

**RENCANA KHAS HARI KEBANGSAAN MALAYSIA 1996
MALAYSIA NATIONAL DAY 1996 SUPPLEMENT**

GUIDED by a free market economy, Malaysia has consistently registered impressive growth rates over the last decade. Malaysia has recorded average annual growth exceeding 8.0 per cent for eight consecutive years since 1988. This growth has been largely the result of contributions from trade and industry. The manufacturing sector is the fastest growing sector contributing to an estimated 33.1 per cent of the Gross Domestic Product (GDP) in 1995.

Today, Malaysia is amongst the world's leading exporters of manufactured goods such as semiconductors, room air-conditioners, rubber gloves, catheters and audio-visual equipments.

Malaysia welcomes foreign investors. Their contributions to technology transfer, capital inflow and export market expansion is duly recognised. Many among the more than 3,000 international manufacturing companies from over 50 countries have already reaffirmed confidence in Malaysia by executing multiple operations in the country.

In 1995, 1,075 applications were received by Malaysian Industrial Development authority (MIDA), an investment arm under the Ministry of International Trade and Industry (MITI), to establish manufacturing projects; registering an increase of 5.6 per cent from the

previous year. The major sources of foreign investment were Singapore, the USA, Japan, the UK, Taiwan and South Korea. Some other countries also registered significant increases in investment such as People's Republic of China, France, Canada and the Republic of Ireland apart from the ASEAN countries.

The rapid pace of industrialisation in Malaysia has resulted in higher demand for labour, in particular skilled manpower, and greater imports of intermediate and capital goods. In response to these developments, the manufacturing sector is now more integrated and undergoing higher value added manufacturing operations with strong emphasis on R&D and the indigenous technology development and even into the post-manufacturing stages, such as marketing, sales and distribution. It will also be more capital intensive and productivity driven industries.

The Malaysian industries which are labour intensive are expected to either upgrade and automate their operations, or relocate their activities to the labour-surplus and lower cost countries, including the growth triangles. Malaysia holds immense potential as a springboard for investors intending to explore and capture the huge

ASEAN Free Trade Area (AFTA) market.

MITI is also undertaking the New Industrial Master Plan (IMP) Study to formulate policies and strategies which would address issues and challenges facing the manufacturing sector for the period of 1996-2005. The study will analyse existing industry clusters such as electronics and textiles as well as potential industry clusters like chemicals and chemical products, aerospace, materials and advanced materials, to enhance their competitiveness.

Apart from investment, MITI through its external trade development agency, MATRADE (Malaysia External Trade Development Corporation) will continue to generate growth in Malaysian exports of value added goods and services.

With a network of 25 representative offices worldwide, MATRADE assists Malaysian manufacturers and exporters to increase Malaysia's international market share through strengthening their capacities in traditional markets and penetrating new markets.

Services offered by MATRADE includes: disseminating information on Malaysian exporters on trade opportunities, market trends, trade regimes and trade regula-

tions; organising Malaysia's participation in international trade fairs and trade missions to selected markets as well as providing advisory services on trade matters and workshops to keep Malaysian exporters abreast with changes in the international markets.

MATRADE also facilitates buying missions from abroad by arranging business meetings between delegates of these missions with the relevant suppliers or Malaysian products that they wish to source. Assistance is also rendered to individual buyers who visit MATRADE and request for business meetings with manufacturers of Malaysian products.

Trade inquiries received from foreign importers are channeled to Malaysian manufacturers while information on Malaysian products and services are disseminated through MATRADE's network of Trade Commissioners abroad.

The present establishments are located in Beijing, Cologne, Dubai, Ho Chi Minh City, Hong Kong, Jeddah, Johannesburg, Kuwait, London, Los Angeles, Milan, Moscow, Nairobi, New York, Osaka, Paris, Rotterdam, Santiago, Sao Paulo, Seoul, Taipei, Tokyo, Toronto, Singapore and Sydney. MATRADE plans to expand its global network to meet the growing demands of the Malaysian export sector.

THE MALAYSIAN ECONOMY

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the manufacturing, construction and services sectors of the economy. Higher disposable income due to higher wages in the private sector as well as salary revision for the civil service have also contributed to a 15.3 per cent increase in total consumption expenditure in 1995.

Savings and investment: A major factor underlying the nation's capacity to sustain high growth rate is the nation's high level of savings, which have been effectively mobilised through a relatively well developed financial and capital

markets for purpose of capital formation. In 1995, gross national savings rose by 13.9 per cent to RM69.2 billion or 34.2 per cent of GDP, driven by a 24.5 per cent increase in private savings as a result of rising income and higher corporate profits. Public sector savings rose moderately by 2.5 per cent in 1995 after a sharp increase of 25.9 per cent in 1994. The slower increase in public sector savings in 1995 was due mainly to the increased expenditure incurred for the 1995 salary revision. Since mid-1980s through 1994, gross national savings com-

plemented by inflow of foreign long-term capital investment had been more than adequate to finance the nation's capital outlay, except for a small financing gap in 1991. As a result, the nation's external reserves increased from RM12.5 billion as at the end of 1985 to RM68.2 billion as at the end of 1994. However, with gross domestic investment increased at a rapid rate of 21.5 per cent in 1995 to RM87 billion, gross national savings and net inflow of foreign direct investment capital was able to finance 91 per cent of the capital outlay in 1995. The remaining 9 per cent of capital outlay has been financed through external bor-

rowing by the corporate sector as well as a drawdown of external reserves. This financing gap, as in 1991, is transitional and temporary, reflecting the characteristics of a fast growing nation that occasionally has to step up its capital formation to meet expanding infrastructural needs.

External Trade: Malaysia's external trade expanded by another 22.6 per cent in 1995 to RM379.8 billion, following an increase of 29.8 per cent in 1994. The rapid growth in Malaysia's external trade has been driven by the strong expansion of the productive base of the economy, particularly the manufacturing sector, as well as domestic and external demand.

Led by strong external demand for manufactured exports, particularly electrical and electronic products, exports increased by 20.4 per cent in 1995 to RM185 billion at f.o.b prices. Manufactured goods accounted for 80 per cent of the nation's merchandise exports in 1995. Imports, however, increased at a much faster rate of 24.7 per cent in 1995 to RM194 billion at c.i.f. prices, driven by strong demand for imported capital and intermediate goods as a result of rapid capital formation and buoyant manufac-

**Table 2
Balance of Payments, 1994-1996
(RM billion)**

| | 1994 | 1995 | 1996* |
|---------------------|--------|--------|--------|
| Merchandise Account | 4.6 | 0.6 | 3.6 |
| • Exports f.o.b | 148.5 | 180.9 | 211.4 |
| • Imports f.o.b | 143.9 | 180.3 | 207.8 |
| Services Account | -15.9 | -18.8 | -21.0 |
| (% of GNP) | (-9.0) | (-9.2) | (-9.2) |
| Current Account | -11.0 | -17.8 | -17.0 |
| (% of GNP) | (-6.2) | (-8.8) | (-7.5) |
| Long-term Capital | 11.9 | 15.6 | - |
| • Official Capital | 0.5 | 5.6 | - |
| • Private Capital | 11.4 | 10.0 | - |

*Forecast

Government Finance: Prudent fiscal policy stance, including the rightsizing of the public sector, coupled with privatisation programmes has enabled the overall financial position of the Federal Government of Malaysia to remain strong. In 1995, for the third consecutive year, the Federal Government's overall financial position was in surplus amounting to RM1,860 million, on the top of RM4,408 million recorded in 1994. Despite tariff reductions and corporate tax cuts, the Federal Government's revenue rose by 3 per cent to RM50,953 million.

Prospects for 1996

The growth momentum of the last eight years is expected to be sustained in 1996, with real GDP growing at a rate of 8.3 per cent. Providing the impetus to growth will again be the manufacturing and the construction sectors which are envisaged to expand a double digit rate. After recording a strong increase in 1995, growth in domestic demand is expected to moderate, mainly on the account of slower growth in public sector expenditure and, to some extent, private domestic demand. The slower growth in domestic demand is expected to slow down imports and help to improve

the current account position of the balance of payments position beginning 1996. Inflation is expected to be contained at below 4 per cent as anti-inflationary measures implemented in 1995 will be continued in 1996. Underpinned by improvement in national income coupled with prudent spending, the Federal Government's overall financial position is again expected to record a surplus in 1996. Thus, the fundamentals of the Malaysian economy are expected to strengthen further in 1996.

Economics & International Division, Ministry of Finance, Malaysia

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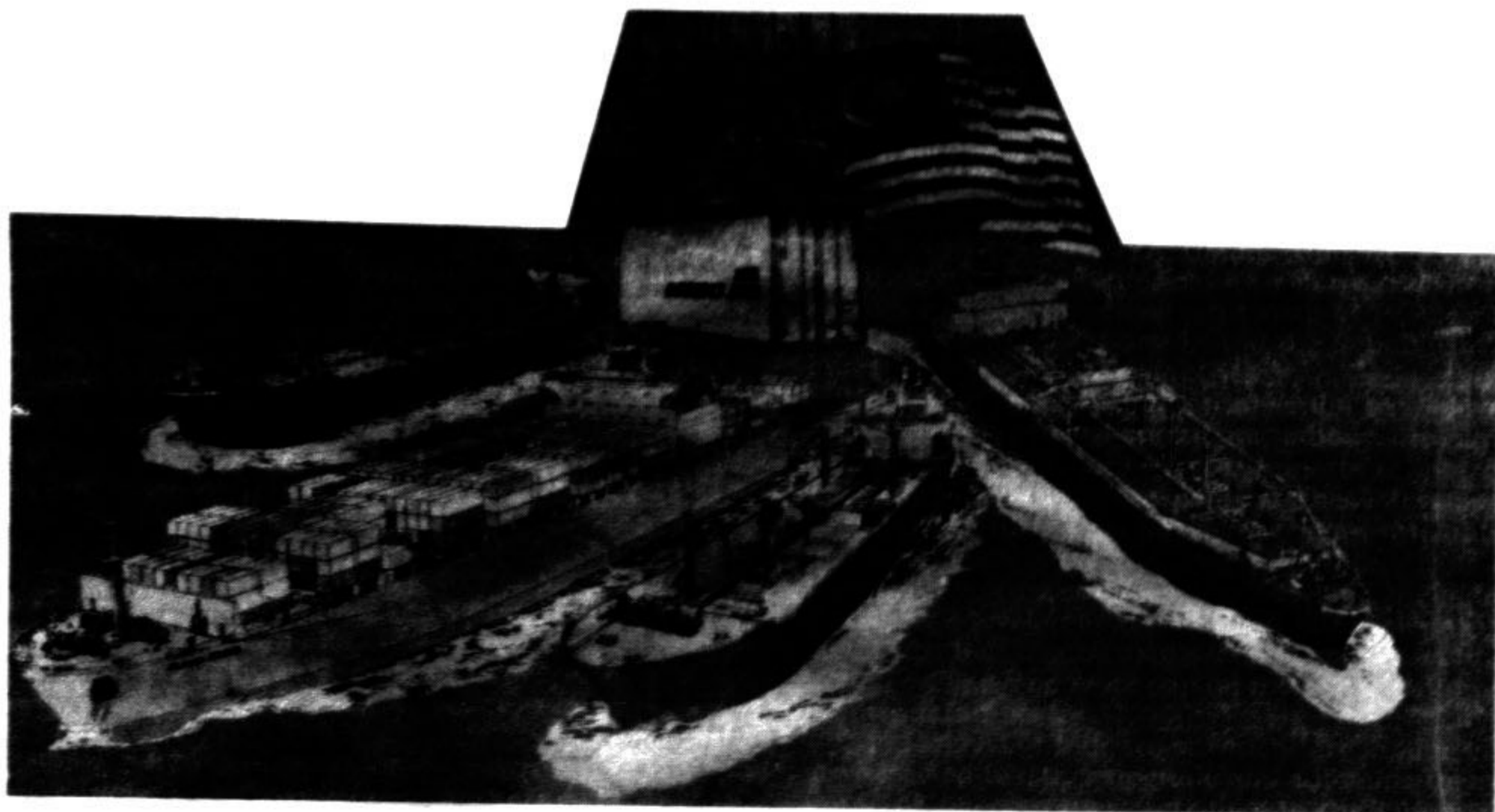
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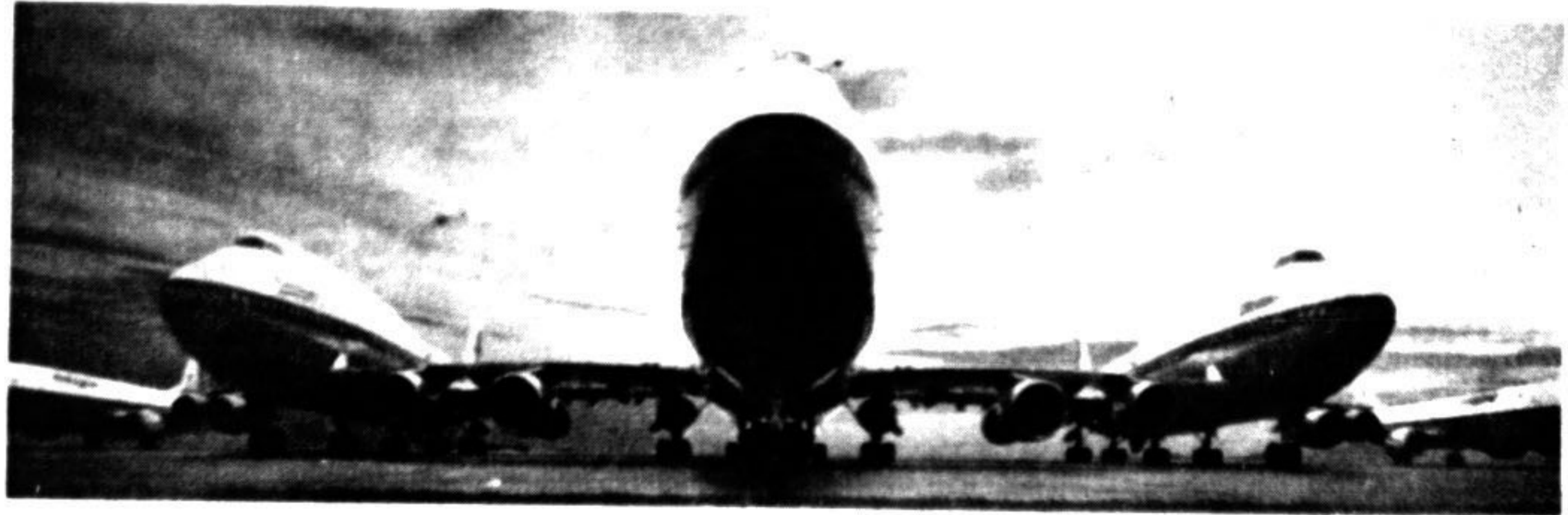
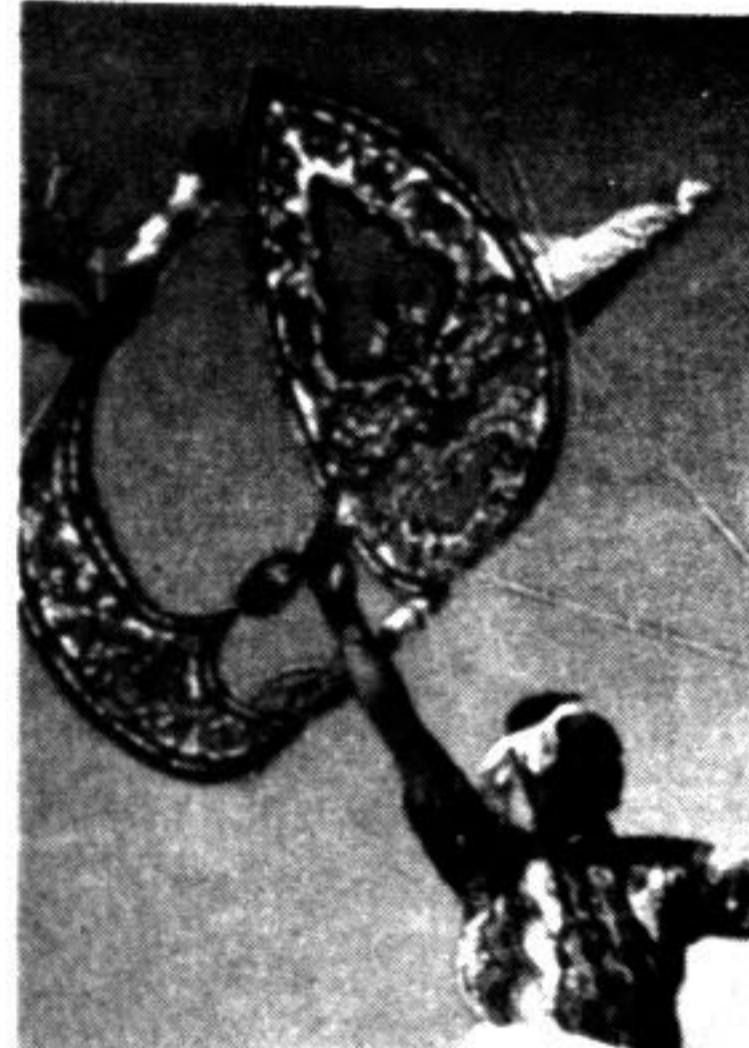
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