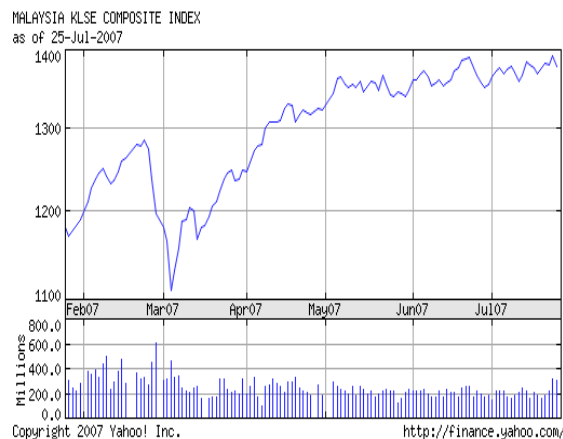


Current Economic Data & Analysis

Malaysia

The **KLCI registered stronger performance** in June and July due to positive factors such as the pay rise for civil servants and favorable corporate earnings results.

The **Inflation rate moderated** to 1.4% in near term. Ringgit recorded a mixed performance and stood around US\$1 = RM3.40. The Bank Negara reserves totaled RM 339 billion as of 29 June 2007. However, note that **67.4% of the reserves are from the citizen's deposits** at the financial institution. This indicates that shocks to the liquidity level in the financial system could be faced with another **credit crunch** for Malaysia.



Current Global Economy Situation

US

The economy growth is seen to be **slowing**. The housing market has dragged down the economy growth of America. The **US Dollar is traded weak** against major currencies. The **sub prime mortgage losses** could hit **US\$100 billion** and threaten consumer spending. Investors worried that the problem will spill over to other credit market.

China

The GDP growth is revised up to 11.1% and will pass Germany as the 3rd largest economy. While China's trade surplus with the world stood at US\$177.5 billion in 2006, China incurred a **trade deficit of US\$87.5 billion with East Asian Countries over the same period**. Malaysia is ranked as 4th largest exporters to China.

Japan

The economy sentiment is still dominated with the **upcoming election of the Japan upper house**. Prime Minister Shinzo Abe's coalition is forecast to lose the election with the issues of missing pension records and series of gaffes and scandals. Outspoken Foreign Minister Taro Aso looks to be the frontrunner to take over if Abe resigns. Japan was hit with a massive earth quake early July, causing their **manufacturing industry to slow**.

Dialog with the Industry

MCECC

On 18 July, MCA Minister briefed MCECC, MRA, MRCA, PPK, REHDA, ACCIM, FeCAM and 7 Clans regarding the new distributive trade guideline. The new distributive trade guideline will affect about 13.8% of the Malaysia's GDP for the wholesale and retail trade services.

US Indicator	June 07	May 07
Unemployment	4.5%	4.5%
Initial Claims	308K	320K
Trade Balance	-\$60.0B	-\$58.7B
Retail Sales	-0.9%	1.5%
Core PPI	0.3%	0.2%
Core CPI	0.2%	0.1%
Housing Starts	1467K	1434K
Building Permit	1406K	1520K
Existing Home Sales	5.85M	5.99M

Feature Article

China's trade deficit with East Asia hits \$87.5b

Although China has an overall foreign trade surplus, it had a deficit of \$87.5 billion in 2006 with East Asian countries. Economic and trade exchanges between China and East Asian countries have been growing very fast. The combined trade volume is reaching \$502.4 billion in 2006, accounting for 32.5 percent of China's foreign trade for the year.

China has become the largest export market for the Republic of Korea, the no. 2 export market for Japan, the no. 3 export market for Thailand, and the no. 4 export market for Indonesia, Singapore, the Philippines and Malaysia. Malaysia's position in the trade with China is crucial to the country's economy development. The great market demand in China has been a good opportunities for Malaysia. The table below shows that Malaysia's export to China gained around US\$ 3.5 billion for first 5 month.

The top item that was exported to China was crude palm oil, manufacturing spare parts, micro processor, natural rubber, crude oil and natural gas, and edible oil. These exported items are usually categorized as the raw material. Malaysia is still losing out to their competitiveness in value added industries.

Since Malaysia only export the raw material to China, the economy of the country will only be based on the value of the item and not on the value added of the finished products. The export value of Malaysia product will be very low, compared with China that exports industrial finished goods to other countries.

Top 6 Malaysia's item export to China (Jan – May 2007):

Item	Net Worth
Crude Palm Oil	US\$ 1.27 billion
Manufacturing Industry Spare Parts	US\$ 823 million
Micro Processor	US\$ 677 million
Natural Rubber	US\$ 346 million
Crude Oil and Natural Gas	US\$ 272 million
Edible Oil from Vegetable	US\$ 226 million

Top 6 China's item export to Worldwide (Jan-June 2007):

Item	Net Worth
Industrial finished good	US\$ 518.27 billion
Machinery and transportation equipments	US\$ 255.11 billion
Other finished products	US\$ 80.86 billion
Clothing	US\$ 48.40 billion
Primary Products	US\$ 28.45 billion
Chemical products	US\$ 27.70 billion

This could be a serious problem in the long run where China uses Malaysia's raw material to gain the value added by manufacturing end products for export, while Malaysia are still losing out the advantage in manufacturing of final products. China is paying close attention to the regional economic cooperation with the Association of South East Asian Nations (ASEAN), and will set up free trade zone with ASEAN in 2010.

Subsequently, Malaysia will be losing out in the economy ,we will need to reform the mechanism, in advancing the manufacturing industries to meet the 2010 deadline.