COUNTRY REPORT

# Malaysia

# Brunei

## 1st quarter 1999

The Economist Intelligence Unit
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## The Economist Intelligence Unit

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London
The Economist Intelligence Unit
15 Regent Street
London
SW1Y 4LR
United Kingdom
Tel: (44.171) 830 1000
Fax: (44.171) 499 9767
E-mail: london@eiu.com

New York
The Economist Intelligence Unit
The Economist Building
111 West 57th Street
New York
NY 10019, US
Tel: (1.212) 554 0600
Fax: (1.212) 586 1181/2
E-mail: newyork@eiu.com

Hong Kong
The Economist Intelligence Unit
25/F, Dah Sing Financial Centre
108 Gloucester Road
Wanchai
Hong Kong
Tel: (852) 2802 7288
Fax: (852) 2802 7638
E-mail: hongkong@eiu.com

Website: http://www.eiu.com



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# Contents



*January 22nd 1999*

# Summary

## 1st quarter 1999

Malaysia

Outlook for 1999-2000: Discontent with the rule of the prime minister, Mahathir Mohamad, will grow. The trial and heavy-handed treatment of the sacked former deputy prime minister, Anwar Ibrahim, has exposed an unseemly side of the government. The trial and the slow economic recovery will weaken the hold of the ruling coalition, the Barisan Nasional, which could lose control of more states, and possibly its vital two-thirds majority in the legislature. A critical election in the state of Sabah will become a referendum on the government. The economy will remain in recession in 1999, contracting by 2.7%, before beginning a slow recovery in 2000. Capital and currency controls, which have allowed a lowering of interest rates, have not revived the economy. Capital may flee the country when the controls expire. Exports will grow in 1999, but weak world markets and low commodity prices will restrain the economy. The current account will remain in surplus.

The political scene: The trial of Mr Anwar began in November, but the courtroom proceedings at times have been sordid, and the government's case has looked increasingly weak. Under pressure from within his own party, United Malays National Organisation (UMNO), Dr Mahathir named a new deputy prime minister and a new finance minister, choosing loyalists he hopes will strengthen his hand. But he has postponed UMNO party elections so as not to expose divisions within the party. Anti-US sentiment has flared in the wake of a controversial speech by the US vice- president.

Economic policy and the economy: The economy contracted by 8.6% in the third quarter of 1998, following declines in each of the two preceding quarters. Domestic demand has been subdued and investors have remained wary in the face of capital controls. The government has raised money for its economic recovery programme by tapping local pensions funds, leading to growing criticism. Other funds have been raised from foreign banks in Malaysia and through bilateral assistance from Japan. Ratings agencies have left Malaysia's sovereign grade at junk levels.

Banking and finance: Government agencies created to purchase banks' non-performing loans and to recapitalise troubled institutions have stepped up their activities. But complaints that the government is still underestimating the size of the country's banking problems persist. Bank lending has been stagnant despite a loose monetary policy and government directive to expand credit. The stockmarket has risen on buying by local institutions.

Agriculture: The government has adopted a new farm policy geared to greater production of cash crops. Earnings from palm oil have risen substantially. Malaysia is set to withdraw from the international rubber cartel.

Industry: Manufacturing production fell by nearly 10% year on year in the first 11 months of 1998. Vehicle sales have been hit particularly hard and exports of semiconductors, an economic bellwether, fell by 1%. Foreign investment applications in manufacturing were sharply lower.

*Energy*: Losses have increased at Tenaga, the country's largest power utility, and the government has forced it to offer tariff concessions to industrial customers. Petronas and Esso are working together on a major gas project.

*Transport and communications*: Pressure on Renong, the transport and telecommunications conglomerate, to resolve its debt problems has grown. Malaysian Airlines System has posted heavy losses and may need a capital infusion. Equal access in the telecoms industry may be imminent.

*Foreign trade and payments*: Malaysia posted its 13th consecutive monthly trade surplus in November, but rapidly falling imports, and not rising exports, were largely responsible. The current account will post a strong surplus in 1998. The government has expressed misgivings about trade liberalisation within APEC and ASEAN.

Brunei

*Outlook for 1999-2000*: Falling energy prices and Asia's continuing economic troubles have taken their toll on Brunei. The government's National Economic Council has recommended increasing oil production by 25% to compensate for reduced revenue. Prince Jefri, the sultan's brother, will keep a low profile after last year's misadventures. Government mismanagement will become more of a public issue.

*Review*: The post of law minister has been abolished, further concentrating power in the sultan's hands. The authorities have allowed the local newspaper to become a forum for debate on dissatisfaction with the government. Moves to address these criticisms are increasing, and the government is attempting to become more responsive. Brunei's first commercial television network has begun broadcasting. The government will increase oil production to 215,000 barrels/day to offset the slowing economy, which is estimated to have grown by 2.6% in 1998. The government is vigorously promoting electronic commerce.

Editor: Leo Abruzzese
All queries: Tel: (44.171) 830 1007 Fax: (44.171) 830 1023

# Political structure

| | |
|---|---|
| Official name | Federation of Malaysia |
| Form of state | Federated constitutional monarchy |
| The executive | The king appoints a prime minister and, on the prime minister's advice, a cabinet |
| Head of state | The Yang di-Pertuan Agong (king or supreme sovereign) elected by the Conference of Rulers from one of the nine hereditary rulers |
| National legislature | Bicameral federal parliament. The Senate (Dewan Negara) has 70 members, 30 of whom are elected from the state legislatures and 40 appointed by the king. The House of Representatives (Dewan Rakyat) has 192 directly elected members. The Senate serves a six-year term of office and the House of Representatives a five-year term |
| State government | There are state governments in each of the 13 states, in nine of which the head of state is a hereditary ruler. Each state has its own constitution, a council of state, or cabinet, with executive authority and a legislature which deals with matters not reserved for the federal parliament |
| National elections | April 24th-25th 1995; next election due by April 2000 |
| National government | The Barisan Nasional, the governing coalition, the main component of which is the United Malays National Organisation (UMNO) Baru, won 164 of the 194 seats in the Dewan Rakyat in the 1995 general election. The Barisan has the two-thirds majority required to pass constitutional amendments. A new cabinet was appointed in May 1995 |
| Main political organisations | Government—the main parties in the Barisan Nasional are UMNO Baru, the Malaysian Chinese Association (MCA), the Malaysian Indian Congress (MIC), Gerakan, Parti Pesaka Bumiputera Bersatu (PPBB) and the Sarawak National Party (SNAP)<br>Opposition—Parti Islam Sa-Malaysia (PAS), the Democratic Action Party (DAP) and Parti Bersatu Sabah (PBS) |

| | | |
|---|---|---|
| | Prime minister | Dr Mahathir Mohamad |
| | Deputy prime minister & home affairs minister | Abdullah Ahmad Badawi |
| Key ministers | Agriculture | Sulaiman Daud |
| | Defence | Abang Abu Bakar Mustapha |
| | Education | Najib Tun Razak |
| | Energy, telecommunications & posts | Leo Moggie |
| | Finance | Daim Zainuddin |
| | Foreign affairs | Syed Hamid Albar |
| | Housing & local government | Ting Chew Peh |
| | Human resources | Lim Ah Lek |
| | International trade & industry | Rafidah Aziz |
| | Primary industries | Lim Keng Yaik |
| | Public works | Samy Vellu |
| | Transport | Ling Liong Sik |
| | Youth & sports | Muhyiddin Yassin |
| Central bank governor | Ali Abul Hassan Suleiman | |

# Economic structure

*Latest available figures*

| Economic indicators | 1994 | 1995 | 1996 | 1997 | 1998[a] |
|---|---|---|---|---|---|
| GDP at market prices (M$ bn) | 190.3 | 218.7 | 249.5 | 275.4 | 279.1 |
| GDP (US$ bn) | 72.5 | 87.3 | 99.2 | 97.9 | 71.2 |
| Real GDP growth (%) | 9.2 | 9.5 | 8.6 | 7.7 | –6.4 |
| Consumer price inflation (av; %) | 3.7 | 5.3 | 3.6 | 2.7 | 5.3 |
| Population (m) | 19.7 | 20.1 | 21.2 | 21.7 | 22.2 |
| Merchandise exports fob (US$ m) | 56,897 | 71,767 | 76,881 | 77,881 | 74,304 |
| Merchandise imports fob US$ m) | –55,320 | –71,871 | –73,055 | –74,005 | –59,283 |
| Current-account balance (US$ m) | –4,521 | –8,470 | –4,596 | –4,791 | 9,271 |
| Reserves excl gold (US$ m) | 25,423 | 23,774 | 27,009 | 20,788 | 26,200 |
| Total external debt (US$ bn) | 29.3 | 34.3 | 39.8 | 42.7 | 39.8 |
| Debt-service ratio, paid (%) | 9.0 | 7.0 | 8.1 | 8.0 | 9.2 |
| Exchange rate (av; M$:US$) | 2.62 | 2.50 | 2.52 | 2.81 | 3.92 |

January 22nd 1999 M$3.80:US$1

| Origins of gross domestic product 1997 | % of total |
|---|---|
| Agriculture | 11.5 |
| Mining | 6.5 |
| Manufacturing | 34.4 |
| Construction | 4.6 |
| Electricity, gas & water supply | 2.3 |
| Services | 40.7 |
| GDP at factor cost[b] | 100.0 |

| Components of gross domestic product 1997 | % of total |
|---|---|
| Private consumption | 44.4 |
| Public consumption | 13.3 |
| Gross fixed capital formation | 47.1 |
| Stockbuilding | 0.6 |
| Exports of goods & services | 107.6 |
| Imports of goods & services | –113.0 |
| GDP at market prices | 100.0 |

| Principal exports 1997[c] | US$ bn |
|---|---|
| Electronics & electrical machinery | 42.4 |
| Palm oil | 3.8 |
| Petroleum & LNG | 2.9 |
| Chemicals & chemical products | 2.9 |
| Textiles, clothing & footwear | 2.7 |
| Wood products | 2.3 |
| Total incl others | 78.9 |

| Principal imports 1997[c] | US$ bn |
|---|---|
| Manufacturing inputs | 28.3 |
| Machinery | 8.5 |
| Transport equipment | 5.0 |
| Metal products | 4.9 |
| Food | 2.2 |
| Consumer durables | 2.2 |
| Total incl others | 79.0 |

| Main destinations of exports 1997 | % of total |
|---|---|
| Singapore | 20.0 |
| US | 18.6 |
| Japan | 12.6 |
| Hong Kong | 5.5 |
| Taiwan | 4.4 |
| Netherlands | 3.9 |
| Thailand | 3.6 |

| Main origins of imports 1997 | % of total |
|---|---|
| Japan | 21.9 |
| US | 16.8 |
| Singapore | 13.1 |
| South Korea | 5.1 |
| Taiwan | 4.8 |
| Germany | 4.4 |
| Thailand | 3.9 |

[a] EIU estimates. [b] GDP less bank charges. [c] Customs basis.

# Outlook for 1999-2000

The government's popularity will fall further—

The forecast period promises to be an eventful one: the credibility and popularity of the prime minister, Mahathir Mohamad, is at an all-time low; there is considerable potential for the disaffection to deepen; and parliamentary and party elections are scheduled during the next two years. The discontent arises from two main sources: the questionable treatment of Anwar Ibrahim, the former deputy prime minister sacked last September and now being tried on charges of corruption and sodomy; and the hardships imposed by an economy in recession. If economic recovery proves to be slow, and Mr Anwar is convicted, anti-government sentiment could become more entrenched.

—if, as seems likely, Mr Anwar is found guilty—

Mr Anwar's trial, which is due to run until June but may end earlier, seems to be moving towards an ominous outcome: a guilty verdict that would leave many unconvinced. The decision in mid-January by the presiding judge to amend four "corruption" charges lowers the burden of proof for a struggling prosecution. It now need only prove that Mr Anwar sought to influence a police investigation into allegations of sexual misconduct against him. The truth or falsity of the allegations themselves has been deemed immaterial, and all evidence relating to them struck out. Because much of the expunged evidence casts doubt on their authenticity, the five charges of sodomy on which he has also been indicted may not be heard.

—and his claims of a conspiracy are ignored

Mr Anwar's lawyers must therefore prove that he did not seek to obstruct justice, or that he intervened to prevent his reputation being sullied by baseless allegations. They may continue seeking to introduce evidence that he is the innocent victim of a high-level conspiracy. Indeed their list of witnesses to be called, which includes Dr Mahathir, the finance minister, Daim Zainuddin, and several other senior officials, suggests as much. But the judge has made it clear that he is reluctant to admit such evidence. Under Malaysia's jury-less legal system, he is supposedly the sole arbiter of Mr Anwar's fate. Yet the conduct of the trial so far has done little to dispel the widely held impression that it is in other hands.

Large-scale defections from UMNO—

A guilty verdict, or even further unsavoury revelations about the inner workings of the government and its institutions, could trigger a resumption of the street demonstrations that erupted following Mr Anwar's ouster. However, the real threat to Dr Mahathir and the ruling Barisan Nasional (BN) coalition is not the anger of street protesters, but the wider frustration it symptomises. The breadth and depth of this is being underscored by large-scale defections from Dr Mahathir's United Malays National Organisation (UMNO), the BN's dominant component. Many of the disgruntled are joining the main opposition Parti Islam Sa-Malaysia (PAS), which likewise draws its support primarily from the ethnic-Malay community that constitutes some 60% of the population. Thus the Malay unity which UMNO claims to represent, and professes to be the basis of its legitimacy (it currently holds 88 seats in the 192-member House of Representatives, or Dewan Rakyat, compared with PAS' seven), is weakening.

—could deprive the party of control of more states—

Only elections will reveal the extent of the erosion of UMNO's support, and that of the BN. The next general election, and polls for the legislatures of most of the country's 13 states, must be called by April 2000. Campaigning, in effect, has already begun. Opposition parties, led by PAS and the predominantly Chinese Democratic Action Party (DAP), which has nine seats in the Dewan Rakyat, are making much of the corruption and cronyism they say have flourished under Dr Mahathir's stewardship, the need for a moral revival and transparency, and for a more genuine democracy. PAS, which controls the north-eastern state of Kelantan, the only one not run by the BN, predicts that it will win others—Terennganu, Perlis and even Dr Mahathir's native Kedah, among them. It is also seeking to broaden its appeal, even to the extent of possibly allowing non-Muslims to join. The DAP is quietly confident it can unseat the BN in Penang, which has an ethnic Chinese majority.

—including Sabah—

The most imminent popularity contest is for the 48 seats in the Sabah state legislature, whose current five-year term ends on March 18th. The BN, which lost the last election in the state but was able to form a government after persuading parliamentarians from the winning party, Parti Bersatu Sabah (PBS), to defect, will be hard-pressed to retain power. The PBS leader, Joseph Pairin Kitingan, has moulded a formidable alliance of opposition forces which may attract some of the eight parties that make up the state's BN coalition. Moreover, many of UMNO's leaders in Sabah are unreconstructed Anwar loyalists, and could switch parties. The fickleness and corruptibility of many Sabah politicians make the outcome of the state elections difficult to predict.

—and weaken its hold on the centre—

If the BN wins in Sabah, it is widely believed that Dr Mahathir will call a general election sooner rather than later. If it performs poorly, then morale within the ruling coalition nationwide will be dealt a further blow. Nonetheless, there is little, if any, likelihood of the BN losing power at the centre. But, in Malaysian politics, it is the relative size of the vote for the government and the opposition that counts. A significant swing away from UMNO towards PAS could cost the BN its two-thirds majority in the Dewan Rakyat.

—where the ethnic Chinese vote will be crucial

The government will make every effort to ensure that this does not happen. Dr Mahathir has said he will be travelling widely throughout the country from February. If his recent speeches are anything to go by, he will stress his own and the BN's considerable achievements over the years and blame external forces for Malaysia's economic woes. He will compare the moderate, progressive Islam espoused by UMNO to the more radical brand promoted by PAS. Indeed, he is likely to dwell heavily on the importance of religious and racial tolerance, and of preserving the present hard-won and fragile harmony. Local newspapers have been giving prominent coverage to the victimisation of ethnic Chinese in neighbouring Indonesia, deliberately stirring memories of Malaysia's own bloody race riots in 1969. That violence followed elections in which the local Chinese community, the country's second biggest ethnic group, voted overwhelmingly for the opposition, almost depriving the BN of victory.

Pressure on Dr Mahathir to retire will grow

Dr Mahathir is acutely aware of the growing divisions within UMNO, and of their potential to undermine his own position. This was made clear by his decision on January 8th to postpone the party's triennial leadership polls, previously scheduled for June, until after the next general election. He also reluctantly bowed to intense pressure from within the party to appoint a deputy prime minister and fill the void created by Mr Anwar's dismissal. But his choice, the former foreign minister, Abdullah Badawi, who was given the additional burden of home affairs, one of two cabinet portfolios relinquished by Dr Mahathir, could cause other splits in UMNO. Key pretenders to the position of deputy were passed over. Foremost among these were Najib Razak (44), the education minister and the party's senior vice-president, and Razaleigh Hamzah (61), who set up a rival party after narrowly losing to Dr Mahathir in the 1987 presidential race but returned to the fold in 1996. Both see themselves as future prime ministers.

A poor showing by UMNO in forthcoming parliamentary elections would increase the already considerable pressure on Dr Mahathir to stand aside. He will resist for as long as possible, while striving to bolster his own, and UMNO's, appeal. A key factor will be the success of the government's efforts to revive the economy.

Malaysia: forecast summary
(US$ m unless otherwise indicated)

| | 1997[a] | 1998[b] | 1999[c] | 2000[c] |
|---|---|---|---|---|
| Real GDP growth (%) | 7.7 | –6.4 | –2.7 | 1.3 |
| Consumer price inflation (av; %) | 2.7 | 5.3 | 5.2 | 5.8 |
| Merchandise exports fob | 77,881 | 74,304 | 75,583 | 82,016 |
| Merchandise imports fob | –74,005 | –59,283 | –62,857 | –69,563 |
| Current-account balance | –4,791 | 9,271 | 4,576 | 2,754 |
| Exchange rate (av; M$:US$) | 2.81 | 3.92 | 3.95 | 4.35 |

[a] Actual. [b] EIU estimates. [c] EIU forecasts.

Malaysia's economy will continue to shrink—

Malaysia's deep recession will continue in 1999, with the economy forecast to contract by 2.7% after falling by an estimated 6.4% last year. Investment, the main driver of the economy, fell by an estimated 30% in 1998; it is expected to continue to decline this year, although at a slower rate, as investors remain cautious of a contracting economy struggling to function behind strict capital controls. Lack of consumer confidence and a rising number of corporate restructurings will also act as a drag on the economy in 1999, with private consumption forecast to fall by a further 3.4%. Depressed prices and overproduction of electronic goods worldwide, which comprise 60% of Malaysia's exports, will continue to restrain the country's foreign sales, although exports should grow modestly in volume terms. The economy is forecast to grow by 1.3% in 2000 as capital controls are lifted, investment once again expands and returning consumer confidence leads to moderate growth in private consumption.

—as capital controls provide little relief—

Dr Mahathir, who ordered the Bank Negara Malaysia (the central bank) to impose capital and currency controls in September 1998, insists his controversial policy has been working. With the exchange rate fixed at M$3.80:US$1, the government has sought to reflate the economy through lower interest rates, free from the pressure of international currency speculators. Lending costs have indeed come down, and the government is insisting GDP will grow by 1% in 1999. But there is little evidence that the economy is responding to the controls. GDP fell by 8.6% in the third quarter, and most economic indicators showed continued declines well into the fourth quarter.

**—and bank lending remains stagnant**

Bank lending, which the government forecast to grow at a rate of 8% in 1998 following the imposition of capital controls, has remained flat. Although the base lending rate at banks fell from more than 12% in June to 8.04% by year-end, the value of total loans by the banking system stood at just under M$420bn ($110.5bn) in November, virtually unchanged from September. Banks have been reluctant to lend because of the high level of non-performing loans, and this is unlikely to change in the medium term. Although the government has created institutions to buy up bad loans and recapitalise the banks, the process has been slow. Moreover, the scope of Malaysia's bad-loan problem seems greater than the government has admitted, and the M$31bn (US$8.2bn) it plans to spend on restructuring will almost certainly not be enough. As a result, banks will continue to be reluctant to lend. As private consumption, investment and exports are also contracting or barely growing, companies will be equally reluctant to borrow.

**A slowing world economy will hurt Malaysia—**

A weakening world economy—the EIU is forecasting a slowdown in world GDP growth to 1.3% in 1999 from 1.5% last year—and slower growth in world trade will exact a greater toll on Malaysia than on its neighbours. Exports represented over 100% of Malaysia's GDP in 1997, more than twice the level in other crisis-stricken Asian economies. We are forecasting a 1.4% decline in world non-oil commodity prices in 1999, following a sharp contraction of nearly 16% last year. Oil prices are also forecast to fall by a further 33% this year. Malaysia's export-oriented manufacturing industries, especially electronics, will also be constrained by slower growth in the US and Europe. The IMF, in a recent analysis, estimated that Malaysia would face a US$1bn decline in merchandise exports for every 1% fall in GDP by its major trading partners. Similarly, the nominal value of its exports would decline by US$2bn for each 5% fall in export prices.

**—although government pump-priming may help**

The outlook for Malaysia's economy is not altogether bleak. The economy will benefit modestly in 1999-2000 from continued pump-priming: the government says it will spend M$31bn on infrastructure and other investment programmes during 1998-2001. A recent government initiative to promote the purchase of lower-cost houses and apartments also seems to have been successful, providing a slight boost for the depressed property sector. Easy credit also seems to be helping the car industry: auto sales in November were nearly 50% higher than in September, mainly because of easier credit terms.

**Funds from abroad will be in short supply—**

The government's ability to attract funding from abroad to aid the recovery will continue to be limited as long as capital controls remain. Ratings agencies continue to classify Malaysia's debt at junk levels. Nevertheless, the government has been able to raise money with the help of Japan, which guaranteed a bond issue in December. The Japanese government is likely to provide further bilateral aid.

—and the risk of capital flight will increase—

Malaysia's biggest potential problem in 1999 is a massive outflow of funds once the capital controls are lifted. A so-called lock-in provision, a central feature of the controls, has prevented foreign investors in the stockmarket from withdrawing their principal (but not their dividends). Those controls are set to expire in September, and Malaysian officials are worried that funds trapped in the stockmarket—about US$18bn—will flee the country at that time. To prevent this, the government is likely to replace the lock-in rule early in 1999 with a less onerous restriction. Two options are being considered: an exit tax on the withdrawal of foreign portfolio investments—in effect, a kind of capital gains tax—and an investment ratings system that would grant preferences to long-term investors.

—as pressure to ease currency and capital controls increases

Other features of the capital controls are also expected to be eased in 1999 as pressure from foreign investors builds. In December Malaysia's central bank permitted Blue Circle Industries, a UK-based cement company with significant interests in Malaysia, to swap US$160m in planned foreign direct investment for ringgit held by foreign portfolio investors. This essentially allowed those investors to repatriate funds that otherwise would have been trapped in Malaysia under the capital controls. The government is likely to make further exceptions of this sort in 1999 to placate restless investors.

Interest rates may be cut further

Interest rates will remain low in 1999 as the government continues to promote more borrowing to stoke the economy. The central bank's intervention rate—the rate at which it lends to commercial banks—was reduced to 7% in November. Officials may consider reducing the rate further, although too many cuts would risk pushing interest rates below the rate of inflation, which is forecast at an average of 5.2% in 1999. Inflation will rise gradually in 2000 as the economy resumes growth.

The exchange rate will weaken later in the year—

Dr Mahathir has repeatedly said that Malaysia will not abandon its fixed exchange rate—set on September 1st 1998 at M$3.80:US$1—in the near future. But the fixed ringgit runs the risk of becoming overvalued against the currencies of Malaysia's regional competitors, and pressure to let the currency float will grow in 1999. We believe the currency will be freed before the end of the year. When this happens, the exchange rate for the ringgit will weaken, and will average around M$3.95:US$1 in 1999. It will weaken further in 2000 as the slow pace of economic recovery and the government's loose fiscal policies make investors cautious.

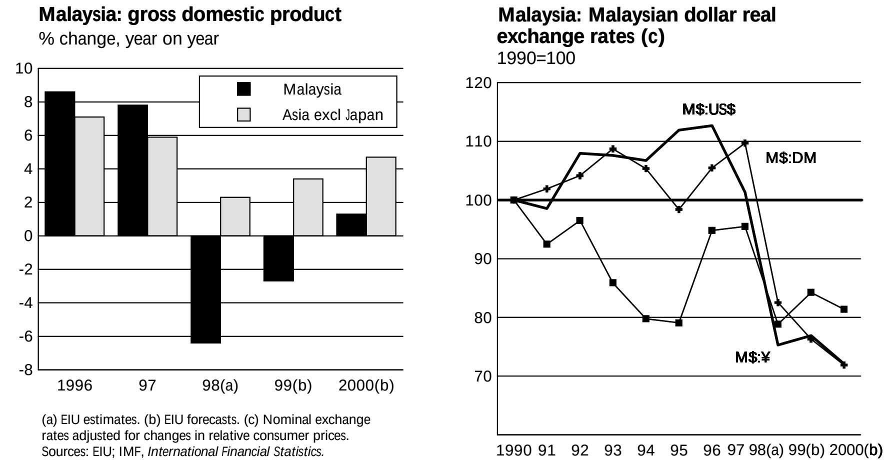
—but the current account will post a huge surplus

Malaysia posted a substantial current-account surplus in 1998, estimated at US$9.3bn, or 13% of GDP. This was its first such surplus since 1989, and compares with current-account deficits that had averaged more than 5% of GDP annually during the early and mid-1990s. The surplus is not especially good news, however, as it resulted mainly from a substantial decline in imports. Merchandise imports fell by an estimated 20% in 1998 year on year, while exports declined by 4.6%. Export performance began to wane as the year ended, with foreign sales in dollar terms falling by 3.4% in November on the previous month. Export growth is forecast to resume, albeit modestly, in 1999, before showing stronger growth in 2000. Imports will also increase, both to rebuild depleted stocks and as a basis for growing exports. As a result, the current-account surplus is forecast to shrink to US$4.6bn in 1999 and further to US$2.8bn in 2000.

Malaysia: economic results and forecasts
(% change, year on year)

| | 1997[a] | 1998[b] | 1999[c] | 2000[c] |
|---|---|---|---|---|
| Private consumption | 4.7 | –12.0 | –3.4 | 1.6 |
| Public consumption | 5.3 | 0.8 | 2.0 | 1.6 |
| Gross fixed investment | 8.5 | –30.8 | –5.5 | 3.9 |
| Stockbuilding | 0.7 | –0.1 | 0.4 | 0.1 |
| GDP | 7.7 | –6.4 | –2.7 | 1.3 |
| Exports of goods & services | 10.8 | 2.0 | 2.0 | 5.0 |
| Imports of goods & services | 10.2 | –10.0 | 2.2 | 6.3 |

[a] Actual. [b] EIU estimates. [c] EIU forecasts.




(a) EIU estimates. (b) EIU forecasts. (c) Nominal exchange rates adjusted for changes in relative consumer prices.
Sources: EIU; IMF, *International Financial Statistics*.

**Late note**

On February 4th the government of Malaysia, as expected, eased a controversial regulation that had barred foreign investors in the country's stockmarket from repatriating the principal of their investments for at least a year. This "lock-in" provision was one of the main features of the capital and currency controls imposed by the government in September 1998 in an attempt to restore stability to the economy. Under pressure from overseas investors, the finance minister, Daim Zainuddin, said funds now in the market could be removed immediately, but would be subject to a withdrawal tax, based on a sliding scale. Principal removed within seven months of investment, or when the controls began on September 1st 1998, would be subject to a 30% exit tax; principal removed after September 1st 1999 would not be taxed at all. A different system will apply to investment entering the country on or after February 15th 1999. If left in the country for less than a year, profits on the investment would be subject to a 30% tax, with no tax on principal; if the money remains for more than a year, the tax on profits drops to 10%. Although ending the lock-in clause will please some investors, the new exit tax will create a continuing disincentive to invest in Malaysia's markets.

# Review

## The political scene

Mr Anwar goes on trial—

The sex-and-corruption trial of Anwar Ibrahim, the former deputy prime minister sacked in early September and arrested soon afterwards, began on November 2nd 1998. The controversy triggered by his ouster, the further polarisation caused by his launch of an idealistic reform movement, and his apparent beating at the hands of police while in custody led many to argue that Malaysia itself, and its institutions, were also in the dock.

—amid concerns he might not get a fair hearing—

Mr Anwar's supporters doubted he would get a fair hearing, arguing that he had been tried and convicted in the heavily controlled local media before even being formally charged, and that the prime minister, Mahathir Mohamad, had openly said he expected a guilty verdict. The politically ambitious Mr Anwar's real crime, they claimed, was that he had abandoned subservience to Dr Mahathir, who was bent on exacting revenge. Furthermore, the charges on which he had been indicted, five counts of sodomy with male acquaintances and five of "corruption"—essentially seeking to influence police investigations into his alleged sexual misconduct—were designed to smear Mr Anwar's reputation and ruin his political career. Most Malaysians had regarded him, a married man with six children, as a devout Muslim.

—that are reinforced by a promise of further charges

Doubts about the government's conduct were reinforced in late October when the attorney-general, Mohtar Abdullah, said that several additional charges of sexual misconduct were likely to be brought against Mr Anwar. Nor were suspicions allayed when, as the trial opened at Kuala Lumpur's High Court, the presiding judge, Augustine Paul, rejected a defence motion that representatives of two international human rights groups, Amnesty International and Human Rights Watch, in town to monitor the proceedings, be accorded observer status. Dr Mahathir subsequently suggested that the presence of the representatives was designed to "pressure" Mr Paul.

The first witness tells of cover-up attempts—

The first prosecution witness, the outgoing director of the Special Branch, Mohd Said Awang, testified that he had been asked by Mr Anwar in August 1997 to obtain retractions from two people who had accused him of sodomy and adultery in letters and written statements to the prime minister earlier that month. He said that the pair—a former Anwar family driver, Azizan Abu Bakar, and Ummi Hafilda, a sister of the ousted politician's then private secretary, Mohamed Azmin Ali—had been "turned over", that is persuaded by police interrogators to withdraw their allegations. But Mr Said, who said Mr Anwar was initially investigated for suspected sexual misconduct in 1992, added that the officers concerned had felt the accusers' claims were not unfounded.

—before conceding he could lie in court

Under cross-examination by defence lawyers, Mr Said admitted that he might lie in court if requested to do so by a higher authority than a deputy prime minister. But he denied having repeatedly told Mr Anwar that the claims by Mr Azizan and Ms Ummi were "politically motivated". However, he did not deny that the names of senior officials, including at least two ministers, might have been mentioned in a report he wrote to Dr Mahathir indicating that the claims were found to have been baseless and recommending that the investigation of them be closed. These officials, as named by the defence—which was seeking to prove Mr Anwar was the victim of a high-level conspiracy—included the special functions minister, Daim Zainuddin; the domestic trade minister, Megat Junid; and the prime minister's political secretary, Aziz Shamsuddin.

The defence is ordered to rest its "conspiracy" case

On November 11th Mr Paul ordered one of the defence lawyers, Christopher Fernando, who had emerged as a highly effective cross-examiner of prosecution witnesses, to stop trying to prove that Mr Anwar was the victim of a conspiracy, ruling questions to that end "irrelevant". Mr Fernando replied that the defence's case was based on its belief that there had indeed been such a plot, and it wanted to prove that key witnesses would be giving "perjured" evidence. He argued that preventing it from doing so would be tantamount to depriving the accused of his right to defend himself.

Calls for a mistrial mount—

On November 19th Karpal Singh, a lawyer (and opposition parliamentarian) representing Mr Anwar in a civil suit challenging his dismissal from the government, demanded that the corruption and sodomy case be thrown out of court. He said he had been summoned to Kuala Lumpur's police headquarters a few days earlier to make a statement relating to the charges, which meant that the investigation of them had not been completed when Mr Anwar was indicted. He argued that, under the circumstances, the law required that a mistrial be declared. The same day another lawyer representing Mr Anwar, Pawanceek Marican, said his office had been broken into during the night and a safe containing confidential documents relevant to the trial broken open. A police investigation subsequently concluded that the unknown culprits were probably burglars looking for money.

—amid claims of a prosecution attempt to fabricate evidence—

On November 28th another member of the defence team, Zainur Zakaria, filed an application with the High Court to have the two leading prosecution lawyers, Abdul Gani Patail and Azahar Mohamad, discharged on grounds of *mala fide*, accusing them of having tried to fabricate evidence against Mr Anwar. The application claimed they had sought to prevail on Nallakaruppan Solaimali, a businessman friend of Mr Anwar being tried separately under the Internal Security Act (ISA) on a charge of illegally possessing live ammunition, to falsely implicate the former deputy prime minister in extra-marital affairs with several women. It said the prosecutors had indicated that if Mr Nallakaruppan agreed to do so, the ISA charge, which carries a mandatory death sentence upon conviction, could be replaced by a lesser one. The application was accompanied by a sworn statement by Manjeet Singh Dhillon, a lawyer for Mr Nallakaruppan, detailing the approaches the two prosecutors allegedly made to him on the matter.

—which prompt the judge to give a defence lawyer a jail term

When Mr Anwar's trial resumed on November 30th, Mr Paul declared that the application was "totally baseless", and demanded that Mr Zainur apologise for having submitted it. When Mr Zainur declined, Mr Paul ordered him to be jailed for three months for contempt of court. He had earlier refused to allow Mr Zainur to call Mr Manjeet as a witness to support the allegations, and had turned down pleas by other Anwar lawyers for time to prepare Mr Zainur's defence. Later that day Mr Zainur won a temporary reprieve when another court granted an interim stay of execution of the jail sentence, pending a further appeal. Mr Paul also issued a warrant for the arrest of Mr Manjeet, but annulled it when the required apology was subsequently tendered. There was widespread criticism of the judge over his treatment of Mr Zainur and Mr Manjeet—both respected lawyers and former presidents of the Malaysian Bar Association—as well as over his refusal to allow an investigation of the alleged attempts to fabricate evidence.

A key accuser appears to retract his sodomy claim—

On December 2nd Mr Azizan, the ex-driver, told the court he had been sodomised by Mr Anwar on several occasions in 1992, and was pressured by Special Branch officers in August 1997 to retract a written statement to that effect sent to Dr Mahathir. Now a company director, Mr Azizan denied under cross-examination that he had signed the original statement implicating Mr Anwar in return for promises of money and a good job. But on December 7th he appeared to reverse his central testimony, replying "yes" when Mr Fernando said to him three times that he had continued visiting the Anwar household between 1992 and 1997 because "Anwar Ibrahim did not sodomise you". Again there were demands that the case be thrown out of court. Two men controversially convicted on September 19th of allowing Mr Anwar to sodomise them, Sukma Darmawan and Munawar Anees, were appealing the verdicts and their six-month sentences, claiming false confessions had been extracted by police under duress.

—and then reiterates it

While Mr Paul initially ruled in favour of a defence request for permission to initiate impeachment proceedings against Mr Azizan on the grounds that he had given contradictory testimony, on December 10th he threw out the disqualification petition, saying it would be "meaningless" to proceed with it. Later that day, while being questioned by prosecution lawyers, Mr Azizan said he had indeed been sodomised by Mr Anwar in 1992, and had misunderstood the crucial question put to him by Mr Fernando three days earlier. He also recounted lurid details of the alleged relationship, including a three-way sexual encounter involving Mr Sukma, Mr Anwar's Indonesian-born adopted brother.

The judge again rebukes an insistent defence counsel

On December 15th Mr Fernando read out sections of an affidavit that had been filed by Mr Munawar, a Pakistani and former speechwriter for Mr Anwar, in support of his appeal against the September conviction. In the document, Mr Munawar described having been stripped naked in custody, handcuffed, blindfolded, beaten and repeatedly interrogated prior to his "confession". As Mr Fernando proceeded to cross-examine a prosecution witness, Musa Hassan, a senior police officer, asking him if it was true Mr Munawar had said he never had a homosexual relationship with Mr Anwar, Mr Paul interjected, dismissing the question as an "absolute waste of time". He was unmoved by protests from the defence that it was seeking to establish *male fide.*

A witness who accuses Mr Anwar of adultery—

Ms Ummi testified that she had written to Dr Mahathir accusing Mr Anwar of having an affair with her brother's wife, Shamsidar Taharin, and attached Mr Azizan's statement containing the sodomy allegations. She said she had asked the prime minister to investigate the claims, and to mete out the "appropriate punishment" if they were found to be true. Her main motivation had been to "save" her brother, Mr Azmin, because he had been "betrayed" by Mr Anwar. She also described her subsequent arrest and intimidation by Special Branch interrogators, during which she agreed to retract the claims.

—denies having been in love with him—

Under cross-examination, Ms Ummi dismissed suggestions that her allegation of adultery against Mr Anwar was motivated by rejection or jealousy, denying that she had been in love him and had written him love letters. While admitting having carried a photograph of him in her handbag, she rejected a defence assertion that she had shown it to friends, telling them, "If I cannot have him, nobody can." Ms Ummi conceded that she had been disowned by her father for accusing Mr Anwar, but claimed he had been "bribed" by her brother to do so.

—as admissions she met UMNO figures he disdained—

She also acknowledged having met the previous month with Ghafar Baba and Rahim Tamby Chik, two former high-flying politicians close to Dr Mahathir. Mr Anwar replaced Mr Ghafar as deputy president of UMNO in 1993, and unsuccessfully pressed the following year for statutory rape charges to be brought against Mr Rahim, the then leader of the party's powerful youth wing. Ms Ummi also admitted having met Mr Daim, one of Dr Mahathir's closest confidants, before writing to the prime minister. Mr Daim's recall to the cabinet last June as special functions minister responsible for economic policy had rendered Mr Anwar all but redundant as finance minister.

—lead the defence to offer evidence of her involvement in a high-level plot—

On December 23rd Mr Paul banned the publication of details of an alleged telephone conversation between Ms Ummi and Sng Chee Hua, a businessman and member of the Sarawak state legislature. Mr Anwar's lawyers said the contents of the conversation strongly supported their conspiracy assertion. Earlier, as the defence counsel Gurbachan Singh read extracts of what he said was a transcript of the conversation to Ms Ummi, she initially denied it had taken place, and then claimed she could not recall the supposed exchanges from which he cited. When Mr Gurbachan asked to play what he said was a tape recording of the conversation, Mr Paul, following interjections from the prosecution, said he first needed time to "consider the legal implications of the evidence".

—which the judge rules inadmissible

The following day he rebuked the defence team for seeking to tender the recording as evidence, describing the move as "embarking on an adventure" and "a waste of judiciary time". The judge said he would not admit it until its "maker"—whose identity was still unclear—had attested to its authenticity in court. But he agreed to grant Mr Anwar's lawyers more time to examine the recording and question Mr Sng. Mr Paul dismissed a request from the lead defence counsel, Raja Aziz Addruse, that he condemn the police for having summoned Mr Sng for questioning after the previous day's proceedings. Mr Sng had been called to Kuala Lumpur's central police headquarters by Musa Hassan, a deputy director of the Criminal Investigation Department, and a prosecution witness. On December 29th Mr Paul ruled that the recording would not be admitted as evidence because he doubted its authenticity. But Mr Anwar's lawyers subsequently said they would be seeking to impeach

Ms Ummi, claiming the contents of the recording materially contradicted her testimony.

Official acknowledgement that Mr Anwar was beaten in custody—

On January 5th Mr Mohtar, the attorney-general, admitted that the police were responsible for injuries sustained in custody by Mr Anwar, but said an ongoing investigation had not identified the culprits. That claim provoked howls of derision from sceptics. There had already been much criticism, not least from Mr Anwar's wife, Wan Azizah Wan Ismail, of the delay in releasing the results of a probe, which were submitted to Mr Mohtar's office on November 19th. Mr Anwar had a black eye and bruised arms when brought to court for arraignment on September 29th. He had lodged a formal complaint, alleging that shortly after his arrest nine days earlier he had been handcuffed and blindfolded, then punched around the face and body, almost losing consciousness. Speculation by Dr Mahathir at the time that the injuries might have been self-inflicted reinforced the outrage being expressed across Malaysia and around the world at Mr Anwar's apparent ill-treatment.

—forces the resignation of the country's police chief

On January 7th Rahim Noor, the inspector-general of police, announced his resignation, saying he took "full responsibility" for the injuries. He had been under intense pressure from opposition politicians and human rights activists to resign following Mr Mohtar's admission, and was widely rumoured to have personally participated in the beating. The following day one of Mr Anwar's lawyers, Karpal Singh, filed a civil suit on behalf of his client seeking damages from, among others, Mr Rahim and Dr Mahathir, who, as home minister, was in charge of the police. Mr Karpal, the deputy leader of the opposition Democratic Action Party, also urged the prime minister to step down "before things get worse for him".

Four corruption charges are controversially amended

On January 13th Mr Paul declared that he was granting a request by lawyers prosecuting Mr Anwar to amend the four corruption charges which were being heard. In essence, the amendments shifted the emphasis of the charges from sexual misconduct to abuse of power. This meant that the prosecution did not have to prove that Mr Anwar had committed sodomy or adultery, only that he used his position to quash police investigations. While prosecutors insisted that the central allegation of corruption underlying the charges remained unchanged, defence lawyers contended that the amendments were prejudicial to Mr Anwar. Other lawyers agreed, concluding that the prosecution had moved to seek the changes because it was having difficulty proving the allegations of sexual misconduct. On January 14th Mr Paul duly ruled that all evidence related to such allegations was "irrelevant", decreeing that it be expunged from the court record. In the light of the amendments, he agreed to adjourn the trial for 12 days to allow the defence to review a planned submission summarising the evidence presented.

On January 16th the Court of Appeals rejected a plea for Mr Anwar to be released on bail, upholding the High Court's dismissal of an earlier request. In early October Mr Augustine had determined that Mr Anwar could seek to influence witnesses if freed.

**The conduct of the trial fuels popular discontent—**

Opinion polls conducted by the government shortly after Mr Anwar's dismissal on September 2nd last year indicated that many Malaysians disapproved of the move, seeing it as an unjust and poorly disguised attempt by Dr Mahathir to rid himself of a popular and ambitious rival. As the trial progressed, offering unprecedented and unedifying insights into the workings of the government and its institutions—and those of a patently less than independent judiciary—the disaffection deepened and spread.

**—even though street protests fade**

Officials tended to seek comfort wherever they could, inevitably claiming that the dwindling crowds of Anwar loyalists and others demonstrating on the streets of Kuala Lumpur was evidence that most Malaysians were coming around to Dr Mahathir's point of view, and that most still supported him. The protests, triggered by Mr Anwar's sacking, petered out altogether by the end of 1998. That they did so had much to do with police heavy-handedness—the routinely forceful break-up of such gatherings and the arrest and beating of many of the participants. The weight of official propaganda in the tightly controlled local media was also a factor. Considerable space and air time were given to those who maintained that "mob rule" was threatening to destroy the country's peace and prosperity.

**Mr Anwar's wife sets up a justice movement—**

But the discontent was being channelled in other, potentially more telling directions. On December 10th Wan Azizah announced the creation of a Social Justice Movement, with herself as its acting president and a string of local luminaries, many of them previously supportive of the government, among its leadership. Mr Anwar's wife said the movement, usually referred to by its Bahasa acronym ADIL, would be campaigning for human rights and the evolution of a "democratic culture". It was not, she insisted, a "springboard for establishing a political party". Government officials predictably argued otherwise, characterising it as a political movement masquerading, with sinister intent, as a non-governmental organisation.

**—as Malays abandon UMNO for PAS—**

Doubtless the biggest beneficiary was the opposition Parti Islam Sa-Malaysia (PAS), the country's second largest Malay-based party, which claimed to be winning over thousands of disgruntled UMNO members. The growing appeal of PAS, which controls the north-eastern state of Kelantan—the only state in the country not run by an UMNO-led coalition—was largely attributable to sympathy for the plight of Mr Anwar, whose Islamist credentials had been much in evidence during his brief period of freedom after being fired. It was also symptomatic of a more general, long-simmering concern over the perceived secularism of the government, and the supposed abuses this engendered.

**—to the dismay of Dr Mahathir, who appeals for loyalty—**

The accelerating rate of defections from UMNO, and the ominous implications for him as its president, were clearly uppermost in Dr Mahathir's mind at a special meeting of party stalwarts in Kuala Lumpur on December 13th. During a sometimes emotional 30-minute speech, he appealed to the 1,900 assembled delegates to close ranks behind him, warning that failure to do so could result in the disintegration of the party, and even anarchy. Once it had chosen its leader, the party should give him full support, Dr Mahathir argued, maintaining that loyalty was not to the person, but to the post. The rallying cry was familiar, but the muted applause contrasted sharply with the far more effusive receptions at earlier such gatherings, including the party's annual general assembly last June.

—blaming outsiders for the country's economic woes—

Dr Mahathir dwelt at length on another, usually unifying theme: supposed external threats. He lashed out at US-based hedge fund founder George Soros—whom he has repeatedly said should shoulder much of the blame for Asia's financial crisis—calling him "extremely insolent". Ten days earlier Mr Soros had told a Washington audience that Dr Mahathir "needs to be removed from power" because his policies were essentially designed to keep himself in office and "bail out his cronies". He had also called for the release of Mr Anwar. The prime minister criticised the IMF, whose prescription of tight monetary and fiscal policies he says aggravates rather than attenuates the crises in Asia, and inspired Mr Anwar while he was finance minister. (On December 9th, after a two-day debate, Malaysia's upper house of parliament, the Dewan Negara, passed a motion calling for the resignation of the IMF's managing director, Michel Camdessus.)

—and its political ferment

Dr Mahathir brought his two main themes, the need for UMNO unity and the external threats to it, together. He painted Mr Anwar, albeit without mentioning him by name, as the thwarted "stooge" of frustrated "foreign powers" seeking to "recolonise" Malaysia.

Washington's declaration of support for the pro-reform lobby—

These comments were followed by an unequivocal expression of support for the Anwar lobby by the US vice-president, Al Gore, a month earlier. On November 16th, while in Kuala Lumpur for the annual summit of the Asia-Pacific Economic Co-operation (APEC) forum, Mr Gore told a dinner audience, which included Dr Mahathir, that "democracies have done better in coping with economic crisis than nations where freedom is suppressed", and that "among nations suffering economic crisis, we continue to hear calls for democracy ... we hear them today—right here, right now—among the brave people of Malaysia". The remarks, later endorsed by the US president, Bill Clinton, drew quick and furious reactions from Malaysian politicians and business executives attending the dinner, which Mr Gore left immediately after speaking. They variously described it as "disgusting", "arrogant", "insensitive" and "an assault on Asian values".

—prompts a hostile official response—

A more considered, but no less vehement response came in a statement the following day attributed to the then foreign minister, Abdullah Badawi: "Malaysia finds the incitement by the US government to lawlessness by certain elements within the country to use undemocratic means in order to overthrow a constitutionally elected government, most abhorrent. The action by the US patently is not to advance the cause of democracy and the rule of law, but to serve its own narrow political agenda."

Several APEC leaders criticised the public nature of Mr Gore's rebuke, even if many of them, particularly those from the West, agreed with the message itself, and conveyed as much to Dr Mahathir in private. The Philippines president, Joseph Estrada, and the foreign ministers of Canada and Australia, Lloyd Axworthy and Alexander Downer, ignored official warnings not to interfere in

Malaysia's internal affairs by meeting Wan Azizah while in Kuala Lumpur, as did the US secretary of state, Madeline Albright, who reportedly expressed sympathy over the "appalling" treatment of Wan Azizah's husband.

—and an outpouring of popular indignation—

But it was Mr Gore's speech that galvanised many Malaysians, triggering a long torrent of national indignation. Effigies of Mr Gore were burnt during anti-American rallies, the telephone switchboard at the US embassy in Kuala Lumpur was jammed by angry and abusive callers, letters poured into newspapers from outraged readers, and a local finance company gave out miniature Malaysian flags which flew on thousands of cars around the capital. The government, for its part, launched a nationwide "Outpouring Of Feelings" campaign to "allow the public to vent its frustration".

—that is further stoked by the US-led bombardment of Iraq—

There were further denunciations of Washington after the US and UK air strikes against Iraq began in mid-December, and pointed references to the "coincidence" between them and the imminent vote by the US House of Representatives on Mr Clinton's impeachment. On December 19th Dr Mahathir portrayed himself and Iraq's president as fellow targets of American aggression: "In Iraq, they want Saddam Hussein out, and in Malaysia, they want me out," he said.

—putting opposition groups on the spot

The following day Wan Azizah, while responding to reporters' questions after submitting an application to register ADIL, likewise condemned the air strikes on Iraq, as did the leaders of other reformist groups and opposition parties. But they warned against equating condemnation of Washington with support for Dr Mahathir, as some in the government, keen to extract as much mileage as possible from the prevailing anti-American mood, had done. Indeed the force of the popular backlash against Mr Gore's speech in particular dampened the appeal of ADIL and allied movements. There were even rumours that Mr Anwar's supporters were being funded by the US Central Intelligence Agency. But, as the DAP chairman, Lim Kit Siang, pointed out: "We are not only against American aggression but also against local authoritarian violence against our own people." Dr Mahathir, he pointedly claimed, would be the first to agree that Americans who opposed Mr Clinton's decision to bomb Iraq were "disloyal, unpatriotic and committing treason".

Yet mounting pressure, not least from within UMNO—

Indeed the pressure on Dr Mahathir continued to build, much of it fuelled by a generalised dissatisfaction over the conduct of Mr Anwar's trial and the confirmation that he had been beaten in custody. Although the upper echelons of UMNO appeared to have closed ranks behind the prime minister immediately after Mr Anwar's ouster, senior party figures were feeling the heat from grassroots members, many of whom were making their discontent abundantly clear. There was also the burning issue of Dr Mahathir's succession. After firing Mr Anwar, he had been reluctant to name a new deputy premier, saying the void could be filled when UMNO chose a deputy president—another post held by Mr Anwar—at its next triennial leadership elections, scheduled for June 1999. Nevertheless, the calls within the party for him to appoint a deputy became ever more strident.

—pushes Dr Mahathir to appoint a deputy premier—

On January 8th Dr Mahathir answered this and other demands, naming Mr Abdullah as the deputy prime minister, and relinquishing two cabinet portfolios—home affairs and finance—as part of a wide-ranging government reshuffle. Although nominally diluting his authority, the moves seemed deliberately designed to reinforce it, and to temper mounting criticism of his leadership.

—who is seen as less than forceful—

Mr Abdullah, who is one of UMNO's three vice-presidents, was also appointed home minister, a key portfolio held by Dr Mahathir for much of his 18 years as premier, but which he had been under strong pressure to surrender following the attorney-general's confirmation of the police assault on Mr Anwar. While affable and popular, Mr Abdullah was generally deemed to be too unassuming and too staunch a Mahathir loyalist to assert himself at the prime minister's expense in either of his new roles. That was also the case during his tenure at the foreign ministry, whose often controversial policies have long been dictated by the outspoken and forceful premier. The new foreign minister, Syed Hamid Albar, who previously held the defence portfolio, was likewise reputed for his subservience to Dr Mahathir.

—and a new finance minister—

Dr Mahathir relinquished the post of first finance minister—to which he appointed himself just after Mr Anwar's removal—to Daim Zainuddin, who since June had been back in the cabinet as special functions minister in charge of economic policy. As finance minister from 1984 to 1991, Mr Daim was widely credited with having steered Malaysia out of its last recession in the mid-1980s. In January 1998 Dr Mahathir named him head of the National Economic Action Council, a high-powered body charged with the task of charting a course out of the latest downturn. His return to the cabinet in mid-1998, as relations between Dr Mahathir and Mr Anwar soured irretrievably, resulted in the prompt abandonment of IMF-style austerity.

—who shares the prime minister's controversial views on the economy

Mr Daim, who is also UMNO's long-time treasurer, was not only the architect of the easy-credit, heavy-spending strategy that helped yield years of rapid economic growth, but also the force behind a large-scale privatisation drive that transformed hand-picked associates into hugely wealthy entrepreneurs. Most have been hard-hit by the recession, but both Mr Daim and Dr Mahathir have controversially insisted that their survival is crucial to the recovery of the broader economy. The result has been a series of costly and unpopular officially orchestrated bailouts of favoured businesses and executives. The cabinet reshuffle also saw the demotion of a number of deputy ministers perceived to be sympathetic to Mr Anwar.

Elections for UMNO's leadership posts are postponed

Invoking a clause inserted into UMNO's constitution just three weeks earlier, Dr Mahathir decreed that the traditionally triennial vote for the party's top office-bearers, previously scheduled for June, was being put off until after the next general election, which must be held by May 2000. The postponement was obviously motivated by concern about his own position as UMNO president—the post which, by convention, entitles its holder to the premiership. The deferral of the party balloting was designed to preclude a formal challenge to his position for at least 18 months.

## Economic policy and the economy

GDP shrinks for the third successive quarter—

Real GDP contracted by a worse than expected 8.6% year on year in July-September 1998, the Bank Negara Malaysia (the central bank) revealed in late November, while claiming the recession had bottomed out and predicting the economy would expand slightly in 1999. The decline in output was the third consecutive quarterly contraction (-6.8% in April-June and -2.8% in January-March). As a result, output fell by 6.1% year on year in the first three quarters of 1998. The key manufacturing and construction sectors, which have borne the brunt of the recession, were again hard hit in the third quarter, recording year-on-year declines in output of 14.3% and 28.2% respectively. Agricultural production fell by 3.2%. The mining and services sectors expanded by 1.7% and 1.2% respectively.

—as investors become increasingly wary—

Investor sentiment has remained cautious. The value of approved manufacturing investments and sales of commercial vehicles were up by 65% (to M$6.6bn, or US$1.7bn) and 18.4% on the second quarter. But annualised credit growth in the manufacturing and construction sectors slipped to 10.2% and 10.9% at end-September, from 12.3% and 18.8% at end-June. Moreover, imports of capital and intermediate goods, measured in US dollars, fell by 41.9% and 23.1% year on year in July-September, having dropped by 55.8% and 26.3% in April-June. According to the independent Malaysian Institute of Economic Research, the value of proposed investments in the manufacturing sector fell by 57% year on year during the same period, with proposals by local and foreign investors dropping by 72% and 28% respectively.

—and domestic and external demand more subdued

Domestic demand was likewise subdued. While sales of passenger cars were 33% higher than in the second quarter, the annualised increase in spending by credit-card holders slipped to 5.4% at end-September, from 17.5% at end-June, and imports of consumer goods, in dollar terms, fell by 35.7% year on year in July-September. External demand also remained relatively slack. While the ringgit value of exports rose by 30.4% year on year in July-September, in US dollar terms they continued to fall, with sales of manufactured goods and commodities dropping by 11% and 10% respectively, partly owing to weaker international prices. The further improvement in the trade surplus, which amounted to M$38.7bn for the first nine months, essentially derived from a slowdown in imports, which in dollar terms dropped by 29.3% year on year in the third quarter. The inflation and unemployment rates, at 5.7% and 3.3% respectively at end-September, were unchanged from end-June.

The authorities say capital controls are spurring a recovery—

Bank Negara stressed that despite the steep year-on-year decline in output in July-September, third-quarter GDP was 2.3% higher than in the second quarter. It said this presaged a smaller contraction in the fourth quarter and a return to positive, albeit modest, growth in 1999. The central bank attributed the expected improvement to the reflationary strategy embraced since mid-year, on-going official efforts to sanitise the banking system and the corporate sector; and the introduction in early September of capital controls and the fixing of the exchange rate at M$3.8:US$1 (4th quarter 1998, pages 17-20).

*—and will stay until international short-term flows are regulated—*

The government continued to insist that the controls would remain in place until the international community took concrete steps to regulate the short-term capital flows it held responsible for the economic crisis. Officials said they were unimpressed by what they saw as a vague pledge by leaders of the G7 industrialised countries in late October to work towards tighter supervision of hedge funds, investment banks and offshore institutions. The mid-November decision by APEC leaders to ask the G22, which comprises developed and emerging economies, to propose ways of strengthening the international financial system was likewise dismissed as an abdication of responsibility. Daim Zainuddin, the new finance minister, characterised statements made on the issue at international forums as "long on waffle and short on substance".

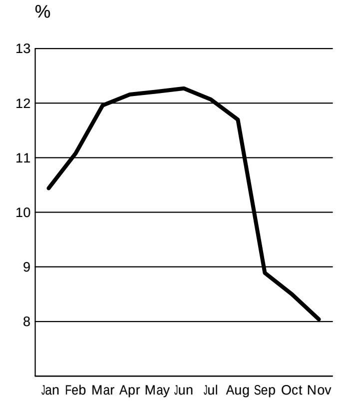
*—ideally by strict supervision of "speculators"*

Dr Mahathir demanded specific curbs, including limits on the amount banks lend for currency trading; ceilings, set as a percentage of individual countries' exports and imports, on the amount their domestic financial institutions use for currency trading; timeframes for the settlement of foreign-exchange contracts; and fixed parameters governing exchange-rate fluctuations. He was also the staunchest and most defiant defender of Malaysia's capital controls, declaring that his compatriots preferred to be "heretics" of the "religious creed represented by the free market" than "colonised by speculators".

*Foreign investors remain concerned about Malaysia's own restrictions*

He also reiterated that the controls were not intended to hamper long-term direct investors. However, a survey conducted in November at the government's request by the US-ASEAN Business Council of 33 Fortune 500 companies with operations in Malaysia concluded otherwise: "The primary message from this survey is that the benefit of short-term stability brought by the controls may be outweighed by investors' long-term loss of confidence, and uncertainty regarding the business environment."

**Malaysia: interest rates, 1998**




Source: Bank Negara Malaysia.

IMF officials echoed this view. Indeed the Fund remained highly critical of the curbs, arguing that they could delay the implementation of much-needed structural reforms, notably in the corporate and financial sectors. It warned that the positive impact of the fiscal stimulus and bank recapitalisation initiatives could be constrained by a controls-induced shortage of external financing, adding that the beneficial effects of the government's attempts to push down interest rates were limited by the collapse of investment spending and demand for credit generally, and that artificially low borrowing costs would hinder rather than encourage corporate restructuring. The IMF maintained that the curbs and the exchange-rate peg underpinning them restricted the capacity of the country's policymakers to respond to declines in export demand and prices. In early December a senior Fund official told local business executives that recent leadership changes—a clear reference to the sacking of Mr Anwar—had "contributed to perceptions of policy unpredictability and high country risk".

*A modification of the pegged exchange rate is ruled out—*

There were also calls for a modification of the M$3.8:US$1 exchange rate as other regional currencies, including the Japanese yen, Indonesian rupiah, Thai baht and Philippine peso, appreciated towards the end of 1998. On November 2nd a Bank Negara adviser, Nor Mohamed Yakcop, publicly suggested that an exchange rate of M$3.5:US$1 would be more appropriate in the circumstances, and would help to lower the cost of imports on which the economy is heavily dependent. But other officials insisted that no change was imminent, arguing that the strengthening of the currencies of key commercial rivals was essentially deflation-induced, could be reversed given the continuing volatility of markets, and had no significant impact on Malaysia's competitiveness. They argued that the need for the certainty and confidence afforded by the stability of the exchange rate was of paramount importance. On December 12th Dr Mahathir promised the rate would remain unchanged for a "long, long time".

—but a "review" of a key capital control is promised

During a meeting in Kuala Lumpur the previous day with Hong Kong and Singapore-based fund managers, Dr Mahathir indicated that he was willing to review the one-year ban on foreigners repatriating their investments in Malaysian securities. The prohibition on the withdrawal of the principal of foreign portfolio investments was one of the most controversial elements of the capital controls, because it trapped US$10bn worth of overseas funds in the stockmarket and discouraged further investment from abroad. Dr Mahathir told the fund managers that he would consider less drastic alternatives, such as an exit tax on monies repatriated prior to the deadline. Later in December Mr Daim said the government was hoping to relax the restriction as soon as possible.

Pledges to source locally most of the financing needed for revival—

On January 10th the strategy-shaping National Economic Action Council (NEAC) issued a statement estimating the cost of the 1998-2000 economic recovery plan at M$62bn: M$26bn to plug the 1998 and 1999 budget deficits; M$31bn to rehabilitate the financial sector; and M$5bn for infrastructure development. Rejecting suggestions that the government would be unable to raise the full amount, it said a comprehensive financial package had been formulated, "judiciously framed to ensure that funds are obtained from the cheapest sources, are non-inflationary and that local private firms are not deprived of investment funds". Two-thirds of the money would be raised locally, mainly via borrowing from government-controlled institutions, including the Employees Provident Fund (EPF), the hydrocarbons corporation, Petroliam Nasional, and the Social Security Organisation.

—reinforces concerns that pension fund money is being misspent

The EPF, a compulsory national pension scheme, has assets of about M$140bn and some 8m members, more than half of which are salaried workers whose monthly contribution of 11% of their income is matched by a 12% payment from employers. In recent months there has been strong criticism of some of the uses to which these contributions have been put, and even speculation about possible cash-flow problems arising from less than successful investments. The EPF is a major player in the local stockmarket, and cannot have emerged unscathed from the 1998 meltdown. On December 21st its executive chairman, Sallehuddin Mohamed, issued what many saw as a less than reassuring statement in response to the criticisms, which said that "concerns regarding the EPF's liquidity, safety of funds, investments and returns should not arise", and that "fundamentally, the EPF is financially strong, subscribes to prudent investment policies and is committed to ensuring that members' savings achieve reasonable yields". The statement concluded by pointing out that the EPF was obliged by law to subscribe to new government securities issues.

**Funds are raised from locally based foreign banks—**

Loan agreements worth the equivalent of US$1.35bn concluded on December 29th with 12 locally incorporated foreign banks were categorised by the NEAC as “domestic” financing. Denominated in dollars and yen, and carrying a modest 3 percentage point premium over the London Interbank Offered Rate (Libor), the five-year loans were expected to be fully drawn down by early January. The creditor institutions included the local operations of the Hongkong and Shanghai Banking Corporation, Standard Chartered, Citibank, the Bank of Nova Scotia, ABN Ambro, Bank of America, Bank of Tokyo, Chase Manhattan and Deutsche Bank.

**—the Tokyo bond market—**

As expected, Japan has emerged as the main source of external funding, much of it under the so-called Miyazawa Plan, a US$30bn aid plan for crisis-stricken Asian countries unveiled in October by the Japanese finance minister, Kiichi Miyazawa. On December 11th a five-year Malaysian government bond issue, 90% guaranteed by Japan’s Ministry of International Trade and Industry, sold out to institutional investors on the Tokyo capital market, generating ¥74bn (M$2.43bn). A second finance minister, Mustapa Mohamed, claimed it was the first time one country had availed itself of another’s sovereignty to raise commercial funds internationally. The main motivation was Japan’s significantly more attractive credit rating.

**—and the Japanese government**

On December 15th Japan’s Ministry of Finance announced the availability of low-cost long-term loans of up to ¥117bn (M$3.85bn). A week later Mr Mustapa said the government was seeking an additional US$5bn from Tokyo’s Overseas Economic Cooperation Fund, whose credits carry interest rates of 0.75-1.7% annually and are repayable in 25-40 years. Unlike the proceeds from the bond issue, which Kuala Lumpur was entitled to use as it pleased, these loans were designated for specific infrastructural, industrial and environmental projects. But in a mid-January interview with a Japanese newspaper, Dr Mahathir displayed a clear partiality for untied credits, complaining that Tokyo’s vetting procedures were excessively rigorous and were delaying the disbursement of badly needed funds. The NEAC statement said an agreement providing for a US$500m loan from Japan’s Export-Import Bank would be signed “soon”.

**The World Bank is less indulgent—**

The NEAC said that the government would also continue to tap traditional multilateral sources “as these offer funds at relatively low rates”, adding that a total of US$1.1bn was expected from the World Bank, the Asian Development Bank and Islamic Development Bank. In early December Mr Mustapa revealed that the government had requested US$2bn from the World Bank in July, but subsequently admitted it had “not had much success” in its discussions with multilateral lenders. The World Bank said in late September that Malaysia’s imposition of capital controls had “disrupted” its plans to lend to the country. The sacking and arrest of Mr Anwar, who is highly regarded by the Washington-based institution, is also believed to have been a factor in that decision.

**—and an offer from Singapore is spurned—**

In mid-December 1998, as the Japanese commitments were being finalised, Dr Mahathir said the government would not be taking up an offer of US$4bn in loans from neighbouring Singapore. Early in the previous month, following a meeting in Kuala Lumpur with his Singaporean counterpart, Goh Chok Tong, the prime minister had indicated such a package was being negotiated, adding that it was linked to a draft deal providing for the extension of a long-term pact under which Malaysia supplies water to the city-state. The change of mind reflected not only the availability of more substantial and cheaper credit from Japan, but also Malaysia's perennially strained ties with its southern neighbour.

—while the gradings of ratings agencies are slammed as unjust

Insisting that the government had little difficulty putting together its financing package, the NEAC criticised the international credit rating agencies. The attractive pricing of the Tokyo bond issue and of the US$1.35bn from locally incorporated foreign banks, equivalent to ratings of AAA and AA respectively, indicated that recent downgrades by agencies such as Standard & Poor's (S&P) and Moody's were unjustified, it said. Officials had been roundly condemning the agencies since they cut Malaysia's sovereign risk ratings to junk status following its imposition of capital controls. During the APEC summit Dr Mahathir called their reporting "negative and biased", and prevailed on his fellow leaders to include a clause in the meeting's final communiqué urging the agencies to "review" their practices. But the agencies were unmoved. S&P said in late December it was maintaining Malaysia's key long-term foreign-currency rating at BBB- and its outlook at "negative", reflecting the "higher uncertainty about the direction of economic policy".

## Banking and finance

The authorities say the sector is in reasonable health—

Government and Bank Negara officials continue to insist that a strengthening of the financial system is crucial to the recovery of the broader economy. The requisite restructuring of the sector was being carried out, they said, claiming the reservations expressed on this score by the IMF and others were misplaced and unjust. The central bank cited the decline in net non-performing loans (NPLs) to M$51.8bn (US$13.6bn), or 8.1% of total loans, at end-September 1998, from 8.9% at end-June, as indicative of an improving performance. But the classification was on the six-month arrears basis to which the authorities had reverted in September. On a three-month basis, the international standard, gross NPLs had risen from 12.6% to 17.8%.

—that its bad debts are being purged—

In its report on economic developments during the third quarter of 1998, released in late November, Bank Negara also highlighted the achievements of the three recently established agencies operating under its auspices (4th quarter 1998, pages 23-24): Pengurusan Danaharta Nasional had signed conditional agreements with 13 banks to buy NPLs worth M$18.8bn, supposedly equivalent to 36% of the system's bad debts; Danamodal Nasional had injected M$4.6bn into nine undercapitalised banks; and the so-called Corporate Debt Restructuring Committee (CDRC) had been asked to help organise the repayment of loans amounting to M$9.4bn.

—and a consolidation plan is under way—

On December 1st a Singapore newspaper quoted an official of the NEAC as saying that the authorities were devising a consolidation programme aimed at reducing by half the number of commercial and merchant banks. There are currently 35 such institutions in Malaysia. Asgari Stephens said troubled government banks would be the "first to go", followed by "banks which are gone cases", then "large but weak" Chinese-owned institutions. Smaller banks would be encouraged to merge with bigger partners. Bank Negara and its recently appointed financial adviser, the US investment bank Salomon Smith Barney, would determine the speed at which restructuring would take place.

A Memorandum of Understanding envisaging an eventual merger between the state-owned Bank Bumiputra and Bank of Commerce, a smaller but stronger private-sector institution, was signed last September (4th quarter 1998, page 24). Bank Simpanan Nasional, the national savings bank, was also negotiating a merger with the more solid Oriental Bank. On December 2nd the governor of Bank Negara, Ali Abul Hassan Sulaiman, revealed that the central bank was preparing a "comprehensive master plan" to "consolidate and rationalise" as well as recapitalise the industry.

—but sceptics warn of more trouble ahead—

Yet claims that the government's strategy was both misguided and insufficiently rigorous persisted. On December 3rd, announcing it was downgrading the ratings of several major Malaysian banks, US-based Moody's Investors Service predicted more trouble ahead. Clearly referring to the currency controls and the pegging of the exchange rate, it declared that while "recent domestic economic measures" would lead to "a temporary period of relief", they would ultimately "result in severe pressure on the banking system". The agency predicted that asset quality would deteriorate even more dramatically "if the banks are used to rescue or support insolvent and ailing commercial borrowers, or if lending is forced to grow at a time of general economic contraction". This was a reference to the official pressure on financial institutions to step up credit approvals, even for speculative investments such as share purchases and property development, and to further reduce lending rates and commission margins (4th quarter 1998, page 25).

—and suggest authorities are still in denial

Moreover, while acknowledging that the ongoing consolidation exercise could yield "fewer, larger, better managed and more prudent banks", Moody's warned that it also constituted "a risk to the stronger banks that are unable to resist forceful government pressure to absorb weaker institutions without adequate indemnities". In addition, the agency said it remained concerned that the government's "estimates of the extent of support needed by the banking system is well below what may realistically be required".

Bank Negara's asset management arm sells bonds to buy bad debts—

At the unveiling of the 1999 budget in parliament last October, Dr Mahathir said that Danaharta, the official asset management company, would need only M$15bn, rather than the previously anticipated M$25bn, to buy up NPLs from banks. On November 20th Danaharta raised some M$700m for the purpose via a government-guaranteed, zero-coupon five-year bond issue to local financial institutions. It said the issue was the first of a series, and that the timing and size of subsequent ones, would be in line with its NPL acquisition process, which it expected to complete by end-1999. A second issue, on December 30th, generated just over M$1.1bn.

—of which there are plenty—

Danaharta was being swamped with requests from banks keen to offload their bad debts. Its managing director, Azman Yahya, revealed in late December that the agency had completed the acquisition of M$1bn in NPLs, at discounts of

40-50%, and was evaluating others totalling M$12.77bn. Danaharta had also assumed responsibility for the “management” of an additional M$7bn-8bn in NPLs from Sime Bank, which was saved from collapse early last year when the central bank prevailed on Rashid Hussain Berhad (RHB), a local financial services group, to merge Sime’s operations with those of its own commercial banking unit. RHB’s willingness to do so had been conditional on the central bank assuming Sime’s substantial bad debts.

—and some more retrievable than others

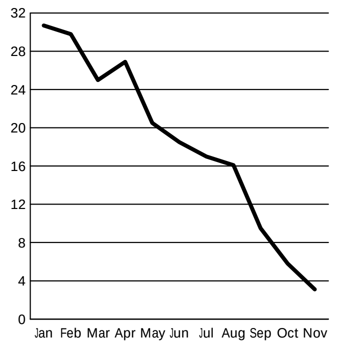
Mr Azman said that the main reason behind most of the problems surrounding the NPLs was that companies were taking out short-term loans for long-term investments, indicating that most afflicted debtors fell into one of three categories: essentially healthy companies facing temporary cash-flow problems whose loans Danaharta would seek to reschedule; viable but poorly run businesses in need of restructuring, such as mergers, and capital injections, whose management would be assumed by Danaharta-appointed special administrators; and the “walking dead”, fit only for liquidation.

Mr Azman indicated that much of the M$5bn in equity accorded to Danaharta by the government, its investment arm, Khazanah Nasional, and the EPF would be used to recapitalise businesses taken over by the agency but unable to obtain credit from the banking system. He said the balance would go towards the purchase of non-performing Islamic assets, which could not legally be bought with the proceeds of conventional bond issues. Such assets accounted for only about 2% of the banking system’s total.

A sharp slowdown in lending—

**Malaysia: loans extended by banking system, 1998**

% change, year on year




Source: Bank Negara Malaysia.

Danamodal, the main bank recapitalisation agency, was also issuing government-guaranteed bonds to help underwrite the cost of its activities. On October 21st it raised M$7.7bn through the sale of five-year paper to 57 locally incorporated banks and finance companies. These institutions paid for it from the proceeds of a recent 2 percentage point reduction (from 6% to 4%) in the statutory reserve requirement (SRR), the proportion of their funds financial institutions must hold interest-free with Bank Negara. The government has estimated that Danamodal will need M$16bn for its recapitalisation exercise.

Despite the salutary operations of Danamodal, Danaharta and the CDRC, as well as the lower interest rates and increased liquidity facilitated by the currency controls and exchange-rate peg, lending remained slack. Not only were many companies and individuals reluctant to borrow, others were unable to secure credit. Business executives claimed that worthwhile investments were having to be shelved for lack of funds, and accused banks and finance companies of being overcautious. The government agreed, with officials arguing that such inflexibility was jeopardising the recovery process. Its forecast of a modest 1% expansion of GDP in 1999 was partly premised on year-to-year lending growth reaching at least 8% in 1998.

—forces the government to scrap its 1998 credit growth target

That target, set only in September, was a long way from being achieved. Loan approvals in January-September 1998 amounted to only M$38.3bn, compared with M$197.8bn in 1997, according to Bank Negara. Subsequent figures indicated a slight, but still unsatisfactory pick-up: monthly disbursements, which had averaged M$4.1bn in January-July, rose to M$5.2bn in August-October;

disbursements in October totalled M$5.9bn, up from only M$2.7bn in March. On November 20th the central bank put further pressure on lending institutions by decreeing that the minimum monthly payment on outstanding credit-card balances be reduced from 15% to 5%. It also ordered banks to set up separate loan rehabilitation departments, a move designed to ensure that staff vetting requests for credit were also not responsible for recovering debts. But a week later Mr Abul finally acknowledged that the 8% growth target would not be met. Officials later estimated credit expansion in 1998 at no more than 3%.

A major financial services group is restructured—

The problems besetting the sector were underscored by a large-scale restructuring at RHB, the country's third largest financial group. Unveiled on November 30th, this was primarily a M$3.3bn recapitalisation forced by heavy losses related to bad loans. It essentially involved Pahang State Economic Development Corporation acquiring a 29% equity interest in the group; Kumpulan Wang Amanah Pencen, a federal government pension trust fund, taking another 11.9%; and Danamodal assuming a 30% stake in the group's commercial banking arm, RHB Bank (on December 24th it was announced that Khazanah, not Danamodal, would be taking up the latter shareholding). The deal also included a revision of the terms under which RHB was to purchase Sime Bank. RHB revealed that it had suffered a net loss of M$936m in the 12 months to end-June, largely as a result of provisioning against bad debts amounting to M$1.3bn. RHB Capital, a subsidiary and the holding company of RHB Bank as well as of a merchant bank and a securities firm, posted a net loss of M$651m, with provisions at M$1.36bn.

—as indebtedness and the recession take their toll

The restructuring resulted in a decline, from 29% to 17%, in the shareholdings of the group chairman, Rashid Hussain, a hitherto highly successful financier who had built his empire out of a modest stockbroking operation. Like other Malaysian entrepreneurs who had expanded aggressively during the boom years, with considerable encouragement and support from the government, Mr Rashid found his position increasingly untenable as the economic crisis deepened. He too had borrowed heavily, pledging shares as collateral, but, as the equity market collapsed, came under increasing pressure from his bankers to provide additional security. A substantial proportion of the funds loaned by the RHB stable of companies similarly turned bad. Mr Rashid's decision in March 1998 to absorb the troubled Sime Bank, which immediately followed the buy-up of Kwong Yik Bank, proved particularly problematic. In October, after he failed to secure the funds needed to recapitalise it, Danamodal agreed to inject the requisite M$1.5bn, thereby diluting his stake (4th quarter 1998, page 24).

Bank Negara assumes control of the biggest finance company—

On January 4th 1999 Bank Negara announced it had taken control of the country's biggest finance company, MBf Finance, which it said was in need of recapitalisation. It subsequently emerged that the company's risk-weighted capital adequacy ratio had dropped to an ominously low 4%. Local analysts estimated the required infusion at up to M$1bn. The central bank sought to reassure anxious customers—and a wider public concerned about the fragility of the financial system generally—by insisting that MBf Finance was solvent, that its deposits were guaranteed by the government, and that the intervention was essentially pre-emptive. There had been a run on the company in September 1997, but the panic abated after similar reassurances by the authorities. Nonetheless that scare, amid mounting uncertainty, was indicative of a flight to quality within the industry. Indeed MBf Finance's health deteriorated rapidly thereafter, as the impact of the economic crisis became increasingly severe. Unaudited results for the six months to end-June 1998 put its NPL ratio at 24.1%, and analysts believed it had risen to some 35% by the time the central bank stepped in. Last November the company negotiated the provisional sale of M$3.9bn in bad debts to Danaharta.

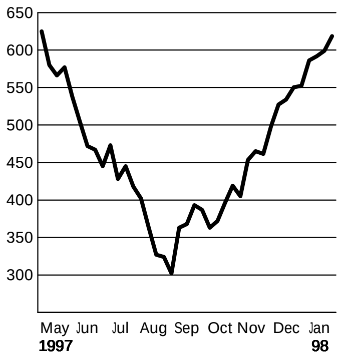
—and asks its shareholders to draw up a recapitalisation plan

Because they have smaller asset bases and are obliged to pay higher returns, finance companies tend to be more vulnerable than commercial banks. They are also more prone to panic withdrawals by depositors, most of whom are individuals with limited savings. Their core business, hire-purchase lending, is fraught with hazards in the current recessionary climate, as evidenced, for example, by the large-scale repossession of motor vehicles from cash-strapped borrowers unable to maintain payments. A family-owned concern, MBf Finance has 153 branches nationwide. Unlike most other finance companies, it does not have the luxury of a potentially supportive affiliation with a banking group. While a share swap deal that would have given the financially sound Bank of Commerce a 37.5% stake was initialled last year, it was scrapped following the central bank takeover. MBf's existing shareholders were expected to be offered the opportunity to arrange the recapitalisation. Bank Negara also assumed control of another finance company, Kewangan Bersatu, on January 4th.

The stockmarket's rebound continues

The improvement in the Kuala Lumpur Stock Exchange (KLSE)'s benchmark composite index, the KLCI, continued. From a low of 262.70 points prior to the imposition of capital controls on September 1st, it rose steadily, amid bouts of profit-taking, to reach 598.97 on January 15th. However, the rally was hardly a reflection of economic or corporate fundamentals. Rather, it was largely spurred by strong buying on the part of government-controlled institutional funds, lower interest rates in the money market and—thanks to the controversial one-year lock-in clause—minimal scope for a confidence-sapping sell-down by foreign investors. Indeed one analyst described the KLSE as a "market flourishing in an oxygen tent".

**Malaysia: equity prices**
Kuala Lumpur composite index




Source: Bloomberg.

Dr Mahathir's December promise to review the lock-in clause, and subsequent statements by senior officials that the government could soon replace it with an exit tax regime, were motivated by a recognition that the KLCI was unlikely to rise much higher without the support of foreign funds. Analysts said an easing of the restriction would result in Malaysia's reincorporation in key global stockmarket indices, from which it was expelled in September, that are tracked by such funds. However, the government's reluctance to repeal the measure swiftly derived from official concern about the risk of a substantial outflow of foreign money from the KLSE.

A new code on mergers and takeovers, imposing stricter disclosure standards, came into effect on January 1st. Devised by the regulatory Securities Commission, it stipulates that minority shareholders be given a prior opportunity to consider the merits of planned mergers to enable them to make informed decisions whether to retain or dispose of their interests. Controversy surrounded a series of sizeable share transactions involving companies with close links to the government that took place following the onset of the economic crisis. Many were considered prejudicial to minority stakeholders. The government announced the same day that it had decided to limit the number of directorships an individual could hold in listed companies to five. Previously there was no limit. Officials said only some 50 individuals were affected by the ruling.

## Agriculture

A new farm strategy is unveiled

The third National Agricultural Policy, which maps out a strategy for the sector to 2010, was approved by the cabinet on December 23rd. Costed at M$32bn (US$8.42bn), with more than two-thirds of the investment expected to come from the private sector, it advocates increased production of cash and food crops, as well as a keener focus on the requirements of both domestic and foreign markets. It also emphasises the need to optimise land utilisation and ease labour shortages through greater mechanisation.

Sliding palm oil output initially boosts prices and export earnings—

According to a statement in late December by the primary industries minister, Lim Keng Yaik, production of palm oil declined to some 8.3m tonnes in 1998, from 9.1m tonnes in 1997, partly owing to drought and the subsequent floods caused by the global weather phenomenon El Niño and its successor La Niña. But he estimated export earnings from palm oil at a record M$21bn, compared with the M$16.5bn forecast last October in the finance ministry's annual economic report and the M$10.8bn achieved in 1997. The improvement was attributed to exchange-rate gains—palm oil is denominated in dollars on the international market—and firmer prices arising from lower output. Malaysia is the world's largest producer of palm oil.

—before foreign buyers switched to cheaper alternatives

Heavier than usual rain during the north-east monsoon season, which runs from November to March, caused significant damage to the oil palm crop in December and January, further undermining output. The resulting surge in already high price levels led to a significant slackening in external demand as major buyers, including India, Pakistan and Egypt, opted for cheaper alternatives, notably soybean oil. This, in turn, forced several Malaysian refineries to suspend operations or cut back production.

Malaysia gives notice of its withdrawal from INRO

In late October Malaysia formally notified the International Natural Rubber Organisation (INRO) that it was withdrawing from the 23-member producer and consumer grouping. The pull-out, which in accordance with INRO's statutes takes effect next October, had long been threatened. Malaysia, the world's third largest rubber producer, is a vocal critic of INRO's failure to shore up the flagging market, claiming its price stabilisation mechanisms unfairly favour buyers at the expense of sellers. Kuala Lumpur's efforts to forge a regional producer's cartel is being hampered by the eagerness of Thailand and Indonesia to cash in on depreciation-driven higher local prices by boosting their exports.

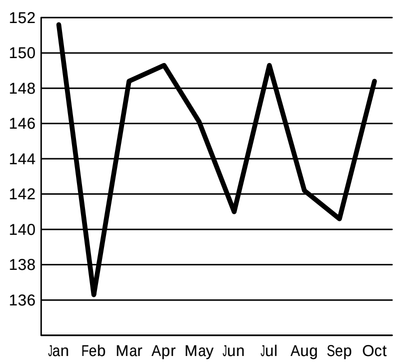
Malaysia's output fell to an officially estimated 900,000 tonnes in 1998, from 971,000 tonnes in 1997, and is expected to decline further this year.

## Industry

Manufacturing production drops significantly—

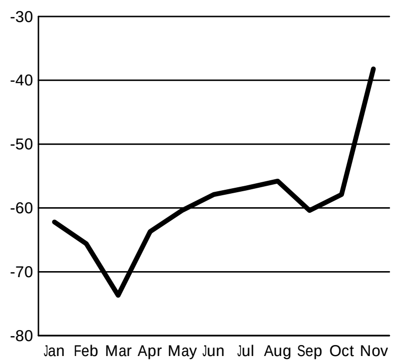
Manufacturing output fell by 9.8% year on year in January-November 1998, according to official data. Only three of the 23 manufacturing subsectors included in the Industrial Production Index (IPI)—rubber products, plastics and clothing—bucked the trend, with increases ranging from a modest 6.7% for rubber goods to just 1% for clothing. By contrast, most of the other 20 categories suffered sharp falls in output. The worst affected were transport equipment (-53.2%), footwear (-38.0%), iron and steel products (-35.6%), non-electrical machinery (-35.1%), glass products (-26.9%) and non-metallic minerals (-26.0%). Month on month, the IPI fell by 4.7% in November—the 11th consecutive decline—suggesting that the recession deepened in the fourth quarter of last year. The drop in industrial output in 1998 was the first since 1989.

**Malaysia: industrial production, 1998**
1993=100




Source: Bank Negara Malaysia.

**Malaysia: sales of passenger cars, 1998**
% change, year on year




Source: Bank Negara Malaysia.

—with the vehicle industry worst affected—

According to the industry minister, Rafidah Aziz, the slump in output experienced by the poorest performer, the transport equipment subsector, derived essentially from a recession-induced slackening of domestic demand for locally produced motor vehicles. Total motor vehicle sales amounted to just 104,593 units in January-September 1998, compared with 404,937 units in the same period of 1997 and 364,788 units in 1996. Production slumped correspondingly, to 112,821 units, from 458,291 units and 384,637 units respectively. Although sales picked up in the latter part of the year, rising from 12,883 units in September to 14,232 in October and 19,081 in November—compared with a nine-year low of 6,872 in February—the improvement was primarily due to lower interest rates and the government's decision to increase the credit limit on car purchases.

—as underlined by losses at Proton—

The main company affected by the downturn was the national carmaker, Perusahaan Otomobil Nasional (Proton). It suffered a pretax loss of M$82.2m (US$21.6bn) in the six months to end-September, having posted a net profit of M$644.5m in the corresponding period of 1997. Turnover slumped by 55.3%

to M$1.69bn, with passenger car sales falling sharply to 44,261 units, from 105,778 units. The company said the poor results were due in no small measure to the depreciation of the ringgit, which inflated the cost of imported components and parts, notably from Japan, the main external source.

—and talk of a possible buy-in by Petronas

The depth of Proton's problems was underlined late last year when it emerged that Petronas, the state oil and gas corporation, had begun negotiations on a possible purchase of the 27.2% stake in the carmaker held by Hicom, a major holding company with diverse interests. Dr Mahathir, the driving force behind the launch of Proton in the early 1980s, said such a buy-in was desirable, conceding that the company required considerable funds and the government itself could no longer afford to support it. But subsequent reports in the local press, citing sources close to Proton, suggested that the negotiations were making little progress. Proton's other main shareholders are Khazanah Nasional, the finance ministry's investment arm (16.8%) and Mitsubishi of Japan (16.1%).

Electronics exports are down and the future seems bleak—

The electronics industry, which accounts for one-third of the IPI's weighting and generates more than 50% of Malaysia's foreign-exchange earnings, was also hit by declining demand. Local analysts estimated that exports of semiconductors, the industry's backbone, dipped by 1% in dollar terms last year, following 2.7% growth in 1997. The outlook is less than encouraging. The US Semiconductor Industry Association forecast in late December that global demand would rise by 9.1% this year, after contracting by 10.9% in 1998. But other surveys suggested that following a surge in 1999 on large-scale buying to replace ageing equipment unable to handle the year-2000 date change, computer sales worldwide could drop dramatically thereafter.

—not least because of low value addition locally

Moreover, although Malaysia is the world's fourth largest semiconductor manufacturer, it is by and large a labour-intensive assembler, subcontracted by foreign multinationals, of imported components for the lower end of the international market. Government officials acknowledge that this is not an enviable status, not least because of the uncertain outlook. Omar Abdul Rahman, Dr Mahathir's adviser on scientific matters, told a November conference in Kuala Lumpur that Malaysia could boost overall export earnings by up to M$60bn annually by establishing its own microchip design industry. He was echoing a warning issued repeatedly by others, including Ms Rafidah. However, while the electronics industry elsewhere advances at bewildering speed, Malaysia is making no significant progress up the value chain.

Foreign investment applications fall sharply—

Evidence continues to surface that foreign direct investors, who are responsible for much of the rapid expansion in manufacturing output in recent years, are now warier than ever. According to Ms Rafidah, they accounted for M$6.8bn out of a total of M$11.95bn in investment applications received by the Ministry of Industry in January-September 1998. But the latter figure was sharply lower than the M$34.1bn recorded in calendar 1997, when foreign investors also accounted for about half of the total. Industry ministry officials preferred to dwell on the value of investments approved in the first nine months of last year, which, at M$21.4bn, compared respectably with the M$25.82bn authorised in 1997 as whole. However, not all approved investments are implemented, particularly in crisis periods. For another, more than half the value of approvals in January-September last year was for heavy industrial projects such as oil refineries and petrochemical plants. By contrast, the value of approved investments in the electronic and electrical subsector, for example, fell to M$1.54bn, from M$6.22bn in 1997 and M$13.06bn in 1996.

—partly because of the perceived hostility of official policy

Ms Rafidah maintains that the devalued ringgit renders Malaysia more attractive, but many foreign investors are clearly unconvinced. Recent surveys show they are increasingly being drawn elsewhere, to China for example, which offers considerable opportunities and lower costs, or to Taiwan and Hong Kong, where access is deemed to be much easier. Dr Mahathir's frequent claims that Western businesses are seeking to capitalise on Malaysia's economic crisis and "recolonise" the country, and his imposition of sweeping exchange controls last September, worry most investors.

## Energy

Higher import and debt-servicing costs push up losses at Tenaga—

Tenaga Nasional, peninsular Malaysia's largest power utility, announced in mid-November a 14% increase in turnover, to M$11.44bn (US$3.01bn), in the 12 months to end-August 1998. But it posted an after-tax loss of M$3.09bn for the same period, sharply up on the M$135.2m loss registered in the previous financial year. Tenaga attributed the deterioration primarily to foreign-exchange losses of M$3.51bn arising from the ringgit's depreciation, which significantly increased the cost of oil and coal feedstock, imported equipment and debt servicing. The bulk of Tenaga's borrowings are denominated in foreign currencies, mostly dollars and yen. The accounts for fiscal year 1997/98 were based on an exchange rate of M$4.2:US$1, the level prevailing at the close of its financial year.

—which is obliged to seek costly overseas credit—

Tenaga's executive chairman, Tajuddin Ali, said that the company was trying to rein in capital spending on generation, transmission and distribution activities, which amounted to M$5.2bn in 1997/98. But he cautioned that despite the recent postponement of several planned projects (4th quarter 1998, pages 30-31), such outlays would still be in the region of M$5bn in 1998/99, owing to the devaluation of the ringgit since mid-1997. The utility's earnings are almost entirely in the local currency. Mr Tajuddin admitted that the bulk of its funding requirements would have to be sourced overseas, given the constraints in the local market.

—and grant tariff concessions to industrial consumers—

Tenaga's status as a largely state-owned entity subjected it to other constraints too. Despite the hefty loss sustained in 1997/98, the deputy energy minister, Chan Kong Choy, reiterated in mid-December that the government would not allow the utility to raise tariffs before 2000. The government also prevailed on Tenaga to offer more reduced rates on off-peak weekend consumption to more than 100 heavy industrial users. Those eligible for the concession were companies whose power consumption constituted 5% or more of their production costs and had monthly bills of at least M$100,000. The designated beneficiaries, which included iron, steel, cement and chemical plants, accounted for more than half of Tenaga's total sales. Their consumption had fallen significantly since the start of the economic crisis.

—some of whom may be guilty of pilfering power

Citing investigations carried out by Tenaga staff, Mr Tajuddin said in December that almost half the electricity meters installed at factories and commercial premises in the Klang Valley—Kuala Lumpur and its hinterland—had been tampered with to facilitate theft, resulting in losses of millions of ringgit a month for the utility. He announced a month-long "amnesty", pledging that businesses which came forward and acknowledged the falsification of their meters would not be charged for past discrepancies. He also promised that once the amnesty period had elapsed there would be much more rigorous monitoring, and stern action against the wayward.

Tenaga proposes a downsized version of the original Bakun project—

Mr Tajuddin admitted in November that Tenaga had responded to a government request to examine the feasibility of reviving the shelved Bakun hydroelectric project in Sarawak state on Borneo island, albeit on a much smaller scale than originally planned. He said Tenaga and the Sarawak Electricity Supply Corporation had submitted a proposal for a 500-mw plant that would supply Sarawak and neighbouring Sabah state. He declined to say how much it might cost, although independent estimates indicated about M$5bn.

As initially envisaged, Bakun was to have been a 2,400-mw plant supplying the two Borneo states and, via undersea cable, peninsular Malaysia. That plan was effectively scrapped in September 1997, ostensibly because the tumbling ringgit rendered it no longer viable. But failure to raise commercial funding for what many saw as a high-risk undertaking, as well as bitter disputes between Ekran, the main operating company, and the multinational consortium awarded the main construction contract, were just as significant (4th quarter 1997, pages 30-31). Before the ringgit's plunge, the project had been costed at M$13.5bn.

—and assumes conditional management of facilities on the site

Mr Tajuddin said that pending a decision on its more modest proposal, Tenaga had assumed, on a contract basis, responsibility for the management of existing facilities at Bakun. This included oversight of the much-delayed completion of tunnels to divert river water from the site of the proposed dam. That work had proceeded, despite the deferral of the main project. Tenaga's chairman pointed out that work on a dam or power plant could not begin until the government had resolved its differences with Ekran. After announcing the deferral of the initial project, the government had cancelled Ekran's operating concession, prompting claims for reimbursement and compensation that were still outstanding at the end of 1998.

Its divestment programme begins with the partial sale of one plant—

In December Tenaga disclosed that it had agreed to sell a 40% stake in a 400-mw gas-fired combined-cycle facility at Tanjung Kling in Malacca state for M$740m. It was the first divestment under a programme to relinquish up to 49% of each of its thermal plants (4th quarter 1998, page 31), an exercise Mr Tajuddin claimed was essentially aimed at transforming Tenaga from a generator into a transmission and distribution company. The buyer, Powertek Berhad, an independent power producer (IPP), was to pay M$296m in cash and the balance in equity. The main justification for mix, according to Tenaga, was that Powertek was the only IPP—there are five with operational plants—in which it did not already have a shareholding. Powertek pledged to raise capacity at Tanjung Kling, which was commissioned in 1994, to 740 mw.

—amid moves to surrender equity in several others

Tenaga subsequently conceded that it wanted to surrender 40% of its equity in a 1,500-mw coal-fired power station at Kapar in Selangor state. Mr Tajuddin said that expressions of interest had been received from about 20 local and foreign parties, and that the sale would be on the basis of competitive bidding. Local press reports in late December claimed Tenaga had identified five other plants, with a combined capacity of 3,866 mw, for partial sale.

Petronas and Esso collaborate on a major gas development

On November 17th Petronas and Esso Production Malaysia Inc, a wholly owned subsidiary of Exxon Corporation of the US, formally agreed to develop 22 gasfields off the north-east coast of the peninsula. The cost of developing the fields, which have estimated reserves of 12.6trn standard cu ft, was put at some M$16bn. Flows to the mainland, via a pipeline, are expected to begin in 2002, and reach 1.3bn standard cu ft/day, some two-thirds of the peninsula's projected requirement.

## Transport and communications

Renong continues to feel the pinch—

Pressure on the transport and telecommunications conglomerate, Renong, to devise an acceptable scheme to resolve its estimated M$28bn (US$7.37bn) in debts continued to build towards the end of 1998. On November 23rd the Employees Provident Fund (EPF), a state-run pension scheme, formally requested guarantors of a 1997 M$450m five-year Renong bond issue to liquidate its 47.2% holding, citing the group's default on other loans as justification. Renong promptly obtained a court injunction to prevent the liquidation. Most of the guarantors are overseas banks. The EPF is the biggest single holder of bonds issued by Renong.

—as one debt restructuring proposal is rejected by its creditors—

In December it emerged that a proposal unveiled two months earlier to restructure M$10.5bn worth of short- and medium-term liabilities—essentially by offering creditors long-term, government-guaranteed, zero-coupon ringgit bonds (4th quarter 1998, pages 32-33)—had been scrapped. One reason was the impossibility of trading such bonds internationally. Foreign banks account for the bulk of Renong's outstanding loans, but the capital controls regime introduced by the government in September prohibits offshore trading in ringgit instruments. Another reason was Renong's failure to offer any annual income on the paper. There had also been adverse comment locally, most of it stemming from the perception that such a package would represent yet another government "bailout" of a favoured business.

—and another is mooted

At the behest of the government, Renong then took its predicament to the Corporate Debt Restructuring Committee (CDRC), an offshoot of Bank Negara set up in mid-1998 to reconcile, on a voluntary basis, differences between wayward business borrowers and their creditors. Local press reports in early January said Renong had presented a fresh package to its bankers, involving the issue of bonds worth M$8.5bn by Projek Lebuhraya Utara Selatan (PLUS), a

Renong subsidiary that operates the 870-km North-South Expressway (NSE). Management of the lucrative toll road gives PLUS a strong earnings stream. PLUS's anticipated profits were central to Renong's earlier aborted debt-relief initiative. The press reports gave no details as to the likely denomination of the newly proposed issue, its duration, whether or not it would be interest-bearing, or who might guarantee it. The resolution of these questions depended in part on the outcome of ongoing negotiations between PLUS and the government on a possible revision of NSE toll charges.

The national airline also suffers heavy losses—

Malaysian Airline Systems (MAS), the partly privatised national carrier, posted a pretax loss of M$432m in the six months to end-September 1998, according to unaudited figures released on November 30th. The company blamed the poor results—it had recorded a net profit of M$47.3m in the corresponding period of 1997—on falling demand and the adverse impact of the lower ringgit. The weaker exchange rate increased the cost of purchasing dollar-denominated fuel and equipment, and of servicing foreign-currency borrowings estimated at more than US$3bn. The decline in demand was especially acute in the domestic and regional markets, according to the airline. Some industry analysts doubted its claim that the overall passenger load factor had dropped by only 5 percentage points to 67.2%.

—admitting it may need a capital infusion soon

MAS pursued a wide-ranging cost-cutting programme, including the scrapping of flights to loss-making destinations and the redeployment of aircraft on more remunerative routes. But it was obliged to respect a previously arranged fleet renewal schedule, which resulted in it taking delivery during the accounting period of two new Boeing 777-200s and a Boeing 747-400. The carrier was also less successful than it had hoped in disposing of some of its existing fleet. Only two aircraft, a B747-400 and a DC10-30, were sold off. Rising costs, declining revenue and keener competition from fare-cutting regional rivals, particularly Singapore Airlines and Thai Airways, combined with the heavy debt overhang, were taking an increasing toll. While the MAS chairman, Tajudin Ramli, reiterated that the airline was not in immediate need of a capital injection, he conceded that the next months would be "critical".

Equal access for telephone subscribers is said to be imminent—

Technical problems and disagreements over pricing and other matters among the five telephone companies licensed to provide fixed-line services meant that the January 1st 1999 deadline for the introduction of the first phase of "equal access", which entitles subscribers to use any operator's network, was not met. Nevertheless, considerable progress was made in late 1998 towards resolving the outstanding issues and the regime, applicable to trunk and international calls but not local ones, was expected to be in place within weeks. The resulting competition among providers is likely to bring lower tariffs and improved service quality.

—as key obstacles are overcome—

In December the state-run market leader, Telekom Malaysia, which owns 98% of the country's 4.8m fixed lines, signed interconnection agreements with three other providers: Binariang, DiGi Telecommunications (formerly Mutiara Swisscom) and Celcom. Earlier, Jabatan Telekom, the regulatory authority, had settled a dispute over the basis on which the companies were to charge for carrying each other's traffic. It also determined how much each should pay into a M$300m fund to help compensate Telekom for the high cost of providing services to low-return rural and urban areas. Telekom, in keeping with its status as the largest operator, is to contribute 68% of the total, with the shares of the others ranging from 16.7% in the case of Celcom to 1.1% for DiGi.

—but the state-run Telekom Malaysia is under no immediate threat

Analysts said equal access was unlikely to result in a large-scale defection of Telekom customers to other providers, at least initially. During the first phase—until January 1st 2000—Telekom subscribers must register if they wish to use another company's network, and dial a three-digit access code. As the default provider, Telekom enjoys a distinct advantage. Moreover, while some of its rivals had been offering even more substantial discounts on international calls, Jabatan's imposition of a 20% limit on price cuts, ostensibly to prevent cut-throat competition, was also expected to favour Telekom, particularly if it were to lower tariffs by that margin.

## Foreign trade and payments

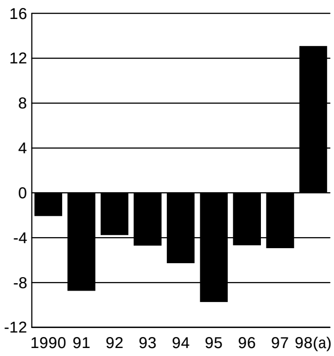
The trade surplus continues to rise—

According to figures released by the Statistics Department in early January, the combination of a 14.3% year-on-year increase in merchandise exports, to M$24.7bn (US$6.5bn), and a 12.9% drop in imports, to M$18.2bn, yielded a trade surplus of M$6.5bn in November 1998, the 13th consecutive monthly surplus. This brought the cumulative surplus for the first 11 months of 1998 to M$51.5bn. A deficit of M$1bn was recorded in the corresponding period of 1997.

—mainly because of a sharp slowdown in import growth

But the data confirmed that the steadily rising surplus derived largely from an ominous weakening of imports rather than any buoyancy in exports. Imports in November were 3.6% lower than in October, and at M$209.6bn in January-November, only 5.3% higher than in the first 11 months of 1997. Exports were also lower in November than October—by 3.4%—indicating an acceleration of the slowdown in the momentum of sales that had been apparent for months. But officials and pro-government commentators trumpeted the 31.8% year-on-year rise in exports, to M$261bn, in January-November 1998, and the surging trade surplus. In US dollar terms, however, Malaysia's exports have been contracting almost as fast as imports, reflecting the weakening of demand in major markets such as the United States and Japan, as well as softer international prices for many goods.

**Malaysia: current-account balance**
% of GDP




(a) EIU estimate.
Sources: IMF, *International Financial Statistics*; EIU.

Electrical and electronic products remained the largest export earner in January-November 1998, accounting for M$138.4bn, or 53%, of total sales, an increase of 37.3% on the corresponding period of 1997. Exports of integrated circuits rose by 40.2% to M$37.5bn. Sales of palm oil surged by 72.3%, to M$16.6bn, on an average 70.1% price rise owing largely to exchange-rate gains—volume was up only 1.3%. Earnings from apparel exports rose by 40.8% to M$2.3bn. Despite a 3% decline in prices, receipts from crude oil rose by 11.1% to M$7bn, thanks to a 14.5% increase in volume sales. Earnings from liquefied natural gas slipped by 0.3%, to M$5.5bn, as a 3.9% increase in volume did not fully offset a 4% fall in prices. The Statistics Department did not give a detailed breakdown of import trends, apart from stating that intermediate goods accounted for 70% of the total, capital goods 16% and consumption goods 5.7%.

The current-account surplus surges

The government subsequently revealed that Malaysia registered a current-account surplus of M$14bn in the third quarter of 1998, up from M$8.5bn in the second quarter, attributing the trend largely to “robust export earnings and shrinking import payments”. It put the current-account surplus for January-September 1998 at M$29bn, compared with a deficit of M$12.2bn in the same period of 1997.

Malaysia has misgivings about trade liberalisation within ASEAN—

While endorsing in principle a plan to accelerate regional trade liberalisation approved by Association of South-east Asian Nations (ASEAN) leaders at their mid-December summit in the Vietnamese capital Hanoi, Malaysia insisted on the need for “flexibility” in the case of “sensitive” products. The leaders agreed that the deadline for the bloc’s six most developed members to reduce import tariffs on most non-agricultural goods to 0-5% should be brought forward by one year to 2002. But Malaysia, one of the six, argued that some of its industries would need longer, while pointing out that it had already cut tariffs on 87% of the relevant product lines to the target level.

—and APEC—

During the APEC meetings in Kuala Lumpur a month earlier, Malaysian officials had likewise argued forcefully in favour of flexibility. Always less than enthusiastic about APEC’s goal of becoming a duty-free zone, they were unapologetic as hosts about the failure to reach agreement on a draft tariff-cutting package designed to free up trade worth some US$1.5trn in nine key sectors. The matter was referred to the World Trade Organisation. The main stumbling block was strong opposition from Japan, which insisted the arrangement would have unacceptable repercussions on its fisheries and forest product industries. Ms Rafidah, who is also the international trade minister, expressed strong sympathy for Japan’s position, to the dismay of the US trade representative, Charlene Barshefsky, who had blasted Tokyo’s intransigence as “destructive” and “irresponsible”. Washington saw the clinching of a deal as crucial to its efforts to narrow a growing trade deficit with Asia. The reversal was symptomatic of widespread disaffection in the region, and particularly Malaysia, with the US liberalisation ideology, which many regard as little more than a “vulture” strategy.

—as an official report slams Washington

In its latest annual report, released on December 4th, the Ministry of International Trade and Industry criticised the “extra-territoriality” of some US policies, citing legislation that seeks to prevent companies, American and otherwise, from investing in Cuba, Libya or Iran. Malaysia felt the pressure of the legislation following the September 1997 signing by a multinational consortium, including Petronas, of a US$2bn deal to develop a huge Iranian offshore gasfield. The government was adamant that Petronas would not pull out of the deal. While the ministry’s report acknowledged that Washington eventually decided to waive threatened sanctions “in the US national interest”, it denounced the “selective” application of the legislation.

# Brunei

## Political structure

| | |
|---|---|
| Official name | Negara Brunei Darussalam |
| Form of state | Sultanate |
| The executive | The sultan is advised on policy matters by four councils: the Religious Council, the Privy Council, the Council of Succession and the Council of Cabinet Ministers |
| Head of state | HM Paduka Seri Baginda Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaulah |
| National legislature | None |
| Legal system | Courts of first instance exist on a local and religious basis; appeals go to the Religious Council in religious cases, and to the High Court and thence to the Court of Appeal in other cases. All major judicial posts are filled by the sultan's appointees |
| National elections | August 1962; next election due: not applicable |
| National government | The sultan, close family members and his appointees control all elements of state power, including the Council of Cabinet Ministers, under the state of emergency that has been in force since 1962 |
| Main political organisations | The Parti Perpaduan Kebangsaan Brunei (the Brunei National Solidarity Party, PPKB), which split from the Parti Kebangsaan Demokratik Brunei (Brunei National Democratic Party, PKDB) in early 1986, is now the country's only legal party, the PKDB having been banned in early 1988. However, the PPKB is only intermittently active. The promotion of the national ideology of Melayu Islam Beraja (MIB), or Malay Muslim Monarchy, has been stepped up since 1990. The Parti Rakyat Brunei (Brunei People's Party, PRB) has been banned since 1962 and operates in exile |

| | | |
|---|---|---|
| | Sultan, prime minister, minister of finance & defence | Sultan Hassanal Bolkiah Mu'izzaddin |
| Key ministers | Communications | Zakaria Suleiman |
| | Culture, youth & sports | Hussein Mohamad Yosof |
| | Development | Ismail Damit |
| | Education & health (acting) | Abdul Aziz Umar |
| | Foreign affairs | Prince Mohamed Bolkiah |
| | Home affairs & special adviser to the sultan | Isa Awang Ibrahim |
| | Industry & primary resources | Abdul Rahman Mohamad Taib |
| | Religious affairs | Dr Mohamed Zain Serudin |

# Economic structure

## *Latest available figures*

| Economic indicators | 1993 | 1994 | 1995[a] | 1996[a] | 1997[b] |
|---|---|---|---|---|---|
| Real GDP growth (%) | 0.5 | 1.8 | 2.0[b] | n/a | 2.5 |
| Consumer price inflation (av; %) | 4.3 | 2.4 | 6.0 | 2.5 | n/a |
| Population ('000) | 276.3 | 284.0 | 292.0 | n/a | n/a |
| Exports fob[c] (US$ bn) | 2.3 | n/a | n/a | n/a | n/a |
| Imports cif (US$ bn) | 1.2 | n/a | n/a | n/a | n/a |
| Exchange rate (av; Br$:US$) | 1.62 | 1.53 | 1.42[d] | 1.41[d] | 1.48[d] |

January 21st 1999 Br$1.6825:US$1

| Origins of gross domestic product 1994 | % of total |
|---|---|
| Oil sector | 37.4 |
| Agriculture, forestry & fishing | 2.6 |
| Construction | 5.5 |
| Transport & communications | 4.9 |
| Wholesale & retail trade | 10.0 |
| Community, social & personal services | 32.3 |
| GDP at factor cost incl others | 100.0 |

| Principal exports 1995 | Br$ m | Principal imports 1995 | Br$ m |
|---|---|---|---|
| Crude oil | 1,476 | Electrical & industrial machinery | 562 |
| LNG | 1,561 | Road vehicles | 207 |
| Refined products | 111 | Iron & steel | 203 |

| Main destinations of exports 1997 | % of total | Main origins of imports 1997 | % of total |
|---|---|---|---|
| Japan | 51.0 | Singapore | 41.6 |
| UK | 19.8 | UK | 24.1 |
| Singapore | 8.6 | Malaysia | 7.4 |
| Thailand | 7.3 | US | 4.6 |
| US | 2.1 | Japan | 3.9 |

[a] EIU estimates. [b] Official estimates. [c] Including re-exports. [d] Actual.

# Outlook for 1999-2000

Government revenue has been hit by the Asian crisis—

Brunei continues to be affected by Asia's economic crisis and falling energy prices. Although liquefied natural gas prices are protected by long-term contracts, falling oil prices have hit government revenue hard and the Brunei National Economic Council has recommended that oil output be increased by 25% to compensate for the fall in prices. The economic council has also recommended that the government continue with its privatisation programme. The economic council was set up in June 1998, following the economic crisis that hit Asia (3rd quarter 1998, page 42). It comprises representatives from the public and private sectors and is likely to become increasingly influential in deciding government economic policy. Private-sector representatives on the economic council are likely to favour more privatisation, but the government is aware of some disquiet with its privatisation programme, particularly over increased charges, loss of services and job redundancies.

—as corruption investigations continue—

Although the sultan's brother, Prince Jefri, has returned to Brunei, he has been ordered to keep a low profile. Investigations continue into the now-collapsed Amedeo group of companies, which he ran, and mismanagement at the Brunei Investment Agency, which he headed until dismissed by the sultan. When reports on these matters are completed, sometime later this year, the government will feel obliged to comment, even if it refuses to release complete details.

—dissatisfaction with the authorities increases—

There is increasing irritation at government mismanagement, whether over the country's finances or more local issues, such as the continued closure of the only bridge on the road to the Sarawak town of Miri. The opinion pages of the *Borneo Bulletin* have become the main forum for voicing complaint, particularly by expatriates and English-speaking non-Malay residents, who are unable to approach district and village-level consultative committees. These committees have been set up over the past few years by the government, which sees them as channels of communication between government and people. While the committees may satisfy less educated elements of the community, who accept the sultan as a pious and benevolent ruler, educated Malays are becoming dissatisfied with a system that they perceive as unresponsive to change and that places too much emphasis on rank and influence.

—and support quietly grows for political alternatives

Their frustration is likely to lead to continued support, however discreet, for Brunei's sole political party, the Brunei National Solidarity Party. The government is well aware of public frustration, and has made determined attempts to respond to criticism of government departments. The Management Services Department was set up in July 1998 to deal with public complaints (4th quarter 1998, page 42). The government's privatisation programme is not just a means of cutting government spending but is also seen as a way of improving services. The government does not believe major changes are necessary, only improvements in efficiency and the levels of service and courtesy from civil servants. If growing criticism of the system becomes a threat to its power—and this is only likely to come from educated professionals—the government will crack down, using the Internal Security Act to crush any serious opposition. That it allows the continued and growing use of the *Borneo Bulletin* as a forum for complaint shows a willingness to tolerate certain levels of criticism, which the government was unwilling to do even a few years ago.

Muslim religious restrictions will create discontent

Non-Malay Bruneians, mostly Chinese, and expatriates from Asia and Europe will continue to be reminded of their place in the hierarchy as petty restrictions are imposed, such as restrictions on the sale of alcohol, confiscation of religious objects and the censuring of newspapers. These actions are usually carried out following directives from the Islamic Religious Affairs Department. While these restrictions may be in accord with the letter of Islamic law, they are perceived as petty-minded irritations by non-Muslims. They signal an attitude of intolerance and over-zealousness, which are not characteristics associated with Brunei Malay society. The attempts to control what are seen as politically, socially or morally corrupting influences comes at a time when new technologies, from satellite television to the Internet, make such attempts seem increasingly desperate.

# Review

## The political scene

The sultan abolishes the post of law minister—

The sultan announced the abolition of the post of law minister, with effect from November 1st 1998. At the same time, the sultan also announced that Pengiran Haji Bahrin Abbas was no longer a cabinet minister. In June 1998 Pengiran Haji Bahrin was granted leave from his appointment as minister of law, for reasons that were never explained. The sultan had acted as law minister since that time. With the abolition of the post of law minister, legal matters have been taken over by the prime minister's office, further concentrating power in the sultan's hands.

—as criticism of the government continues—

In an article in *Asiaweek* on October 16th 1998, Haji Mohd Hatta, president of the Brunei National Solidarity Party, criticised the Brunei government's record on political freedom and the country's mounting foreign debt. The party is the only legal political party operating in Brunei. Mr Hatta said the party stood for justice, democracy and human rights. Many Bruneians want change, he said, but are afraid to speak out. Some of the criticisms of Brunei voiced to him included the income disparity between lower and middle-level civil servants and ministers, the lack of openness in government and laws that prevented the release of information on Brunei's wealth.

—and the authorities seek to respond

The *Asiaweek* article prompted a response from the prime minister's office in which Mr Hatta's comments were described as "untrue, inaccurate, misleading and embarrassing". The government said Brunei's ban on the participation of government officials in politics paralleled that of other countries in the region (although it was not mentioned that no other country in the region has such a large percentage of the local workforce employed in the government sector). The prime minister's office also stressed that Brunei had no foreign debt.

The government said the Brunei National Solidarity Party's failure to win more recruits reflected its own inability to attract new members, rather than restrictions prohibiting government officials from joining political parties. The government statement stressed that the people of Brunei were content with their life and their government, and were able to communicate their concerns through district and village-level consultative committees. The government has argued that Brunei does not need an elected legislature, as it has put in place these alternative means of communication between the people and government.

Bruneians use the local newspaper to voice their concerns—

A month after the government's condemnation of Mr Hatta's article, the letter pages of the *Borneo Bulletin* became a forum for a debate on Brunei's Internal Security Act (ISA). This law allows detention without trial when national security is threatened. Similar laws also exists in Malaysia and Singapore, were they are used far more often than in Brunei. One letter-writer said that Brunei had enjoyed peace and stability during the past year—unlike other countries in the region—because of the ISA. Another writer condemned the ISA as unjust, and said that peace and stability was guaranteed through "education, a better standard of living and more importantly, democracy". Such a debate in a Brunei newspaper would have been unthinkable even a few years ago.

The *Borneo Bulletin* is read not only by expatriates in Brunei but by English-speaking locals, both Chinese and Malay. These readers are better educated and tend to hold professional posts in both the public and private sectors. This segment of the population feels most frustrated by the slow pace of change, the lack of opportunity for advancement and the perception that rank and social status are still more important than ability in Brunei.

—although criticisms are likely to be restrained

The *Borneo Bulletin* is part of the QAF group, which is owned by the sultan's trusted brother and foreign minister, Prince Mohamed. The paper therefore will never be very critical of the government. Nevertheless, over the past few years the newspaper's opinion page has become a channel for public criticism. In 1998 letters expressing concern about the government's handling of the mismanagement of the Brunei Investment Agency appeared regularly (4th quarter 1998, page 39). Local outrage at US and UK bombing attacks on Iraq also saw a good deal of newspaper correspondence, much of it condemning the action.

Brunei's first commercial television network begins broadcasting

Brunei's first commercial satellite television channel, Kristal, run by the telecommunications firm DST, the operator of the country's mobile telephone network, began broadcasting on January 2nd. With the introduction of pay-TV, free satellite broadcasts in Brunei have ended. For several years residents of Brunei could view more than 10 TV channels from the Star TV network free of charge. DST has been granted a licence to run Brunei's first commercial television and radio stations.

The start-up of Kristal TV has been surrounded in controversy. What has particularly upset viewers, more than the ending of free broadcasts, has been Kritsal's decision to reduce the number of channels broadcast, eliminating music programmes MTV and the V Channel, the Chinese-language channel Phoenix and the Indian movie channel Zee Cinema. No reason was given for this action, but it is generally believed that the music channels were dropped because of pressure from religious conservatives in the Department of Religious Affairs. The music channels were popular among Brunei youths who have little in the way of entertainment in a society that is seen as becoming more religiously conservative as it is exposed to the outside world through such new technologies as satellite TV and the Internet. Non-Malay Bruneians and expatriates see the removal of the Chinese and Indian channels as a snub to them by the Malay establishment.

Complaints surface over an unopened bridge—

In November 1998 the government faced more public criticism over its unwillingness to open a bridge, following the death of five people whose car plunged into the Belait river while attempting to use the ferry. The ferry is part of the only overland route from Brunei to the Sarawak town of Miri, and long queues develop waiting to board it. The Rasau bridge, a few miles upstream, was built in 1983, but opened to restricted use only a few years ago. To use the bridge, travellers must apply for a permit that takes a month to process; the bridge is therefore little used. The authorities have said access to the bridge is restricted for security and safety reasons, and that the approach roads need to be upgraded. Following the accident in November, many letters of outrage appeared in the *Borneo Bulletin*. The government finally announced that it would open the bridge, probably charging a toll, although it did not set an opening date. This prompted further letters of complaint. Several commentators have said the incompetence and indecision surrounding the main land route from Brunei to Miri makes a mockery of the government's plans to make Brunei the region's transport hub. There is also growing irritation with the government for giving no clear reason as to why the bridge remains closed. This feeds rumours that the ferry operator has connections in high places, and keeps the bridge closed to guarantee income from ferry users.

—as the government pledges to be more responsive

The Management Services Department is attempting to improve efficiency in the public sector and put in place channels of complaint by convincing government departments to adopt public service pledges (4th quarter 1998, page 42). The *Borneo Bulletin* reported in November that the Telecom Department has set a goal of installing telephones within seven days (14 days in rural areas) after the date of registration. The Land Transport Department, responsible for issuing driving licenses and vehicle inspection, has also pledged to speed up the processing of its work and has set performance targets.

The sultan meets Malaysia's prime minister—

The Malaysian prime minister, Mahathir Mohamad, arrived in Brunei on a two-day official visit on October 30th 1998. The two leaders discussed the current financial crisis facing the region. The *Borneo Bulletin* reported that Brunei was interested in increasing its investments in Malaysia, as part of an overall shift to increase investment in South-east Asia. The sultan said Brunei would look into the possibility of investing in Malaysian companies involved in hotels and other property. Brunei would seek Malaysian assistance in privatising some of its public-sector services.

—then attends the ASEAN summit—

The sultan attended the sixth summit of the Association of South-east Asian Nations (ASEAN) in Hanoi, Vietnam on December 15th-16th. Divisions have occurred within ASEAN over when to admit Cambodia to the group. Cambodia was scheduled to join with Laos and Myanmar in July 1997, but this was postponed following a government coup. Vietnam, Malaysia, Indonesia, Laos and Myanmar support Cambodia's admission to ASEAN; Singapore, Thailand and the Philippines have all expressed reservations. Typically, Brunei has made no comment on the issue.

The other item on the agenda was a discussion of the region's economic crisis. A "Hanoi Plan of Action"' was adopted, which mapped out an agenda for stronger political, economic and practical co-operation among the ASEAN states. Brunei's sultan has pledged more Brunei investment in the region. The sultan agreed with Malaysia's prime minister that ASEAN should hold regular ministerial meetings with China, Japan and South Korea. Dr Mahathir's idea of an East Asian Economic Caucus is supported by Brunei. The next ASEAN summit will be held in Brunei.

—before visiting Saudi Arabia

The sultan and his family paid a two-day official visit to Saudi Arabia at the beginning of January. The sultan discussed bilateral matters with King Fahd. An exchange of state decorations also took place. The sultan and his entourage followed the official engagement with private visits to Jeddah, Medinah and Mecca. The sultan has made frequent visits to Saudi Arabia over the past decade. These pilgrimages reinforce his image as a devout and pious Muslim among his subjects, and are likely to negate any adverse publicity surrounding his wealth and the antics of his brother Prince Jefri, particularly among his less-educated subjects.

Gambling results are torn from newspapers

In a move that echoed the Islamic Religious Affairs Department's confiscation of religious objects from goldsmiths (4th quarter 1998, page 43), foreign newspapers, mostly Malaysian, that are circulated in Brunei have had their sports pages torn out because they report lottery and gambling results. The *Borneo Bulletin* reported in early November that the Religious Affairs Department instructed the pages to be removed in an attempt to stamp out gambling, which is prohibited by Islamic law. Many residents were irritated because much else was removed in the process of tearing out the gambling results. Many said the exercise was futile, as the results could be obtained from the Internet and teletext. The episode once again highlights the fact that non-Muslims perceive officials in the Islamic Religious Affairs Department as over-zealous and petty in their application of Islamic law.

## The economy

Oil prices continue to fall—

The price of Brunei's benchmark Seria Light crude oil fell to US$11.30/barrel in December 1998, down from US$13.18/b in November and US$14.14/b in October. The decline in oil prices has hit government revenue. This shortfall (the government had planned on US$18/b) is in addition to the region's economic downturn and Brunei's particular economic problems, especially the collapse of Prince Jefri's Amedeo group of companies and irregularities at the Brunei Investment Agency (4th quarter 1998, page 40). The *Borneo Bulletin* (January 13th) reports that the Brunei National Economic Council has recommended that oil production be increased by about 50,000 barrels/day (b/d), which will boost production to nearly 215,000 b/d. This increase will only offset the drop in prices. Brunei's revenue from liquefied natural gas is sold on long-term contracts and is not affected by the drop in oil prices.

—as Brunei lowers its growth estimate for 1998

Annual growth in 1998 has been revised downward from 4% to 2.6% (4th quarter 1998, page 40) and is more likely to be below 2%. Brunei does not publish up-to-date economic data, and some observers believe the economy may have actually contracted in 1998, as housing, construction, car sales and the retail and restaurant trade have all been hit hard in the current economic downturn.

Privatisation is set to expand—

The economic council has recommended that the government further privatise and commercialise some of its development projects and public services. The government is also looking at private-sector financing of government infrastructure projects and services. The government has already taken steps to privatise the public sector. These include the creation of the Development Bank of Brunei from the loan section of the Economic Development Board, and the privatisation of solid waste collection, the government abattoir, government canteens and the cellular mobile phone network. Yet there is a public uneasiness about privatisation. No guidelines exist for privatising the public sector, and there is a perceived lack of openness and a suspicion of favouritism. Bruneians also worry that prices and charges will increase with privatisation, and that jobs will be lost.

—but some businesses raise concerns

Concerns have also been raised that Brunei's small and medium-sized businesses have been suffering during the present regional economic crisis, and their plight is often overlooked because many Bruneians are public sector employees and have a guaranteed income from their salaries. According to the *Borneo Bulletin*, members of the APEC Business Advisory Council believe the government should help the country's smaller enterprises by improving access to finance and allowing them greater involvement in government infrastructure projects. In a related development, some local contractors have faced delays in payment for government work as certain agencies close their budgets ahead of the end of the financial year.

The government is keen to promote electronic commerce

The Brunei postal service department launched "BruPost 30", an electronic shopping and home delivery service, on November 5th 1998. The service allows for parcels up to 30 kg to be ordered on-line on the country's Internet, Brunet, and to be delivered by the postal services department. The minister of communications, Pehin Haji Zakaria, said the success of "BruPost 30" depended on co-operation between consumers, traders and the postal services department. The government is keen to promote electronic commerce and believes Brunei's private sector is not exploiting developments in electronic communications. The telecommunications department is spending Br$55m (US$32.8m) to develop a high-performance fibre-optic network throughout the country, called "RAGAM 21", that should be operational by September (4th quarter 1998, page 46). These initiatives are intended to help Brunei become the region's service hub for trade and tourism.

**Major changes are under way at Royal Brunei Airlines—**

The prime minister's office announced changes to the management at Royal Brunei Airlines (RBA) on October 29th. The positions of managing director and deputy managing director of the company were abolished and replaced by the posts of chief executive officer and executive director. The managing director, Haji Brahim Ismail, was transferred to the Public Service Department and was replaced by Mohammad Alimin as chief executive officer. Mr Alimin is also on the board of directors of RBA and is permanent secretary of the Ministry of Defence. Another board member, Sheikh Jamaluddin Mohamed, has been made executive director of the company. Within a week of their appointments the two announced at a press conference that RBA is facing a difficult period, but refused to give details of the airline's losses. The company is undergoing a detailed audit by accountants at Arthur Anderson. Management has pledged to turn the company around in two years. The government is keen to revive RBA. The airline is considering opening new routes and more heavily promoting itself, especially as an upmarket, quality airline. Sheikh Jamaluddin was surprised to discover that many of the staff of RBA did not realise the airline was running at a loss.

**—as some services are eliminated**

As part of its restructuring, RBA's Taiwan flights are likely to be cut because of poor patronage, reports the *Borneo Bulletin*. Taiwanese apparently are unwilling to use the airline—and Brunei—as a gateway to Borneo because the Brunei authorities take two weeks to issue visas. Potential customers prefer fly to other countries in South-east Asia that issue visas in a matter of days through their trade representative in Taipei.

# Quarterly indicators and trade data

## Malaysia: quarterly indicators of economic activity

| | | 1996 | | 1997 | | | | 1998 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 3 Qtr | 4 Qtr | 1 Qtr | 2 Qtr | 3 Qtr | 4 Qtr | 1 Qtr | 2 Qtr | 3 Qtr | 4 Qtr |
| **Production** | | | | | | | | | | | |
| Crude petroleum | m barrels/day | 0.73 | 0.75 | 0.75 | 0.75 | 0.75 | 0.76 | 0.73 | 0.73 | 0.72 | 0.72[a] |
| | Qtrly totals | | | | | | | | | | |
| Rubber | '000 tonnes | 288 | 286 | 252 | 217 | 266 | 237 | 215 | 181 | 2,511 | n/a |
| Tin-in-concentrates | " | 1.2 | 1.1 | 1.4 | 1.3 | 1.2 | 1.2 | 1.5 | 1.3 | 1.5 | n/a |
| **Industrial production** | Monthly av | | | | | | | | | | |
| General index | 1990=100 | 192 | 194 | 193 | 203 | 211 | 214 | 191 | 191 | 197[b] | n/a |
| **Prices** | | | | | | | | | | | |
| Consumer prices | 1990=100 | 128.4 | 129.2 | 130.6 | 130.8 | 131.4 | 132.7 | 136.2 | 138.3 | 138.8[c] | n/a |
| change year on year | % | 3.5 | 3.4 | 3.2 | 2.5 | 2.3 | 2.7 | 4.3 | 5.7 | n/a | n/a |
| Wholesale prices: | | | | | | | | | | | |
| petroleum, spot, Tapis | US$/barrel | 21.53 | 25.28 | 23.92 | 20.07 | 19.53 | 20.00 | 15.02 | 14.37 | 13.53 | 13.68[d] |
| rubber, | | | | | | | | | | | |
| Singapore No. 1RSS | S$/tonne | 1,861 | 1,773 | 1,722 | 1,593 | 1,351 | 1,288 | 1,221 | 1,206 | 1,181 | 1,170[d] |
| tin, London | US cents/lb | 278.94 | 268.42 | 266.81 | 256.62 | 247.25 | 252.71 | 240.49 | 265.25 | 254.33 | 164.84[d] |
| **Money** | End-Qtr | | | | | | | | | | |
| M1, seasonally adj: | M$ bn | 74.01 | 78.07 | 83.27 | 83.85 | 85.11 | 85.00 | 71.46 | 67.99 | 58.37 | n/a |
| change year on year | % | 24.3 | 24.2 | 23.7 | 20.5 | 15.0 | 8.9 | –14.2 | –18.9 | –31.4 | n/a |
| **Foreign trade** | Qtrly totals | | | | | | | | | | |
| Exports fob | M$ m | 49,683 | 50,536 | 48,954 | 49,452 | 56,764 | 66,261 | 69,774 | 68,869 | 24,059[b] | n/a |
| Imports cif | " | 49,043 | 50,974 | 46,935 | 54,196 | 55,257 | 64,588 | 60,961 | 55,549 | 20,007[b] | n/a |
| **Exchange holdings** | End-Qtr | | | | | | | | | | |
| Gold[e] | US$ m | 690 | 674 | 601 | 604 | 573 | 540 | 521 | 533 | 513 | n/a |
| Foreign exchange | " | 25,214 | 26,156 | 26,913 | 25,799 | 21,380 | 20,013 | 19,031 | 18,926 | 19,898 | n/a |
| **Exchange rate** | | | | | | | | | | | |
| Market rate | M$:US$ | 2.51 | 2.53 | 2.48 | 2.52 | 3.19 | 3.89 | 3.65 | 4.17 | 3.80 | 3.80[f] |

Note. Annual figures for most of the series shown above will be found in the Country Profile.
[a] Forecast for 1 Qtr 1999, 0.73; forecast for 2 Qtr 1999, 0.73; forecast for 3 Qtr 1999, 0.73. [b] July only. [c] Average for July-August. [d] Average for October-November. [e] End-quarter holdings at quarter's average of London daily price less 25%. [f] End-November.

Sources: International Energy Agency, *Monthly Oil Market Report*; International Rubber Study Group, *Rubber Statistical Bulletin*; World Bureau of Metal Statistics, *World Metal Statistics*; OMI; IMF, *International Financial Statistics*.

## Brunei: quarterly indicators of economic activity

| | | 1996 | | | 1997 | | | | 1998 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2 Qtr | 3 Qtr | 4 Qtr | 1 Qtr | 2 Qtr | 3 Qtr | 4 Qtr | 1 Qtr | 2 Qtr | 3 Qtr |
| **Production** | Prodn/day | | | | | | | | | | |
| Crude petroleum | '000 barrels | 160 | 155 | 148 | 147 | 143 | 144 | 150 | 147 | 126 | 134 |
| **Foreign trade** | Annual totals | | | | | | | | | | |
| Exports fob | US$ m | ( | 2,374 | ) | ( | | 2,375 | ) | ( | n/a | ) |
| Imports cif | " | ( | 4,701 | ) | ( | | 3,946 | ) | ( | n/a | ) |

Note. Annual figures of most for the series shown above will be found in the Country Profile.

Sources: *Oil & Gas Journal*; IMF, *Direction of Trade Statistics*, yearbook.

## Malaysia: trade with major trading partners

(US$ '000; monthly averages)

| | Total imports[a] | | Singapore[b] | | Japan[bc] | | US[bd] | | UK[b] | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Jan-Dec | Jan-Dec | Jan-Jul | Jan-Jul | Jan-Dec | Jan-Dec | Jan-Dec | Jan-Dec | Jan-Oct | Jan-Oct |
| Exports to Malaysia cif | 1996 | 1997 | 1997 | 1998 | 1996 | 1997 | 1996 | 1997 | 1997 | 1998 |
| Fish & preps | 27,633 | 27,135 | 6,642 | 3,541 | 389 | 452[e] | 435 | 324[e] | 417 | 431 |
| Cereals & preps | 83,653 | 78,534 | 2,476 | 1,603 | 131 | 148 | 16,365 | 3,512 | 359 | 269 |
| Fruit, vegetables & preps | 42,063 | 40,711 | 15,155 | 8,418 | 80 | 117 | 5,185 | 5,397 | 185 | 59 |
| Sugar & preparations | 28,974 | 29,060 | 1,407 | 686 | 37 | 25 | 161 | 229 | 86 | 52 |
| Textile fibres | 34,531 | 25,039 | 3,675 | 2,020 | 4,385 | n/a | 1,335 | n/a | 93 | 55 |
| Metalliferous ores & scrap | 41,572 | 41,651 | 4,309 | 2,012 | 295 | 34[f] | 6,673 | 145[f] | 1,284 | 202 |
| Petroleum & products | 148,397 | 162,404 | 117,181 | 101,061 | 1,126 | 1,198[g] | 1,285 | 1,671[g] | 597 | 140 |
| Chemicals | 441,562 | 455,414 | 125,729 | 96,246 | 83,377 | 82,588[h] | 43,762 | 53,926[h] | 12,825 | 10,642 |
| Paper etc & manufactures | 90,441 | 88,524 | 12,526 | 7,396 | 9,058 | 9,011 | 9,769 | 10,472 | 3,026 | 1,486 |
| Textile yarn, cloth & mnfrs | 114,441 | 101,972 | 50,435 | 23,976 | 7,209 | 10,236[i] | 2,009 | 3,473[i] | 3,458 | 1,071 |
| Non-metallic mineral mnfrs | 90,747 | 78,058 | 17,578 | 10,783 | 23,015 | 24,917[j] | 11,438 | 23,920[j] | 7,152 | 1,964 |
| Iron & steel | 287,203 | 286,463 | 33,225 | 18,526 | 84,023 | 70,124[k] | 2,053 | 7,609[k] | 3,484 | 1,319 |
| Non-ferrous metals | 142,341 | 147,583 | 41,654 | 25,139 | 27,505 | 26,662[k] | 5,892 | 9,906[k] | 2,333 | 1,357 |
| Metal manufactures | 120,861 | 118,899 | 38,406 | 27,891 | 19,604 | 31,130[l] | 6,233 | 2,300[l] | 3,162 | 1,352 |
| Machinery incl electric | 3,468,945 | 3,411,285 | 1,145,416 | 887,213 | 765,473 | 692,178 | 417,417 | 519,790 | 80,870 | 53,673 |
| Transport equipment | 455,513 | 522,817 | 33,651 | 8,408 | 154,239 | 166,032 | 27,640 | 119,965 | 24,733 | 4,055 |
| Scientific instruments etc | 166,945 | 189,232 | 56,174 | 43,278 | 40,703 | 42,036 | 26,129 | 38,952 | 7,669 | 4,382 |
| Total incl others | 6,534,433 | 6,546,035 | 1,870,549 | 1,388,390 | 1,277,316 | 1,209,123 | 661,691 | 860,894 | 169,227 | 94,580 |

| | Total exports[a] | | Singapore[b] | | US[bd] | | Japan[bc] | | UK[b] | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Jan-Dec | Jan-Dec | Jan-Jul | Jan-Jul | Jan-Dec | Jan-Dec | Jan-Dec | Jan-Dec | Jan-Oct | Jan-Oct |
| Imports from Malaysia cif | 1996 | 1997 | 1997 | 1998 | 1996 | 1997 | 1996 | 1997 | 1997 | 1998 |
| Coffee, cocoa, tea & spices | 26,105 | 30,740 | 8,441 | 7,671 | 3,983 | 6,967 | 3,193 | 3,311 | 500 | 324 |
| Rubber, crude | 117,017 | 88,853 | 12,054 | 7,341 | 17,567 | 67,243[k] | 7,934 | 15,091[k] | 2,934 | 3,025 |
| Wood, unmanufactured | 205,565 | 180,133 | 12,667 | 7,265 | 4,056 | n/a | 92,203 | 156,755[k] | 4,010 | 3,774 |
| Metalliferous ores & scrap | 10,919 | 9,660 | 2,983 | 2,512 | 1,750 | 441[f] | 8,838 | 4,148[f] | 95 | 267 |
| Petroleum & products | 344,506 | 321,216 | 59,890 | 37,779 | 8,596 | 19,137[g] | 89,490 | } 231,305{ | 148 | 12 |
| Gas | 181,595 | 224,875 | 238 | 23 | 0 | n/a | 143,679 | | 0 | 0 |
| Animal & vegetable oils & fats | 388,424 | 384,923 | 22,837 | 18,256 | 10,571 | 17,712 | 22,757 | 26,157 | 6,950 | 7,326 |
| Chemicals | 207,207 | 232,951 | 34,321 | 28,474 | 26,296 | 23,664[h] | 23,769 | 26,607[h] | 4,668 | 5,984 |
| Wood manufactures | 200,647 | 191,332 | 16,742 | 8,981 | 16,317 | 16,934 | 72,408 | n/a | 5,621 | 7,402 |
| Textile yarn, cloth & mnfrs | 108,468 | 107,268 | 19,013 | 14,473 | 5,272 | 5,931[i] | 7,358 | 13,741[i] | 3,451 | 3,065 |
| Non-ferrous metals | 64,283 | 65,617 | 17,820 | 16,613 | 3,235 | 17,188[k] | 6,925 | 12,929[k] | 2,222 | 1,480 |
| Machinery & transport eqpt | 3,608,054 | 3,668,902 | 1,095,387 | 871,276 | 1,162,260 | 1,185,021 | 359, 899 | 351,938 | 196,269 | 195,245 |
| Clothing | 197,988 | 194,040 | 58,364 | 53,823 | 107,950 | 57,266 | 12,803 | 7,873 | 19,289 | 16,034 |
| Scientific instruments etc | 103,309 | 115,908 | 31,851 | 25,444 | 26,918 | 25,607 | 16,931 | 18,964 | 3,500 | 4,524 |
| Total incl others | 6,526,031 | 6,558,515 | 1,665,572 | 1,304,361 | 1,527,559 | 1,543,570 | 979,202 | 948,010 | 277,907 | 270,979 |

Note. Prior to 1997, US and Japan trade figures are on SITC basis. From 1997, Harmonised System. Figures are not strictly comparable.
a Figures from Malaysia's statistics: exports fob; imports cif. [b] Figures from partners' trade accounts. [c] Japanese exports to Malaysia averaged US$1,224.7m and US$764.4 per month for the periods January-September 1997 and 1998. Japanese imports from Malaysia averaged US$977.8m and US$712.2m per month for the periods January-September 1997 and 1998. [d] US exports (fas) to Malaysia averaged US$914.3m and US$769.3m per month for the periods January-October 1997 and 1998. US imports from Malaysia averaged US$1,539.0m and $1,611.3m per month for the periods January-October 1997 and 1998. [e] Excluding preparations. [f] Ores, slag & ash. Scrap included with metals. [g] Total mineral fuels. [h] Including manufactures of plastics. [i] Including fibres. [j] Including precious metals & jewellery. [k] Including manufactures. [l] Tools and miscellaneous metal manufactures.

Sources: Department of Statistics, Malaysia, *External Trade Summary*; Singapore Trade & Development Board, *Singapore Trade Statistics*; UN, *External Trade Statistics,* series D; UK HM Customs & Excise, *Business Monitor MM20*; US Department of Commerce news, *FT900*; OECD, *Monthly Statistics of Foreign Trade.*

## Brunei: foreign trade

(Br$ m)

| Imports cif | Jan-Dec 1985 | Jan-Dec 1986 | Jan-Dec 1987 | Jan-Dec 1988 | Jan-Dec[a] 1989 | Jan-Dec[a] 1990 |
|---|---|---|---|---|---|---|
| Food | 196.1 | 209.1 | 237.2 | 247.0 | 241.7 | n/a |
| Drink & tobacco | 70.5 | 84.9 | 79.9 | 69.4 | 64.0 | n/a |
| Mineral fuels | 23.9 | 14.6 | 15.6 | 13.6 | 14.6 | n/a |
| Chemicals | 95.1 | 101.5 | 93.2 | 99.0 | 102.4 | n/a |
| Manufactured goods | 289.9 | 305.7 | 330.6 | 354.7 | 433.2 | n/a |
| of which: | | | | | | |
| iron & steel | 90.1 | 68.9 | 115.1 | 100.8 | n/a | n/a |
| metal manufactures | 76.9 | 87.7 | 72.7 | 99.0 | n/a | n/a |
| Machinery & transport equipment | 456.3 | 550.8 | 402.8 | 490.4 | 597.8 | n/a |
| of which: | | | | | | |
| electric machinery | 94.3 | 138.3 | 95.8 | 135.2 | n/a | n/a |
| road motor vehicles | 127.0 | 132.0 | 104.5 | 124.8 | 150.5 | n/a |
| Total incl others | 1,348.4 | 1,457.0 | 1,351.1 | 1,497.3 | 1,675.0 | 1,847.8 |

| Exports fob | Jan-Dec 1986 | Jan-Dec 1987 | Jan-Dec 1988 | Jan-Dec 1989 | Jan-Dec[a] 1990 | Jan-Dec[a] 1991 |
|---|---|---|---|---|---|---|
| Mineral fuels & lubricants | 3,877.7 | 3,906.8 | 3,359.5 | 3,558.3 | 4,164.1 | 4,125.4 |
| Total incl others | 3,990.0 | 4,005.6 | 3,463.4 | 3,693.5 | 4,316.5 | n/a |

[a] Ministry of Finance, Economic Planning Unit estimates.

Source: National sources.

## Brunei: direction of trade

(US$ m)

| Total exports fob[a] | Jan-Dec 1994 | Jan-Dec 1995 | Jan-Dec 1996 | Jan-Dec 1997 | Imports cif[a] | Jan-Dec 1994 | Jan-Dec 1995 | Jan-Dec 1996 | Jan-Dec 1997 |
|---|---|---|---|---|---|---|---|---|---|
| Japan | 1,079 | 1,220 | 1,269 | 1,279 | Singapore | 897 | 1,612 | 1,881 | 1,535 |
| UK | 416 | 182 | 411 | 498 | UK | 595 | 444 | 921 | 1,005 |
| Singapore | 189 | 203 | 204 | 193 | Malaysia | 287 | 318 | 358 | 298 |
| Thailand | 166 | 263 | 195 | 79 | US | 414 | 209 | 413 | 196 |
| Taiwan | 56 | 46 | 73 | 68 | Japan | 147 | 144 | 145 | 164 |
| Total incl others | 2,115 | 2,108 | 2,374 | 2,375 | Total incl others | 3,133 | 3,513 | 4,701 | 3,946 |

[a] *DOTS* estimates.

Source: IMF, *Direction of Trade Statistics*, yearbook.