I. ECONOMIC ENVIRONMENT

(1) INTRODUCTION

1. Between 2005 and 2008, Malaysia's economy continued to grow steadily, although the speed of growth slowed in the fourth quarter of 2008 (Table I.1). In the first quarter of 2009, the economy deteriorated markedly, as in many other countries, reflecting the global financial crisis and associated sharp fall in exports. The Government responded promptly, with both macroeconomic and structural policies. In 2009, the Government relaxed restrictions on foreign investment, particularly in services. This relaxation reflects an intensification of the Government's efforts to promote services, in addition to high-tech manufacturing. Malaysia also intends to reduce reliance on exports of manufactured goods that are dependent on semi-skilled and low-cost labour. The goal is to increase services' share of GDP from around half to 60% by 2020.

Table I.1
Selected macroeconomic indicators, 2005-09

	2005	2006	2007	2008	2009[a]
National accounts			*(Percentage change)*		
Real GDP (at 2000 prices)	5.3	5.8	6.2	4.6	-3.0
Consumption	8.5	6.4	9.6	9.0	1.7
Private consumption	9.1	6.8	10.4	8.5	1.6
Government consumption	6.5	5.0	6.5	10.9	2.2
Gross fixed capital formation	5.0	7.5	9.6	0.8	1.0
Exports of goods and non-factor services (XGS)	8.3	6.6	4.5	1.3	-15.6
Imports of goods and non-factor services (MGS)	8.9	8.1	6.0	1.9	-14.4
XGS/GDP (%) (at current market price)	117.5	116.5	110.5	103.6	89.3
MGS/GDP (%) (at current market price)	94.6	93.9	90.2	80.5	72.1
Unemployment rate (%)	3.5	3.3	3.2	3.3	3.9
Productivity			*(Percentage change)*		
Productivity growth	2.7	3.7	4.2	4.3[a]	..
Prices and interest rates[b]			*(Per cent)*		
Inflation (CPI, % change)	3.0	3.6	2.0	5.4	..
Fixed 3-months deposit rate	3.02	3.19	3.15	3.04	..
Savings deposit rate	1.41	1.46	1.44	1.40	..
Money, credit (end period)[c]			*(Percentage change)*		
Narrow money (M1)	8.5	13.7	19.6	8.3	..
Broad quasi money	8.2	13.3	7.3	12.6	..
M3	8.3	13.0	9.5	11.9	..
Credit to private sector (households)	8.7	6.6	8.5	11.9	..
Exchange rate					
RM/US$ (annual average)	3.787	3.668	3.438	3.336	..
Real effective exchange rate (% change)	-0.4	2.7	3.6	-0.6	..
Nominal effective exchange rate (% change)	0.4	4.0	3.4	0.8	..
			(Per cent of GDP, unless otherwise indicated)		
Overall Government balance	-3.6	-3.3	-3.2	-4.8	..
Current Government balance	1.6	2.8	2.6	0.9	..
Current revenue	20.3	21.5	21.9	21.6	..
Tax revenue	15.4	15.1	14.9	15.3	..
Current expenditure	18.7	18.7	19.2	20.8	..
Development expenditure	5.2	6.1	5.9	5.7	..
Government total debt (end-period)	43.8	42.2	41.7	41.5	..
Domestic debt	38.0	37.8	38.6	38.7	..

Table I.1 (cont'd)

	2005	2006	2007	2008	2009[a]
Saving and investment					
Gross national savings	35.0	37.2	37.4	36.5	32.6
Gross domestic investment	20.0	20.5	21.7	19.1	19.3
Savings-investment gap	15.0	16.7	15.7	17.5	13.3
External sector					
Current account balance	15.0	16.7	15.7	17.5	13.3
Net merchandise trade	24.7	23.9	20.0	23.1	17.4
Merchandise exports	103.2	102.7	94.7	89.9	76.2
Merchandise imports	78.6	78.8	74.8	66.8	58.8
Services balance	-1.8	-1.3	0.4	0.0	-0.1
Capital account	0.0	0.0	0.0	0.1	..
Financial account	-7.1	-7.5	-5.9	-16.0	..
Direct investment	0.7	0.0	-1.4	-3.5	..
Balance-of-payments	2.6	4.4	7.1	-2.5	..
Merchandise exports[d] (% change)	11.4	9.8	2.7	9.6	-20.0
Merchandise imports[d] (% change)	8.3	10.5	5.6	3.3	-18.6
Service exports[d] (% change)	14.2	7.0	27.4	-0.2	-9.8
Service imports[d] (% change)	14.6	3.4	14.0	2.0	-8.8
International reserves, net (US$ billion, end-period)	70.2	82.5	101.3	91.5	95.9[g]
in months of imports	7.7	7.8	8.4	7.6	9.5[g]
Foreign exchange reserves[e], net (US$ billion, end-period)	66.2	78.4	95.0	85.7	..
Total external debt (US$ billion, end-period)	51.8	51.7	56.0	67.4	..
of which short term	12.3	12.0	16.3	22.7	..
Debt service ratio[f]	5.4	4.8	3.8	2.6	..

.. Not available.

a Estimates.
b Commercial bank's annual interest rate.
c M1 consists of currency in circulation and demand deposits. Broad quasi money consists of fixed and savings deposits, negotiable instruments of deposits, repurchase agreement, foreign currency deposits and other deposits. M3 equals the sum of M1 and M2.
d Annual exchange rate based on trade figures in Malaysian ringgit.
e International reserves excluding gold, Special Drawing Rights, and Reserve Position in the IMF.
f Debt service on medium- and long-term debt in per cent of exports of goods and services.
g As at 15 October 2009.

Source: Bank Negara Malaysia (2009), *Monthly Statistical Bulletin*, June, and *Annual Yearbook 2008;* IMF (2009), *International Financial Statistics*; and information provided by the Malaysian authorities.

2. Real growth in Malaysia was 4.6% in 2008 (down from 6.2% in 2007). With exports declining significantly in the second half of the year, there was a decrease in the contribution of external demand, the country's traditional source of growth. Consequently, the unemployment rate increased slightly to 3.3% in 2008 (3.2% in 2007). The consumer price index (CPI) increased by 5.4% in 2008 (2.0% in 2007), mainly reflecting the sharp rise in commodity prices in the first half of the year.[1] Higher commodity prices partly, if not fully, explain the rise in the shares of agriculture and mining and quarrying in GDP and the decline in the shares of manufacturing and services (Table I.2).[2]

[1] Domestic food and fuel prices declined in the fourth quarter of 2008.

[2] In 2008, services mainly contributed to the overall growth, although a slowdown in services subsectors that were dependent on trade and/or activities related to capital market moderated the growth of services in the second half of the year; manufacturing grew in the first half of 2008 but deteriorated in the second half in line with the worsening of global demand.

Table I.2
Basic economic and social indicators, 2005-09

	2005	2006	2007	2008	2009[a]
Real GDP at market prices (RM million, 2000 prices)	449,250.0	475,526.0	504,920.0	528,311.0	512,447.0
Real GDP at market price (US$ million, 2000 prices)	118,626.7	129,635.7	146,882.8	158,494.9	142,946.0
Current GDP at market price (RM million)	522,445.0	574,441.0	639,788.0	738,677.0	691,927.0
Current GDP at market price (US$ million)	137,954.2	156,601.1	186,116.4	221,605.3	193,012.0
GDP per capita at current market price (RM)	19,995.8	21,562.9	23,544.5	26,639.4	24,441.0
GDP per capita at current market price (US$)	5,280.0	5,878.4	6,849.0	7,991.9	6,818.0
			(Annual percentage change)		
GDP by economic activities at constant 2000 prices					
Agriculture	2.6	5.2	1.4	4.0	-2.3
Mining and quarrying	-0.4	-1.0	2.0	-0.8	-2.9
Manufacturing	5.2	6.7	3.1	1.3	-12.1
Construction	-1.5	-0.3	4.7	2.1	-1.4
Services	7.2	7.4	9.6	7.2	3.5
Electricity, gas, and water[b]	5.7	4.9	4.0	2.2	2.1
Wholesale and retail trade	9.2	7.0	12.3	9.8	1.2
Restaurants and hotels	6.4	5.6	10.8	7.3	3.2
Transport, storage, and communication	6.1	7.0	8.4	6.7	-3.3
Finance and insurance	6.3	7.7	10.9	7.7	3.0
Real estate and business activities	11.4	10.9	18.1	1.5	1.0
Government services	7.5	10.0	4.8	11.1	2.6
Other services	4.3	4.5	5.0	5.2	4.9
			(Per cent)		
GDP by economic activities at current prices					
Agriculture	8.4	8.8	10.2	10.2	..
Mining and quarrying	14.4	14.9	14.4	17.2	..
Manufacturing	29.6	29.4	27.9	26.3	..
Construction	3.0	2.8	2.8	2.7	..
Services	46.7	46.3	46.7	45.3	..
Electricity, gas, and water[b]	2.7	2.6	2.5	2.3	..
Wholesale and retail trade	10.6	10.5	10.8	11.0	..
Restaurants and hotels	2.2	2.2	2.2	2.2	..
Transport, storage, and communication	6.9	6.8	6.7	6.2	..
Finance and insurance	8.4	8.5	8.3	7.8	..
Real estate and business activities	4.1	4.1	4.5	4.0	..
Government services	6.6	6.6	6.9	7.3	..
Other services	5.3	5.0	4.8	4.5	..
Other[c]	-2.1	-2.2	-2.0	-1.7	..
Share of sector in total employment					
Agriculture	12.9	12.5	12.2	12.0	12.0
Mining and quarrying	0.4	0.4	0.4	0.4	0.4
Manufacturing	28.8	28.9	28.9	29.0	28.4
Construction	7.0	6.8	6.6	6.6	6.6

Table I.2 (cont'd)

	2005	2006	2007	2008	2009[a]
Services	51.0	51.5	51.9	52.0	52.6
Electricity, gas, and water	0.9	0.9	0.8	0.8	0.8
Transport, storage, and communication	5.8	5.8	5.8	5.8	5.8
Wholesale, retail trade; hotels and restaurants	17.1	17.3	17.2	17.2	17.3
Finance, insurance, real estate, and business	6.7	6.9	6.9	6.9	7.0
Government services	10.3	10.3	10.8	10.8	11.0
Other services	10.3	10.3	10.4	10.5	10.7

a Estimates.
b In the data source indicated below, electricity, gas, and water are classified under "services".
c Including import duties less imputed bank service charges.

Source: Bank Negara Malaysia (2009), *Monthly Statistical Bulletin, June*; Ministry of Finance (2009), *Economic Report 2008/09*; and information provided by the Malaysian authorities.

3. Malaysia's development of export-oriented production remains highly successful, and trade plays an important role in the economy. The share in GDP of trade (exports plus imports) of goods and services was around 184% in 2008 (compared with 212% in 2005). Between 2005 and 2008, Malaysia's gross national savings rate remained among the highest in the world, averaging about 37% of GDP; its gross domestic investment averaged some 20% of GDP. The large and growing gap between gross national savings and gross domestic investment is reflected in a corresponding current account surplus, which rose from 15.0% of GDP in 2005 to 17.5% in 2008; the increasing gap was due to an overall rise in gross national savings in relation to GDP over 2005-08, and a substantial decrease in gross domestic investment in 2008. As at 28 August 2009, Malaysia's foreign currency reserves were around US$93.3 billion, which is equivalent to about 9.3 months of Malaysia's imports.

4. In the first quarter of 2009, the Malaysian economy was heavily affected by the deepening global economic recession, contracting by 6.2%.[3] The economy contracted by 3.9% in the second quarter, against the background of higher public spending and positive growth in private consumption. Healthy foreign exchange reserves, a relatively small external debt, as well as ongoing financial and corporate sector restructuring are positive factors that have enabled Malaysia to withstand the global financial crisis. Nonetheless, the economy remains vulnerable to downturns in the United States, Europe, and Japan, its top export destinations and key sources of foreign investment. The Government's forecast for real GDP growth in 2009 is about -3%; it expects the economy to grow by around 2% to 3% in 2010. Significant challenges for Malaysia include the speed at which new domestic sources of growth are found; this depends considerably on gains in total factor productivity (TFP), and resolving the problem of the shortage of skills.[4] The Government aims to meet these challenges by promoting further competition through, *inter alia*, unilateral trade liberalization, recognizing the importance of keeping its market open to foreign competition, and relaxing FDI restrictions. It also intends to promote structural reform, for example, facilitating the diversification of the economy by encouraging services sectors by, *inter alia*, reducing, if not eliminating, barriers to trade in services.

5. Import competition is also expected to intensify as domestic barriers are being dismantled through regional/bilateral FTAs and through WTO negotiations. Nonetheless, several long-standing barriers to trade and foreign direct investment still constitute potentially important impediments to Malaysia's recovery from the crisis. A more liberal trade and investment regime, as has recently been

[3] The first contraction since the third quarter of 2001.
[4] A Mid-term Review of the Ninth Malaysia Plan (2006-10), which was announced in June 2008, indicated that the contribution of TFP to GDP was expected to be 36.2% during the period.

adopted in some services subsectors, would contribute greatly to Malaysia's long-term economic growth.

6. Monetary policy has become more accommodative since November 2008, as the Bank Negara Malaysia (BNM – Central Bank) lowered its overnight policy rate, after having maintained the rate unchanged for more than two years. Restrictions on foreign exchange transactions have been further liberalized. Although federal government debt has continued to rise, the Government has employed fiscal stimulus packages, amounting to RM 67 billion since November 2008, to mitigate negative effects of the global financial crisis; the Government aims to reduce the budget deficit to a sustainable level in the medium term, without cutting spending so substantially that it may slow the economy too abruptly. An early recovery of the Malaysian economy would not only depend on prudent macroeconomic policies but also on structural reforms. The Government's main objective for the structural reform is to promote competition, enhance the services sector, and move up the value chain in manufacturing.

(2) MACROECONOMIC POLICIES AND DEVELOPMENTS

(i) Monetary and exchange rate policies

7. According to the authorities, Malaysia's monetary policy since 2006 has reflected its responses to various risks. These risks included rising energy and commodity prices in the global markets, uncertainties in the global financial markets, and demand conditions in Malaysia's main export markets. While the Overnight Policy Rate (OPR) was raised in February 2006 (to 3.25%) and April 2006 (to 3.50%) against a background of rising energy and commodity prices, it remained unchanged until 24 November 2008, when the BNM lowered it to 3.25% as a pre-emptive measure aimed at providing a more accommodative environment. The OPR was further lowered in January 2009 (to 2.5%) and February 2009 (to 2.0%).

8. The authorities state that the exchange rate regime for the ringgit has remained largely unchanged since 21 July 2005. It is under a "managed float" system based on a basket of currencies; the ringgit rises or falls within a trading band based on the weighted values of a number of selected currencies.[5] Malaysia's rules on foreign exchange administration have been gradually liberalized during the review period with a view to promoting the competitiveness of the economy.[6] The authorities consider that the economic benefits of liberalizing foreign exchange administration outweigh the risks and costs involved, and that liberalization has led to positive economic benefits for the country by reducing the cost of doing business and facilitating the sound and healthy development of the financial system, while maintaining monetary and financial stability, in Malaysia.

[5] Although details on the basket of countries are not revealed, it is widely assumed that among the currencies used are the Chinese yuan, Singapore dollar, Japanese yen, the U.S. dollar, and the euro.

[6] Changes adopted on 1 April 2007 include: expansion of the scope of licensed onshore banks' foreign currency businesses; facilitation of investments in ringgit assets by non-residents; an increase in the limit of foreign currency borrowing by resident corporations; an increase in the limit of residents to invest in foreign currency assets; and increasing flexibilities concerning cross-border use of proceeds from the listing of shares through initial public offering on the Bursa Malaysia (stock exchange). For details of current foreign administration rules and restrictions on foreign exchange transactions in Malaysia, see BNM (various issues); and BNM online information on foreign exchange administration. Viewed at: http://www.bnm.gov.my/fxadmin [12.10.2009].

Fiscal policy

9. Malaysia has become less dependent on trade-related revenues; thus, trade liberalization is not likely to be constrained by fiscal concerns. The shares of import and export duties have slightly declined; in 2008 they accounted for 2.3% and 2.5%, respectively, of the total tax revenue (4.2% and 2.6%, respectively, in 2005) (Chapter III(4)(ii)).[7] Since its previous Review, consolidation has been the main focus of Malaysia's fiscal policy. The federal government debt amounted to RM 229 billion (about 44% of GDP) in 2005 and RM 303 billion (about 41%) in 2008. The fiscal deficit was gradually reduced from 3.6% of GDP in 2005 to 3.2% in 2007. Nonetheless, there was a reversal of the trend in 2008, when the deficit rose to 4.8%, reflecting, *inter alia*, increased subsidies to address the rising cost of fuel and food.

10. In view of an envisaged downturn in the international economy, the 2009 Budget, announced on 29 August 2008 was expansionary, allocating expenditure of RM 207.9 billion, an increase of 5.1% from the revised 2008 Budget. In the wake of the global financial crisis, fiscal policy has become more accommodative. Moreover, to mitigate the effects of the crisis on Malaysia's economy, a fiscal stimulus package of RM 7 billion was announced on 4 November 2008; spending was to be on projects that would involve "high multiplier effect and low import content".[8] In March 2009, the Government announced another fiscal stimulus package worth RM 60 billion (about 9% of GDP), to be implemented during 2009 and 2010. The package includes a fiscal injection (RM 15 billion), guarantee funds (RM 25 billion), equity investments (RM 10 billion), private finance initiative (RM 7 billion), and tax incentives worth RM 3 billion. The package is intended to: provide training and create employment opportunities for local workers; expand opportunities for post-graduate education; ease the burden of the poor; provide private companies with capital guarantees and other financial assistance[9]; increase investment by Khazanah, the Government's investment arm for various "government-linked companies (GLCs)" for projects that are deemed to have "high multiplier effects and create more job opportunities". These fiscal packages are likely to raise fiscal deficits for the coming years.[10]

(ii) Structural policies

(a) Structural reform

11. Because of the sharp deterioration in external demand and consequent fall in Malaysia's exports, one of the Government's main objectives is to restructure Malaysia's economy so as to increase its reliance on domestic demand. The authorities consider that expansion in private

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[7] The share of petroleum income tax in Malaysia's tax revenue amounts to 21.4% in 2008 (Chapter III(4)(iii)), indicating the importance of a fully state-owned Petronas as a source of revenue and possible off-budget expenditures in lieu of the Government.

[8] According to the authorities, this may include: upgrading, repair, maintenance, and refurbishment of schools, police stations, hospitals, and public housing for the police and armed forces, roads and bridges in rural areas; building of low-cost houses; improvement of public transport infrastructure; and human capital development.

[9] For example, a speech by the Minister of Finance on 10 March 2009 lists an additional allocation of RM 200 million to the Automotive Development Fund, and a subsidy of RM 5,000 per purchase of a new Proton or Perodua cars if the purchaser scraps an old car that he/she currently owns.

[10] The authorities maintain that the expected high deficit is necessary in stimulating economic activity because of the deteriorating external demand. The deficit is to be funded entirely from domestic borrowings, given the ample liquidity in the banking and financial system, high savings rate and the slowing private investment. The Government is to resume fiscal consolidation when the economy recovers. Efforts are being intensified to diversify the economy, enhance revenue collection, and reduce dependence on oil, as well as to diversify sources of energy, and promote energy efficiency.

consumption and public spending are essential for the achievement of this objective. In the "new economic model", whose details are currently being developed, the Government aims to shift its industrial structure to be more reliant on services and less on manufacturing (and its exports); it intends to raise services' share of GDP to 60% by 2020. At the same time, the Government has largely refrained from setting up additional barriers to trade, and instead introduced various unilateral measures to liberalize international trade and foreign investment, especially in services, in order to facilitate this restructuring.

12. The Government has continued to take action to address structural weaknesses, by fostering improvements in productivity, and thereby establish a more solid basis for future growth. The Ninth Malaysia Plan aims at 6% annual growth in 2006-10 with the ultimate objective of becoming a fully developed nation by 2020. The goals of the "National Mission", a policy framework for the period 2006-20, which includes the Ninth Malaysia Plan (NMP), are: moving the economy up the value chain; raising Malaysia's capacity for knowledge and innovation; addressing persistent socio-economic inequalities; improving the standard and sustainability of quality of life; and strengthening the institutional and implementation capacity of the country. In the mid-term review of the NMP in 2008, with a view to achieving the National Mission, the authorities stressed, *inter alia,* the importance of pursuing multilateral trade arrangements and free-trade agreements.

13. Financial sector reforms to introduce further competition have been adopted since 2006; in particular, restrictions on FDI were partially relaxed in April 2009 (Chapter IV(6)(ii)). Accordingly, foreign equity restrictions on some financial service providers (e.g. fund management companies providing wholesale services, trust management companies providing retail services, and stock-broking companies) were relaxed and new boards for Bursa Malaysia (stock exchange) were established in August 2009. The Government also aims to strengthen its capital market in accordance with the Capital Market Master Plan (CMMP), announced in 2001, to establish an internationally competitive capital market (equity and bond markets).

(b) Reform of corporate sector, including government-linked companies

14. The Government continues to play an active role in the development and industrialization of the Malaysian economy. This includes significant state investment, a number of policies and programmes to improve the economic status of indigenous communities[11], and a close alliance between government and private business. Nonetheless, the Government appears to place more emphasis on competition than previously, making efforts to draft competition-related laws (Chapter III(4)(vii)). The corporate sector too has been strengthened further by, *inter alia*, the introduction of revised rules on corporate governance and an amendment to the Companies Act introducing more stringent requirements for corporate executives. Concurrently, "the Putrajaya Committee on GLC High Performance" (a committee comprising Khazanah, the Government's arm for holding and overseeing 34 partially state-owned firms, or government-linked companies (GLCs)[12], and other government-affiliated entities), has been pursuing programmes to make GLCs more competitive, in accordance with the GLC Transformation Program. Nonetheless, the Government's

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[11] The *bumiputera* majority continues to receive preferential access to education, housing, jobs, business licences, public sector contracts, government grants, bank credit, and share capital; in April 2009, the Government announced that it would review such preferential access in the near future.

[12] GLCs play an important role in the Malaysian economy through the provision of critical services such as transport, energy, telecommunications, and financial services. The 34 GLCs' stakes are held by Khazanah Nasional Berhad. Other government-affiliated entities in Malaysia include Petronas, the Employees Provident Fund, and Permodal Nasional Berhad, a non-financial public enterprise managing unit trusts and property trusts for the *bumiputera* community.

guidelines for GLCs in their procurement policies is to promote the use of local content (Chapter III(4)(vi)).

(3) DEVELOPMENTS IN TRADE AND FOREIGN INVESTMENT

15. Malaysia was the world's 13th largest exporter (counting EU27 as one)[13] and 16th largest importer in 2007. Exports remain essential for Malaysia, and as an open economy, its international trade performance depends to a considerable extent on world growth and expansion in global trade. Merchandise trade has grown by an average of 11.2% annually since 2004, with total exports of goods equivalent to about 117% of nominal GDP in 2008, and imports equivalent to about 94%.

(i) Composition of trade

16. Exports of manufactured goods increased between 2004 and 2008, but their share in Malaysia's total exports declined; in 2008, manufactures accounted for 54.2% of Malaysia's total exports in 2008, down from 75.5% in 2004, reflecting a substantial decrease in the shares of electronic integrated circuits and micro-assemblies, against the background of lower external demand for semiconductors, electronic equipment and parts, and an increase of shares in agriculture and fuels against the background of high world prices of food and commodities (Chart I.1 and Tables AI.1 and AI.2). The shares of electronic integrated circuits and micro-assemblies in imports also fell substantially in 2008, perhaps reflecting the large portion of imported parts used in electronic goods production in Malaysia. As a consequence of Malaysia's traditionally heavy dependence on electronic and electrical goods, it is vulnerable to fluctuations in global demand for these products.

(ii) Direction of trade

17. Malaysia's trade flows have become more diversified since its previous Review. In addition to its four largest main trading partners (the United States, Singapore, the EU27, and Japan), which together accounted for 49.3% of exports and 46.0% of imports in 2008 (down from 56.4% and 53.7%, respectively, in 2004), China's share in Malaysia's trade has been increasing (Chart I.2 and Tables AI.3 and AI.4). Singapore became Malaysia's largest export market in 2008, as the share of the United States dropped substantially; in the same year, China became Malaysia's principal source of imports, followed by Japan, whose share of total imports has been declining gradually. Trade between Malaysia and other ASEAN economies has remained largely stable in terms of shares.

(iii) Trade in services

18. Malaysia's cross-border sales (exports) and purchases (imports) of services both reached US$30 billion in 2008 (Table I.3). The services account of the balance of payments turned into a surplus in 2007, reflecting a substantial increase in exports of tourism (travel) services; the surplus slightly decreased in 2008. Tourism has grown steadily since the late 1980s and is now Malaysia's main services export.

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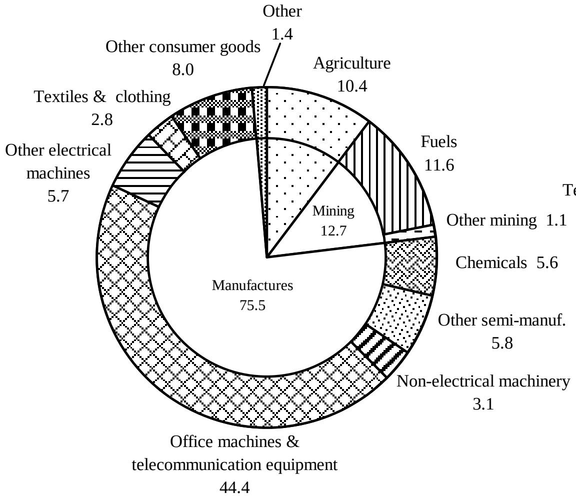
[13] On 1 December 2009, the *Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community* (done at Lisbon, 13 December 2007) entered into force. On 29 November 2009, the WTO received a Verbal Note (WT/L/779) from the Council of the European Union and the Commission of the European Communities stating that, by virtue of the *Treaty of Lisbon*, as of 1 December 2009, the European Union replaces and succeeds the European Community.

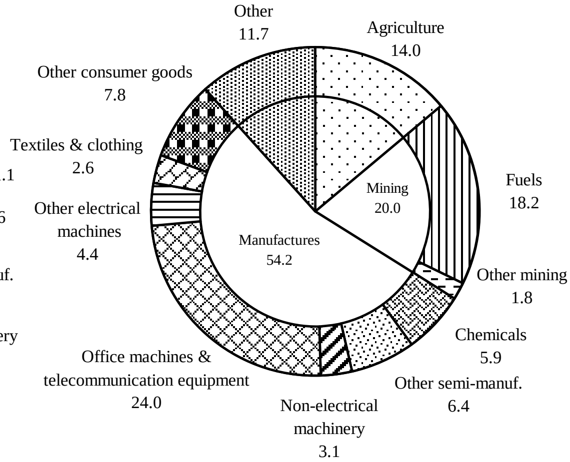
Chart I.1
Product composition of merchandise trade, 2004 and 2008

Per cent

2004 **2008**

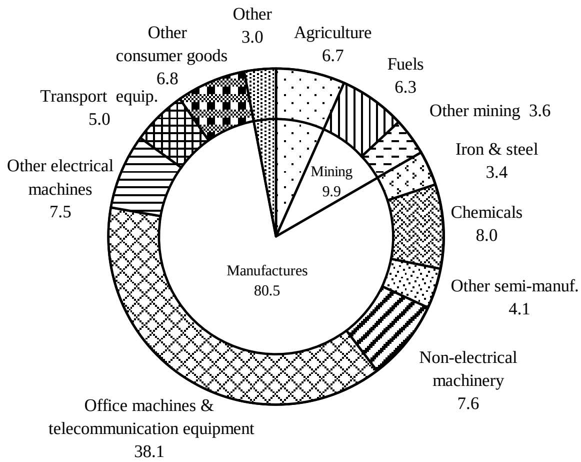
(a) Exports (f.o.b.)

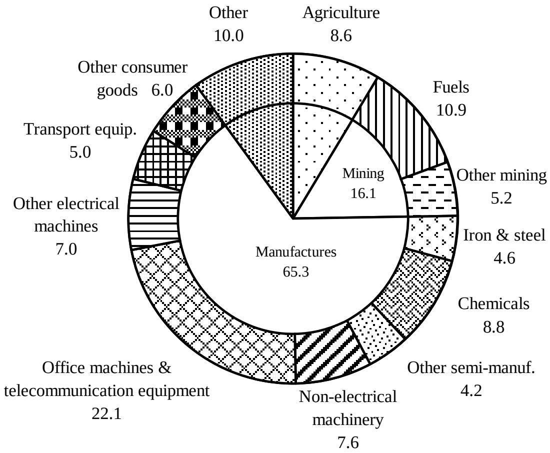




Total: US$126.6 billion **Total: US$198.8 billion**

(b) Imports (c.i.f.)





Total: US$105.2 billion **Total: US$156.2 billion**

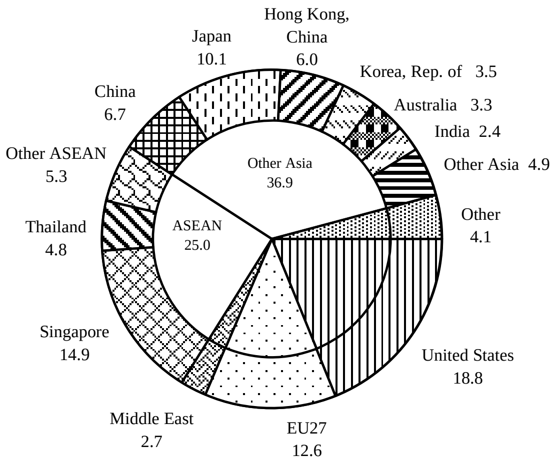
***Source*: UNSD, Comtrade database (SITC Rev.3).**

Chart I.2
Direction of merchandise trade, 2004 and 2008

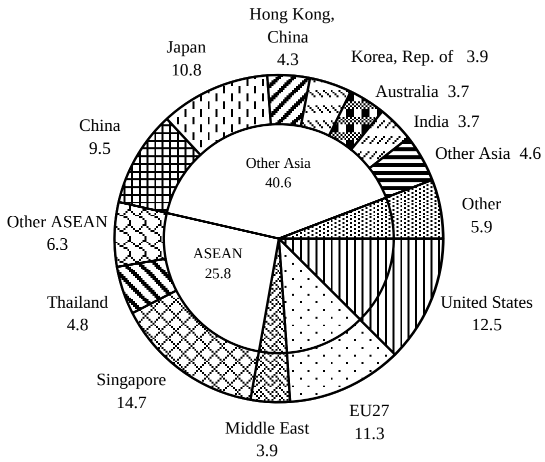
Per cent

2004	2008

(a) Exports (f.o.b.)

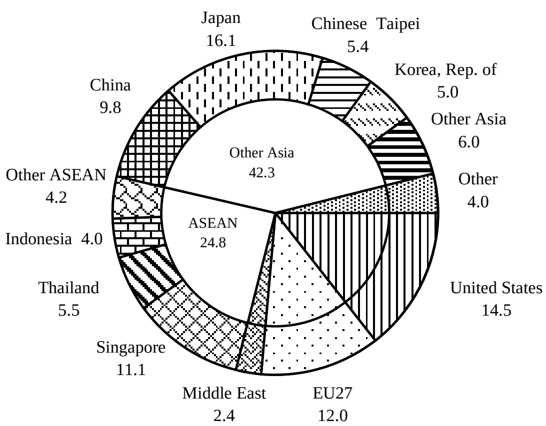


Total: US$126.6 billion

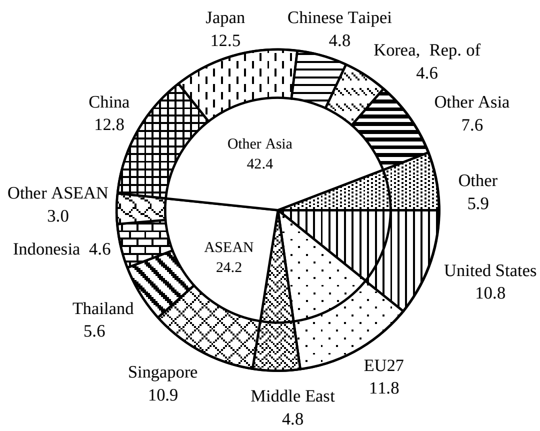


Total: US$198.8 billion

(b) Imports (c.i.f.)



Total: US$105.2 billion



Total: US$156.2 billion

***Source*: UNSD, Comtrade database (SITC Rev.3).**

Table I.3
Malaysia's trade in commercial services, 2005-08
(US$ million at current prices)

	2005	2006	2007	2008
Exports				
Commercial services[a]	19,499.84	21,559.71	29,363.46	30,253.00
Transportation	4,174.04	4,148.35	7,151.02	6,743.31
Travel	8,846.70	10,424.60	14,047.44	15,276.91
Other commercial services	6,479.10	6,986.77	8,165.00	8,232.78
Imports				
Commercial services[a]	21,945.56	23,410.92	28,559.51	30,031.65
Transportation	8,366.99	9,527.26	10,983.18	11,360.01
Travel	3,913.42	4,254.46	5,577.88	6,728.77
Other commercial services	9,665.14	9,629.20	11,998.45	11,942.88

a Excluding government services.

Source: Bank Negara Malaysia (2009), *Monthly Statistical Bulletin*, June; and WTO Secretariat calculations.

(iv) Trends in foreign direct investment

19. During 2001-08, Malaysia received a net inflow of FDI worth 3.1% of GDP; the stock of FDI increased from RM 129 billion to RM 253.8 billion (about 34.4% of GDP). Net FDI inflows decreased to RM 26.7 billion in 2008, from RM 29.1 billion in 2005. According to a report by the Bank Negara Malaysia, whereas about 45% of inward FDI was channelled into manufacturing (and 26% into oil and gas) in 2008, only 27% went into services; the recent relaxation of restrictions on foreign investment, especially in services, should help redress this imbalance. Malaysia's outward FDI rose to RM 50.2 billion in 2008, from RM 38.2 billion. According to the authorities, outward FDI was mainly in finance and insurance, communication, electricity, oil and gas, water, process equipment manufacturing, electrical and electronic manufacturing, and cement.