

## Malaysia: External trade - where has the entire surplus gone to?

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- The Department of Statistics (DOS) reported that Malaysia recorded a large trade surplus of almost RM30.0 billion for the period Jan-April 09 as imports (-27.6% y-o-y) contracted at a faster pace than exports (-21.6%).
- Essentially, the sharper decline in imports was due to lower purchases of intermediate and capital goods amidst the decline in manufactured exports. The subsequent inventory adjustments and a weakened investment activity had further depressed import demand.
- We foresee the trend (imports outpacing exports) to continue in the months ahead, such that this year's trade surplus would continue to exceed RM100 billion. Malaysia has been registering large trade surpluses since 1998 following the currency crisis, totaling RM914 billion up to 2008.
- Translated into merchandise account of the balance of payments (cash basis as against custom basis for trade data), the surplus for the period 1998-2008 (11 years) amounted to a staggering RM1.140 trillion.
- In 1987-1998 (also 11 years), Malaysia posted an aggregate merchandise surplus of only RM91.4 billion (on the back of a RM21 billion trade surplus), which is even lower than the annual average of RM104 billion achieved in the preceding eleven years.
- Where have the 1998-2008 RM1.140 trillion merchandise surpluses gone to?
- It was largely used to pay for the services (freight, insurance, consultancy services, etc.), to pay for the repatriation of investment income by foreign entities, transfers (repatriation of salaries and wages by foreign workers), and outflow in the financial account (outward direct investments more than inward, along with portfolio outflows). See table below.

- Even with all these outflows, Malaysia still managed to register a large overall balance totaling RM258 billion for the period 1998-2008.
- The surplus in the overall balance is manifested in the equivalent rise of the international reserves of Bank Negara from RM59 billion (USD21.7 billion) at the end of 1997 to RM317 billion (USD89.4 billion) at the end of last year.
- This is how the corresponding figure looks like for the period 1987-97:

### MALAYSIA: BALANCE OF PAYMENTS (1987-97)

<b>Merchandise Account Balance</b>	<b>+RM91B</b>
<i>Less:</i>	
Services Account Balance	-RM71B
Income Account Balance	-RM90B
Transfers	-RM10B
<b>Current Account Balance</b>	<b>-RM80B</b>
<i>Less:</i>	
Financial Account Balance	+RM116B
Errors and Omissions	+RM6B
<b>Overall Balance</b>	<b>+RM42B</b>

Source : Bank Negara Malaysia & Department of Statistics Malaysia

- In the previous 11 years, Malaysia was running a current account deficit. However, the inflow from foreign direct investment and portfolio funds were more than offset the current account shortfall, such that the country still managed to accumulate RM42 billion of international reserves.
- The international reserves of Bank Negara had increased further to RM318.4 billion (but in terms of dollar down to USD87.1 billion on account of USD appreciation) as at 15 June 2009. The current reserves position is sufficient to finance 8.4 months of retained imports and is 3.8 times the short-term external debt.
- The huge rise in international reserves has flooded the domestic financial system with liquidity that was in excess of the demand by financial institutions to provide credit to borrowers. The excess liquidity absorbed by Bank Negara from the system is now estimated at RM270 billion.
- On the flip side of the coin, the large surplus in the current account of the balance of payment is a reflection of the resource surplus in the economy, ie. domestic savings is in excess of domestic investment.

### MALAYSIA: BALANCE OF PAYMENTS (1998-2008)

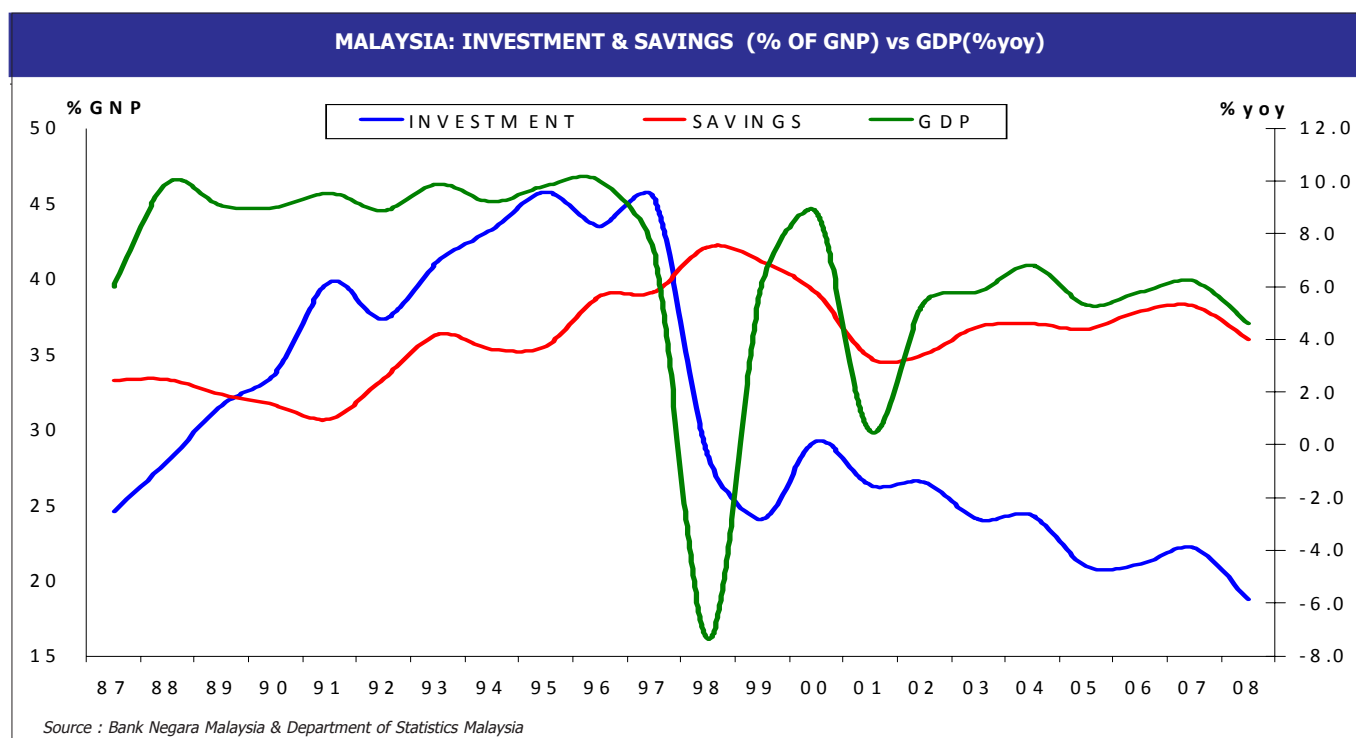
<b>Merchandise Account Balance</b>	<b>+RM1,140B</b>
<i>Less:</i>	
Services Account Balance	-RM79B
Income Account Balance	-RM242B
Transfers	-RM133B
<b>Current Account Balance</b>	<b>+RM686B</b>
<i>Less:</i>	
Financial Account Balance	-RM320B
Errors and Omissions	+RM108B
<b>Overall Balance</b>	<b>+RM258B</b>

Source : Bank Negara Malaysia & Department of Statistics Malaysia

- Measured in terms of GNP, gross national savings (GNS) averaged 37.9% in 1998-2008. Gross domestic investment (GDI) averaged 24.3%, leaving a resource surplus which is equivalent to the current account surplus of 13.7% of GNP. In 1987 to 1997, GDI was substantially higher at 37.7% as against 34.5% for GNS. There was a deficit of 3.1%.
- Essentially, the Malaysian economy presently lack investment activity as compared to the period of 1987-1997. As a result, overall growth of the economy had averaged only 5% per annum in 1998-2008 vis-à-vis a sizzling 8-9% per annum before the crisis.
- Similarly, for the banking system, loan growth had only averaged 5% per annum post crisis as against a robust 20% per annum pre crisis period.
- It is in this light that the measures of liberalization announced by the Deputy Prime Minister of the 27 services sub-sectors sectors, with no equity condition, are timely on at least two fronts.
- Firstly, the excess liquidity available in the domestic financial system can be productively utilized, particularly in the export oriented and growth industries as well as services sector.

Secondly, the reactivation of private sector as the engine of growth could help relief the burden on the government to reduce fiscal deficit, support growth and provide employment.

- The government is expected to announce further liberalization moves at the end of this month, possibly in the areas of foreign investment rulings administered by the Foreign Investment Committee (FIC).
- While all these moves on the investment front by the new administration are certainly good for the future prospect of the country, we would also expect the stock market and investing community to embrace it.
- The country has been growing at a rate much below its potential. It has large resource surpluses (funding particularly), heavily resource-based, skilled manpower and good infrastructure.
- Given the right policy moves, the country could regain the momentum and meet the challenges and competition arising from globalization and trade liberalization.



The **BALANCE OF PAYMENTS SURPLUS**: An imbalance in a nation's balance of payments in which payments made by the country are less than payments received by the country. This is also termed a favorable balance of payments. It's considered favorable because more currency is flowing into the country than is flowing out. Such an unequal flow of currency will expand the supply of money in the nation and subsequently cause a decrease in the exchange rate relative to the currencies of other nations. This then has implications for inflation, unemployment, production, and other facets of the domestic economy. A balance of trade surplus is often the source of a balance of payments surplus, but other payments can turn a balance of trade surplus into a balance of payments deficit.