MALAYSIA
SEPTEMBER 2009

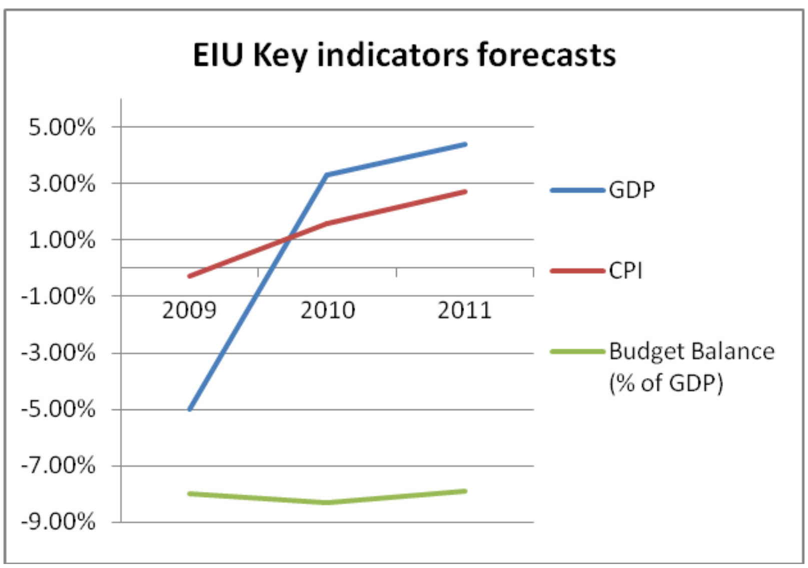
CREDIT GUARANTEE COUNTRY PROFILE: IES/02: ATTACHMENT N

Country Rating	S/T Business Cycle Indicator	S/T Political Indicator	Debt Recovery
2B	↓/ →	→	Debt collection through the use of a collection agent is advised.

Credit Guarantee Experience
We are open for cover without any restrictions. Exporters must ensure that they have taken the necessary precautions in managing payment risks, particularly when dealing on open account.

Political Highlights
- Chief of state since December 2006 is King-Sultan Mizan Zainal Abidin and he serves a ceremonial role; the kings are elected by and from hereditary rulers of the nine states for five-year terms. Head of government since April 2009 is Prime Minister Abdul Razak. The cabinet is appointed by the prime minister from among members of parliament.

Economic Highlights
- The population of Malaysia is forecast to reach 28.3million by the end of this year.
- The government presented its five-year national development agenda in April 2006 through the Ninth Malaysia Plan, a comprehensive blueprint for the allocation of the national budget from 2006-10. It unveiled a series of ambitious development schemes for several regions that have had trouble attracting investment.
- Malaysia's GDP grew 4.6% in 2008, down from 6.3% in 2007. Malaysia's economy may shrink more than previously expected as the global recession reduces exports and household spending. The government cut its 2009 GDP forecast in May predicting a contraction of 4% to 5%, down from a previous prediction of 2.2%. It has lowered its 2010 growth forecast to 2.8% from 3.3%.
- The Malaysian Institute of Economic Research expects Malaysia to fall into recession after contracting for a second quarter in the three months to June. GDP is forecast to contract 6% in Q2'09, 4% in Q3'09 and expand 2% in Q4'09. The $187bn economy shrank 6.2% in Q1'09. Exports of goods are forecast to plunge 21.8% this year before growing 7.3% in 2010.
- Headline inflation registered a decline of -1.4% in June from 2.4% in May and is forecast to average 1.6% this year. The institute estimates unemployment at 4.8% in 2009.



- Prime Minister Razak unveiled $19bn of stimulus measures and eased foreign investment rules to shore up growth as plunging exports push the nation closer to its first recession in a decade. The IMF says Malaysia has limited room for additional fiscal stimulus should the country's economic condition deteriorate. Any decision on boosting spending should be in the medium term because the country has high budget deficits and rising debt.
- Malaysia's budget deficit widened from 3.2% of GDP in 2007 to 5.1% in 2008 and was the largest among the Southeast Asian countries. The budget deficit is forecast to exceed 8% of GDP this year and reach as much as 9%. The 2010 shortfall is expected to be bigger and the government will need to boost spending to support growth.

- Malaysia's manufacturing output shrank 13.1% in June, the smallest drop in seven months. Mining slid 3.4% while electricity production gained 2.5%, the first increase since last September. Overall industrial production contracted 12.7% in the first half of the year.
- Malaysia hopes to be in the global top ten of easiest countries to do business in by 2012. World's Bank Ease of Doing Business 2009 ranked Malaysia 20th out of 181 countries, up five places from 25th position in 2008. Another global measure from Switzerland's Institute of Management Development ranked Malaysia 18th out of 57 economies. Malaysia aspires to be a high-income economy within the next decade, through sharp growth led by productivity, innovation and creativity.
- The prime minister, who is also Finance Minister, has set his eyes on a 6% economic growth rate as he seeks to transform the country into a developed nation by 2020. Malaysia is committed to the greater path of liberalisation and deregulation and has scrapped rules that give Buniputeras (ethnic Malays and other indigenous peoples) 30% of all listed companies and allowed foreigners to hold more of local investment and Islamic banks among others. The government wants to transform the economy from being export-dependent to being services-based; share of services is to be increased from 55% of GDP to more than 60% by 2020.
- The Economist says although the scrapping of the equity requirement represents a partial liberalisation of the service sector, the wider economy will continue to feel the heavy hand of the government in the form of the dominance of government-linked corporations, excessive regulation and bureaucratic slowness.
- Permodalan Nasional Bhd, Malaysia's biggest asset manager, started a $2.8bn fund that will invest in publicly traded companies. The fund will focus on companies in the South eastern Asian nation but it will also invest in overseas companies that offer consistent, long-term returns. The fund is expected to boost the stock market and other investment instruments and be a catalyst to the country's economic growth.
- The ringgit has been the worst performer among the 10-most traded Asian currencies since from June 2009. The currency has been hurt by declining exports and will remain volatile until the economy recovers. The ringgit is however forecast to strengthen to 3.4 to 3.5 against the US-dollar by the end of 2009. International reserves at the central bank amounted to $91.2bn at the end of July 2009.
- Malaysia's central bank kept its benchmark interest rate unchanged in July for two straight meetings after reducing borrowing costs by 1.5 percentage points to 2% from November to February, saying the economy may improve in the coming months as the government implements stimulus measures.

<u>Trade Developments</u>

- For the first half of 2009, total exports recorded a decrease of 23.4%, while imports contracted by 26.3% compared to a similar period in 2008.
- Main exports: electrical & electronic products, palm oil and palm oil-products, liquefied natural gas, crude petroleum, timber & timber-based products and petroleum products.
- Major imports: machinery and transport equipment, manufactured goods and articles, chemicals, mineral fuels, lubricants and food.
- Major trade partners: Japan, US, Singapore, China, Thailand, Hong Kong, Taiwan, South Korea, Germany and Indonesia.
- South African exports to Malaysia totaled R2.8bn in 2007, R5.1bn in 2008 and R1.8bn in the year-to-May 2009. Imports from Malaysia totaled R7.5bn in 2007, R9bn in 2008 and R3.1bn in the year-to-May 2009. South Africa exports minerals, base metals, wood pulp, cane sugar and parts of locomotives to Malaysia and in turn imports palm oil, vegetable fats and oil, wood and wood articles, precision instruments, machinery and mechanical equipment and parts.
- Malaysia's services-based companies are in a strong position to become key players in the automotive, banking, construction, healthcare and the ICT sectors in South Africa. Proton cars have established strong branding within SA. Engen petrol stations which are majority owned by Petronas are also a market-leading brand in the region.
- South Africa slapped provisional antidumping penalties of 62% and 96% respectively on stainless steel kitchen sink imports from China and Malaysia at the end of April. Kitchen sinks are already subject to an import duty of 20%. According to Franke Kitchens Systems, a South African company, the Chinese and Malaysian products were undercutting the price of local products by 24% and 39% respectively, leading to price suppression, which meant the company could not recover manufacturing costs. Local manufacturers' output decreased as a result and this was threatening 500 jobs in the industry.
- On July 15, the International Trade Administration Commission of South Africa lifted the antidumping measures on weld stainless steel tube from Malaysia, China and Taiwan that has been in place following a 1998 investigation.
- The European Commission has opened a probe into whether Chinese exporters shipped steel ropes to the EU via South Korea and Malaysia to avoid a levy of 60.4%.
- China and the Association of South East Asian Nations (ASEAN) took a major step in mid-August to broaden economic cooperation by signing a deal to promote investment. The investment FTA calls for host countries (Indonesia, Brunei, Malaysia, the Philippines, Singapore, Thailand, Vietnam, Myanmar, Laos and Cambodia) to provide protection for foreign direct and portfolio investments and compensation against damages caused by riots and political disturbances. It also eased equity ownership and land acquisition.