Community Development***

*Minister:* Shahrizat Abdul Jalil (UMNO)

*Deputy Minister:* G. Palanivel (MIC)

### ***Ministry of Rural and Regional Development***

*Minister:* Abdul Aziz Shamsudin (UMNO)

*Deputy Ministers:* Awang Adek Husin (UMNO), Tiki Lafe (SPDP)

### ***Ministry of Plantation Industries and Commodities***

*Minister:* Peter Chin Fah Kui (SUPP)

*Deputy Minister:* Anifah Aman (UMNO)

### ***Ministry of Health***

*Minister:* Chua Soi Lek (MCA)

*Deputy Minister:* Abdul Latiff Ahmad (UMNO)

### ***Ministry of Federal Territories***

*Minister:* Vacant after the resignation of Mohamad Isa Abdul Samad on October 16, 2005.

*Deputy Minister:* Zulhasnan Rafique (UMNO)

*Note:* UMNO—United Malays National Organization; MCA—Malaysian Chinese Association; MIC—Malaysian Indian Congress; Gerakan—Parti Gerakan Rakyat Malaysia; PPP—People’s Progressive Party; PBS—Parti Bersatu Sabah; UPKO—United Pasokmomogun Kadazandusun Murut Organization; SAPP—Sabah Progressive Party; PBRB—Parti Bersatu Rakyat Sabah; LDP—Liberal Democratic Party; PBB—Parti Pesaka Bumiputra Bersatu; SUPP—Sarawak United People’s Party; SPDP—Sarawak Progressive Democratic Party; PAS—Parti Islam Se Malaysia.

## APPENDIX 13.2: LIST OF MENTRI BESARS OR CHIEF MINISTERS OF STATES (As of the end of 2005)

*Perlis:* Shahidan Kassim (UMNO)

*Kedah:* Mahdzir Kalid (UMNO)

*Pulau Pinang:* Koh Tsu Koon (Gerakan)

*Perak:* Tajol Rosli Ghazali (UMNO)

*Selangor:* Mohamad Khir Toyo (UMNO)

*Negri Sembilan:* Mohamad Hasan (UMNO)

*Melaka:* Mohd Ali Rustam (UMNO)

*Johor:* Abdul Ghani Othman (UMNO)

*Kelantan:* Nik Abdul Aziz Nik Mat (PAS)

*Terengganu:* Idris Jusoh (UMNO)

*Pahang:* Adnan Yaakob (UMNO)

*Sabah:* Musa Aman (UMNO)

*Sarawak:* Abdul Taib Mahmud (PBB)

*Note:* UMNO—United Malays National Organization; Gerakan—Parti Gerakan Rakyat Malaysia; PAS—Parti Islam Se Malaysia; PBB—Parti Pesaka Bumiputra Bersatu.

## APPENDIX 13.3: MAJOR STATISTICS

### 1. General

	1999	2000	2001	2002	2003	2004	2005
Population (million persons)	22.7	23.5	24	24.5	25	25.6	26.1
Labour force (thousand persons)	9,152	9,616	9,892	9,886	10,240	10,354	10,436
Increase in consumer price index (%)	2.8	1.6	1.4	1.8	1.2	1.4	3
Unemployment rates (%)	3.4	3.1	3.6	3.5	3.6	3.5	3.6
Exchange rates (US\$1=ringgit)	3.8	3.8	3.8	3.8	3.8	3.8	3.7871

Source: Ministry of Finance, Malaysia, *Economic Report*, various editions; Bank Negara Malaysia, *Monthly Statistical Bulletin*, February 2006; Department of Statistics, Malaysia, *Monthly Statistical Bulletin*, various editions; and website (<http://www.statistics.gov.my>).

Note: Average of quarterly statistics.

### 2. Gross National Product by Type of Expenditure (at current prices)

	(Million ringgit)						
	1999	2000	2001	2002	2003	2004	2005
Final consumption expenditure	158,100	181,031	192,909	209,022	227,279	252,088	280,468
Public	33,044	35,676	42,265	49,516	54,913	59,317	64,592
Private	125,056	145,355	150,644	159,506	172,366	192,771	215,876
Gross domestic fixed capital formation	65,841	87,729	83,345	83,764	87,089	91,818	98,930
Public	34,466	43,627	48,817	54,388	57,233	53,424	55,161
Private	31,375	44,102	34,528	29,376	29,856	38,394	43,769
Change in stock	1,476	5,981	-3,339	3,105	-1,814	10,009	-1,059
Exports of goods and nonfactor services	364,861	427,004	389,255	405,040	447,846	544,956	609,133
Imports of goods and nonfactor services	289,514	358,530	327,767	348,919	365,383	449,262	492,928
Gross domestic product (GDP)	300,764	343,215	334,404	362,012	395,017	449,609	494,544
Net factor payments abroad	-20,886	-28,909	-25,623	-25,061	-22,537	-24,549	-23,908
Gross national product (GNP)	279,878	314,306	308,781	336,951	372,480	425,060	470,636

Source: Bank Negara Malaysia, *Monthly Statistical Bulletin*, February 2006, and Department of Statistics, Malaysia website (<http://www.statistics.gov.my>).

### 3. Gross Domestic Product by Industries (at constant 1987 prices)

	(Million ringgit)						
	1999	2000	2001	2002	2003	2004	2005
Agriculture, forestry & fishery	17,596	18,662	18,551	19,064	20,134	21,137	21,585
Mining & quarrying	15,344	15,385	15,160	15,810	16,720	17,372	17,504
Manufacturing	56,841	67,250	63,299	66,019	71,544	78,558	82,394
Construction	6,926	6,964	7,108	7,251	7,359	7,248	7,133
Electricity, gas & water	7,078	8,278	8,568	9,075	9,518	10,293	10,860
Transport, storage & communication	15,354	16,858	18,249	18,996	20,086	21,787	23,163
Trade, hotels & restaurants	29,383	31,116	31,907	32,732	33,235	35,603	38,437
Finance, insurance, real estates & business services	24,976	26,755	29,288	33,461	35,309	37,543	39,568
Government services	14,055	14,331	14,997	15,786	17,104	18,223	19,831
Other services	15,447	16,070	17,185	17,917	18,500	19,399	20,346
Imputed bank service charges (-)	14,896	15,832	17,678	21,073	22,431	23,205	23,876
Import duties (+)	5,319	4,721	4,594	5,384	5,282	4,995	5,083
Gross domestic product (GDP)	193,422	210,557	211,227	220,422	232,359	248,954	262,029
Real GDP growth rate (%)	6.1	8.9	0.3	4.4	5.4	7.1	5.3

Source: Bank Negara Malaysia, *Monthly Statistical Bulletin*, February 2006.

### 4. Foreign Trade by Country and Area

	(Million ringgit)							
	2002		2003		2004		2005	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
USA	71,502	49,692	78,007	48,757	90,181	57,880	105,033	55,918
Japan	39,778	53,912	42,643	54,273	48,552	63,737	49,918	62,982
South Korea	11,823	16,079	11,550	17,308	16,839	19,868	17,945	21,604
China	19,966	23,472	25,878	27,739	32,148	39,290	35,221	49,880
Hong Kong	20,128	8,837	25,778	8,580	28,686	10,860	31,205	10,797
Taiwan	13,224	16,863	14,351	15,698	15,763	21,651	14,813	23,974
Singapore	60,660	36,317	62,786	37,283	72,176	44,477	83,333	50,828
Thailand	15,096	12,017	17,538	14,549	22,954	21,996	28,723	22,889
Indonesia	6,846	9,689	8,091	11,168	11,677	15,936	12,580	16,566
Philippines	5,073	9,863	5,459	11,835	7,362	10,710	7,476	12,192
Brunei	977	15	1,207	121	1,203	54	1,337	49
EU	43,926	34,368	48,264	37,216	60,388	48,031	62,629	50,512
Others	45,079	31,465	57,330	33,219	72,810	45,587	83,574	55,819
Total	354,078	302,589	398,882	317,746	480,740	400,077	533,788	434,010

Source: Bank Negara Malaysia, *Monthly Statistical Bulletin*, February 2006.

## 5. Public Finance (Federal Government)

	(Million ringgit)								
	1999	2000	2001	2002	2003	2004 <sup>a)</sup>	2005 <sup>b)</sup>	2006 <sup>c)</sup>	
Revenue	58,675	61,864	79,567	83,515	92,608	99,397	106,304	115,561	
Operating expenditure	46,699	56,547	63,757	68,699	75,224	91,298	97,744	101,246	
Current surplus / deficit	11,976	5,317	15,810	14,816	17,384	8,099	8,560	14,315	
Gross development expenditure	22,615	27,941	35,235	35,977	39,353	28,864	30,534	33,502	
Total expenditure <sup>d)</sup>	68,162	81,579	97,989	103,768	113,536	118,816	125,028	134,004	
Overall surplus / deficit	-9,487	-19,715	-18,422	-20,253	-20,928	-19,419	-18,724	-18,443	
Sources of financing									
Net external borrowings	2,923	864	6,295	8,020	-3,664	121	-3,503	-	
Net domestic borrowings	5,423	12,714	13,381	6,076	23,250	25,650	12,700	-	
Change in assets <sup>e)</sup>	1,141	6,137	-1,254	6,157	1,342	-6,352	9,527	-	

Source: Ministry of Finance, Malaysia, *Economic Report*, various editions, and Bank Negara Malaysia, *Monthly Statistical Bulletin*, February 2006.

Note: a) Projected results; b) Latest estimate; c) Estimate; d) Operating expenditure + direct development expenditure + net government loans; e) "+" indicates a drawdown of assets.

## 6. Balance of Payments

	(Million ringgit)								
	1999	2000	2001	2002	2003	2004	2005 <sup>a)</sup>	2006 <sup>b)</sup>	
Balance on goods	86,049	79,144	69,854	72,117	97,762	104,474	126,454	132,528	
Exports, fob	319,568	374,033	334,326	358,504	397,969	481,240	536,931	592,741	
Imports, fob	233,519	294,889	264,472	286,387	300,207	376,766	410,477	460,213	
Balance on services	-10,701	-10,670	-8,366	-5,996	-15,300	-8,780	-10,249	-9,828	
Balance on income	-20,886	-28,909	-25,623	-25,061	-22,537	-24,549	-23,908	-24,622	
Current transfers	-6,567	-7,313	-8,178	-10,566	-9,300	-14,633	-16,963	-17,776	
Balance on current account	47,895	32,252	27,687	30,494	50,625	56,511	75,334	80,302	
Financial account (net)	-25,152	-23,848	-14,791	-11,941	-12,146	15,083	-36,794	-	
Direct investment (net)	9,397	6,694	1,091	4,935	4,194	9,739	3,804	-	
Portfolio investment (net)	-4,392	-9,395	-2,466	-6,506	4,168	33,829	-9,202	-	
Other investment (net)	-30,157	-21,147	-13,416	-10,370	-20,508	-28,485	-31,396	-	
Net errors and omissions	-4,924	-12,107	-9,234	-4,362	580	11,467	-25,720	-	
Overall balance	17,819	-3,703	3,662	14,191	39,059	83,061	12,820	-	
Reserve asset position	117,244	113,541	117,203	131,394	170,453	253,513	266,334	-	

Source: Same as Table 2.

Note: a) Preliminary figures; b) Estimate.