

MALAYSIA

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In 2003, Malaysia's real Gross Domestic Product expanded by 5.2% from 4.2% in 2002. According to Bank Negara, Malaysia's Central Bank, economic growth in 2003 was balanced and broad-based across almost all sectors of the economy, buoyed by strong aggregate domestic demand, bullish commodity prices, a solid recovery in the services sector and improved exports. The growth in domestic demand was driven by strong consumer spending, continued recovery in investment activity and expansion in public sector expenditure.

Inflation during the year remained low and stable. The overall inflation rate was lower at 1.2% compared with 1.8% in 2002. Several factors combined that ensured inflation was benign. Although domestic demand strengthened, excess capacity in selected sectors and the absence of wage cost pressures amidst improving labour productivity, helped to contain price pressures. The local currency remained relatively stable, and continued to be pegged (since September 1998) at RM3.80: US\$1.00, which helped in strengthening the domestic economy. The unemployment rate remained low at 3.5% in 2003. Further measures were undertaken during the year to improve the quality of labour, and narrow the skills mismatches and address the changing demands of the economy.

Bank Negara has forecast a further economic growth in the region of 6.0% to 6.5% in 2004 based on stronger private consumption and investment activity, underpinned by improved economic and employment conditions and stronger balance sheets in both the corporate and financial sectors. Growth is expected to be stronger across all sectors of the domestic economy, with the services and manufacturing sectors being the main drivers of growth.

Minerals

The minerals sector in Malaysia (including oil and gas) expanded by 4.8% in 2003 compared with 3.7% in 2002. The growth was on the back of strong domestic and external demand, and expansion in production capacity stimulated by higher production of crude oil and natural gas. Following higher shipments of oil and gas as well as the significant increase in export prices, foreign exchange revenue from exports of minerals increased substantially during the year. Tin output, however, continued to decline in 2003 despite higher tin prices. The non-renewal and non-issuance of mining leases and the exhaustion of ore reserves were the primary reasons for the declining output.

Production of tin-in-concentrates fell in 2003 by 20.3% to 3,358 t from 4,215 t the previous year. Tin prices on the Kuala Lumpur Tin Market (KLTM), which is the only physical tin market in the Far East, strengthened in 2003. The

number of tin mines operating at end 2003 remained at 54 units, mostly open-pit operations, and contributing some 42.2% of Malaysia's total tin output.

The KLTM's average tin price for 2003 was US\$4,955/t compared with US\$4,035/t in 2002. Prices on the KLTM were easier during the early part of the year, but strengthened substantially towards year end. Trading on the KLTM followed the same pattern of tin trading on the London Metal Exchange (LME), which in turn followed a similar trend in the trading of other base metals. The highest tin price recorded during the year on the KLTM was US\$6,610/t on December 31, 2003, and the lowest price was US\$4,251/t recorded on January 1, 2003. The improved tin market during the year was on the back of a fundamentally strong global economy.

Stocks of tin in LME warehouses fell further during the year under review. At end 2003, LME high-grade tin stocks totalled 14,475 t, compared with 25,610 t at end of 2002, a substantial decline of 43.5%.

Tin stocks held by the US Defense National Stockpile Center (DNSC) also declined during the year. At end 2003, the DNSC stocks stood at 48,551 t compared with 57,027 t at end 2002, a reduction of 14.9%. The DNSC concluded five sales totalling 8,476 t during the year. Annual sales during its fiscal year, which starts on October 1, are authorised by the US Congress under its Defense Authorisation Act. For 2003, the DNSC was authorised to sell from its stockpile 12,000 t of tin per fiscal year.

Malaysia's domestic consumption of tin during 2003 rose in response to improved demand from the local tin-based products manufacturers. Tin consumed during the year totalled 4,080 t compared with 3,896 t recorded in 2002, an increase of 4.7%. The solder sector was the major local tin consumer, followed by the pewter and tinplate sectors.

Imports of tin-in-concentrates in 2003 for smelting by Malaysia's sole tin smelter, Malaysia Smelting Corp (MSC), totalled 7,966 t, a substantial decrease of 65.2% from the 22,908 t imported during the previous year. The decline was attributed largely to the ban of export of tin ore by Indonesia. Malaysia exported a total of 15,164 t of refined tin metal during the year, a decrease of 44.4% from 27,076 t exported in 2002. The total value of Malaysia's tin exports in 2003 was RM284 million, compared with RM425 million in the previous year. In the 1970s, Malaysia was the world's largest tin producer but output has since declined because of the depletion of ore reserves.

The production of other major mineral commodities – iron ore, gold, bauxite, silica sand, sand and gravel, kaolin and coal – again showed a mixed performance. During 2003, iron-ore output increased by 47.5% to 596,612 t from 404,350 t in 2002. Most of the increase came from the mines located in Pahang, whereas those operating in Perak and Terengganu recorded lower output. All of the country's iron-ore output was consumed by the domestic cement, and iron and steel plants.

Production of gold in Malaysia has been increasing since 1998. In 2003, gold output rose by 10.5% to 4,739 kg, from 4,289 kg in 2002. Production came from eight mines located in Pahang, Kelantan, and Terengganu. The largest mine, Penjom, is located in Kuala Lipis, Pahang, and operated by UK-based Avocet Mining plc.

Malaysia's ilmenite output is derived from two sources. First, as a by-product of alluvial tin mines, and second from a primary mine in Terengganu with the bulk coming from the former. Production of ilmenite in 2003 declined by 10.3% to 95,148 t, from 106,046 t produced in 2002, and essentially reflected the decline in tin mining during the year under review.

Bauxite production in 2003 also decreased, to 5,732 t, 86% lower than the 39,975 t produced in 2002. Bauxite is found in Johore, Sarawak and Pahang, but is mined only at two locations in Johore. As these mines have been operating for some considerable length of time now, their reserves are nearing exhaustion, hence the declining production. The bauxite is mostly exported to Japan in the form of upgraded ore. Although there is currently no aluminium smelter in Malaysia, three aluminium smelting projects are reportedly under active consideration.

Malaysia has substantial silica-sand resources comprising largely natural sand deposits and tailings at former tin mines. Malaysia's Minerals and Geoscience Department (MGD) estimates that the country has some 148.4 Mt of silica-sand deposits located in the states of Johore, Perak, Terengganu, Sabah, Kelantan and Sarawak. Most of the silica is used in the manufacture of glass products, and to a lesser extent in the production of ceramics, foundries, glasswool and water treatment materials. Production of silica in 2003 increased by 22.3% to 278,551 t, from 227,673 t in 2002.

Malaysia's abundant sand and gravel resources are important raw materials used in the construction and infrastructure sectors. These resources are found in rivers, alluvium, offshore areas and mine tailings located in the states of Perak, Kedah, Sarawak, Johore and Selangor. As the construction and infrastructure sectors are likely to recover in line with the strong recovery in Malaysia's economy, demand and production of sand and gravel are also expected to improve. Production in 2003 rose by 4.6% to 20.5 Mt, from 19.6 Mt in 2002.

Demand for aggregates for use in road-building and construction are also increasing. Aggregates are either quarried or extracted from river beds and consist mainly of granite and limestone rock types. They are abundant throughout the states of Perak, Selangor, Johore, Sabah and Sarawak. Production, declined slightly in 2003, by 1.3%, to 91.0 Mt.

Limestone is mainly used in the production of cement. It is also used to produce marble dimension stone, lime, calcium carbonate powder, terrazzo, chemicals and metallurgical flux. Quarrying for limestone are undertaken in the states of Perlis, Kedah, Perak, Selangor, Negeri Sembilan, Pahang, Kelantan, Sabah and Sarawak. The MGD has identified Malaysia's reserves

of limestone at some 11,391 Mt. In 2003, production of limestone was 19.2 Mt compared with 18.9 Mt in 2002, an increase of 1.6%.

Clay resources in Malaysia are also abundant. They are classified as common clay, ball clay, fire-clay, shale and earth materials. The clays are primarily used in making bricks, ceramics, cement and landfill. Deposits of clays are located in the states of Pahang, Selangor, Terengganu, Kelantan, Perak, Kedah, Pulau Pinang, Negeri Sembilan, Johore and Sarawak. Production of clays in 2003 declined to 22.7 Mt or 1.7% from 23.1 Mt in 2002.

Kaolin is produced in the states of Perak, Johore, Sarawak and Kelantan. Perak, however, has the largest deposit of kaolin in the country. Malaysia's output of kaolin in 2003 increased by 46% to 376,958 t from 258,273 t in 2002. The MGD has identified that the country has a kaolin reserve of some 112 Mt.

Malaysia has limited resources of feldspar, which are located mainly in the states of Negeri Sembilan, Perak, Johore and Kedah. They are in the form of pottery stone (quartz-sericite rock) and feldspathic sand (granite quarry dust). Feldspar is used locally by the glass ceramic industries. Production of feldspar in 2003 decreased by 12% to 27,000 t from 30,819 t in 2002.

Coal deposits in Malaysia are located in the states of Sarawak, Sabah, Selangor, Perak and Perlis. However, current production of coal comes from Sarawak and Sabah only. Malaysia's total coal reserves as estimated by the MGD are some 1,711 Mt comprising 275 Mt measured, 346 Mt indicated and 1,090 Mt inferred. Output in 2003 decreased by 51% to 172,820 t, from 352,513 t produced in 2002.

Malaysia's current annual coal demand is about 9 Mt, which may rise to 19 Mt by 2010. The country imports most of its requirements from Indonesia, Australia and China. Most of the coal is consumed for power generation and in cement plants, and to a lesser extent in the iron and steel plants. The country aims to boost its coal share of the overall energy mix from the present 18.2% to 37% by 2010. Malaysia's present domestic energy mix under its National Five-Fuel Policy comprise oil, gas, hydro power, coal and renewable energy. Oil, gas and coal account for 80% of the mix, hydropower 12% and renewable energy 3%.

Malaysia's mining industry is fairly labour-intensive. The total number of workers directly employed at end 2003 was 3,224, an increase of 7.5% from 3,000 workers employed at end 2002. These numbers, however, do not include those employed by contractors engaged in mining activities, which are believed to be quite substantial.

Mineral exploration activities undertaken throughout the country during the year under review were again at a minimal level as reported by the MGD. Malaysia formulated a National Mineral Policy in 1994, which aims to attract and provide a conducive climate for investment towards enhancing development in the country's minerals industry.

Crude oil and gas

Malaysia's crude oil production in 2003, including condensates, increased by 5.4% to 736,000 bbl/d from 698,462 bbl/d in 2002. This was close to the year's production target of 626,000 bbl/d under Malaysia's National Depletion Policy. The policy, introduced in 1980, is to safeguard the exploitation of national oil reserves by postponing the development and control of the production of major oil fields with reserves of 400 Mbbl or more. The increase in production during the year was driven by increased domestic demand for petroleum products and higher external demand, particularly from India, Australia, Thailand and US. The higher output emanated from existing oil fields and four new fields that came on stream during the year.

Natural gas output in 2003 expanded by 5.2% to 1,794 Mft³/d from 1,706 Mft³/d in 2002. The increase was in response to higher demand, particularly from the power-generation sector, which accounts for 66% of the total domestic gas production. There were higher offtakes from all LNG buyers, namely Japan, Korea and Taiwan.

Malaysia's crude oil reserves at end 2003 were estimated at 3.69 billion barrels compared with 3.61 Bbbl at end 2002. Its natural gas reserves were estimated at some 89,670 Bft³ at end 2003 compared with 87,760 Bft³ at end 2002.

During the year, continued efforts were undertaken to increase national oil and gas production capacity and reserves. In 2003, four new oilfields, two each in Peninsular Malaysia and Sarawak, commenced operations, bringing the total number of oil fields in production at end of the year to 51. Four new gas fields in Peninsular Malaysia and Sarawak also commenced operations during the year bringing their total to 18.

A significant development in Malaysia's oil sector in 2003 were the discoveries of deep water oil reserves offshore Sabah.

During the year, six new production-sharing contracts (PSCs) were signed between Petroliaam Nasional Bhd (Petronas) and several international oil companies. Petronas is Malaysia's national oil corporation, and is vested with the entire ownership and control of the country's petroleum and gas resources under Malaysia's Petroleum Development Act 1974. There are currently 60 PSCs signed by Petronas, which is southeast Asia's second-largest oil producer. It went global in its business undertakings in 1990. Net profits for the fiscal half year ending September 30, 2003, rose by 8% to RM8.95 billion from RM8.27 billion a year earlier due to better crude oil prices. Petronas is an internationally diversified company with activities covering exploration, production, refining and marketing of oil and petroleum products, and in pipeline construction and petrochemical manufacturing in over 26 countries spanning the continents of Asia, Africa, Middle East, Europe, Australia and South America. This unlisted and fully integrated national oil and gas company today earns 77% of its revenue from exports and international operations, and the remaining 23% from domestic activities.

In the latest *Far Eastern Economic Review* annual company survey conducted at the end of 2003, Petronas was voted Malaysia's top company for overall leadership for the first time. Petronas has been on the *Fortune Global 500* list for many years as the world's most profitable oil refiner in terms of returns on revenue.

Outlook

According to Bank Negara, growth in Malaysia's minerals sector is expected to strengthen in 2004 led by higher gas output to meet increased demand. Production of oil, however, is expected to remain stable at 733,000 bbl/d.

Tin production in 2004 is not expected to improve, despite likely higher tin prices as strong demand, especially from China, which is on a massive industrialisation drive. The anticipated better world economy in the year is expected to draw down further global tin stocks, particularly those in LME warehouses and the DNSC stockpile. Further advances in R&D for new tin uses and as a replacement for toxic materials in certain industrial applications, should give a further boost to global consumption and hence put further upward pressure on prices.

The performance of Malaysia's other minerals sectors in 2004 should be in line with the optimistic improvement in the country's overall economic growth and a stronger world economy.

Table following page.

Mineral production (t)

	2002	2003
Bauxite	39,975	5,732
Silica	227,673	278,551
Iron Ore	404,350	596,612
Tin-in-Concentrates	4,215	3,358
Ilmenite	106,046	95,148
Kaolin	258,273	376,958
Feldspar	30,819	27,000 (p)
Sand and gravel	19,574,614	20,500,000 (p)
Limestone	18,881,772	19,222,700 (p)
Clays	23,110,437	22,700,000 (p)
Aggregates	92,213,774	91,000,000 (p)
Coal	352,513	172,820
Gold (kg)	4,289	4,739
Crude Oil (barrels per day)	698,462	736,000 (p)
Natural Gas (ft ³ /d million)	1,706	1,794 (p)

(p) - preliminary

Sources: Minerals and Geoscience Department, Malaysia; and *Bank Negara Malaysia Annual Report 2003*.