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Date:- 24 April 2002

This Report has been prepared for inclusion in the Prospectus to be dated 30 April 2002 pursuant to the proposed listing of OKA Corporation Berhad (**OKA Group**) on the Second Board of the Kuala Lumpur Stock Exchange.

This report has been prepared with the intention to provide an overview of the industry as well as the operations of the company within the industry. **ACNielsen** had conducted the research as an independent third party, basing its report on publicly available information and economic trends to indicate the future direction of the industry.

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Executive Director
Customised Research

ACNielsen

1 Research Methodology

1.1 Desk Research

Desk research was conducted to obtain a general overview of the industry. The collection of secondary data was gathered from government agencies including the Ministry of Finance, Department of Statistics, Bank Negara and public materials whenever appropriate.

The information gathered has facilitated the analysis of the industry in terms of industry profile, growth, factors affecting growth, industry dynamics as well as its linkages to other sectors in the economy. It also gives us an understanding of the various market trends and market environment.

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2 Company Background

OKA was incorporated in Malaysia under the Companies Act, 1965 on 12 July 2000 as **OKA Corporation Sdn Bhd** ("**OKA**") and was subsequently converted into a public company on 22 December 2000, assuming its present name. It is an investment holding company with 4 wholly owned subsidiaries. **The OKA Group ("The Group" or "OKAG")** consists of four wholly-owned subsidiaries and has a long established presence of approximately 20 years in the marketplace. Its core subsidiary, **OKA Concrete Industries ("OCI")** commenced operations in 1981 manufacturing cement brick, small block drains ("V-Shaped") and road kerbs under the stewardship of Ir Ong Koon Ann. From its humble beginnings, **The Group** has since diversified and currently manufactures a wide range of concrete products and provides transportation services as a supporting facility. However, **OKAG**'s niche remains in the manufacture of drainage and sewerage culverts and pipes. Based on the revenue achieved by **The Group**'s perceived competitors, as disclosed in the latest respective audited financial statements, **OKAG** commands approximately 12% of the market share among its competitors of concrete product producers. As such, there is much room for further expansion of **OKAG**'s market share.

The Group regards its staff strength of approximately 174 personnel as one of its most important assets and is committed to invest in its people in order to propel **OKAG** to greater heights. **The Group** also strongly advocates quality, research and development and innovation of products, as it will provide them with the added advantage so needed to succeed in today's competitive environment. In their quest for business operational excellence, **The Group** has received the accreditation of ISO9002 by SIRIM Berhad and is an approved manufacturer recognised by local authorities.

By emphasising its core values of customer satisfaction, integrity, quality, innovation and teamwork, **OKAG** aims to capture a bigger market share in the building materials industry. This mission is in line with the expected implementation of infrastructure projects, modernisation, expansion and upgrading works over the next 5 years by both the public and private sectors. Anchored on a sturdy firm base and positive track record, **The Group** is ready to spread its wings and seek opportunities in more developed countries as well as to expand its business to geographically strategic locations within Malaysia.

2.1.1 Principal Products and Services

The Group produces a diversified range of concrete product to cater for the various needs of its customers and the market. In 1984, **OCI** made a conscious decision to diversify its operations by manufacturing precast concrete products for drainage and sewerage application, i.e. pipe culverts, box culverts, porous pipes, etc. As of today, **OKAG** has broadened its product base to include a comprehensive range of concrete products essential for use in the infrastructure sector.

Listed below are the principal concrete products manufactured by **The Group**:-

- Reinforced precast concrete box culverts and U-shape drains which are suitable for the construction of tunnels, open drains and sumps and are designed for waterways where an open channel is necessary;
- Reinforced concrete L-shape retaining walls which are commonly used for the construction of retaining walls, open drains and storage walls;
- Concrete porous pipe and vertical cast reinforced concrete pipe culverts which are used for subsoil drainage;
- Spun reinforced concrete pipe culverts which are mainly used for concealed drainage and sewerage applications;
- Reinforced concrete manholes which are used for maintenance of underground sewerage or drainage systems;
- Reinforced precast concrete large diameter pipes which are suitable for service tunnel, storage tank silos and storm water drains; and
- Reinforced concrete piles and prestressed concrete square piles for foundation purpose used in the construction of low to medium rise buildings, pedestrian crossings and other short span bridges.

With approximately 20 years of experience, **The Group** is an established name in the concrete products industry. This is because the products are manufactured under stringent quality control procedures, closely monitored by the Management and conforms to the approved standards issued by SIRIM Berhad ("SIRIM"), formerly known as Standards &

Industrial Research Institute of Malaysia. Moreover, all designs and specifications also conform to the requirements of the relevant authorities such as Jabatan Kerja Raya ("JKR") and Jabatan Perkhidmatan Pembetungan ("JPP"). In 1998, **OKAG**'s operations were awarded the ISO 9002 accreditation. The business symbol is also currently a registered trademark.

The Group is managed by an experienced team of local professionals and civil engineers including a quality control team that consistently ensures tests are performed on the products to maintain an optimum level of quality. In addition, **OKAG** has an active Research and Development ("R&D") team that constantly strives to innovate in order to maintain a competitive edge over its competitors.

2.1.2 Major Customers and Distributors

The products of **The Group** are sold through selected distributors and directly to large infrastructure contractors. More than 90% of current sales of concrete products are made in Peninsular Malaysia whilst the balance is distributed in East Malaysia and overseas.

OKAG's products are supplied to local contractors and developers engaged in high profile projects in the infrastructure sector. Products are mainly used in projects that involve drainage, sewerage systems, construction of new roads as well as the extension of existing roads. In managing sales risk, **OKAG** does not place reliance on sales to any individual customer. It supplies its products to a broad customer base, including a number of established players in the construction industry. This can be seen from Table 1, which lists the key customers of **OCI** that individually contribute not more than 5% of the total turnover of **OCI**, except for MTD Construction Sdn Bhd which contributed 12% of turnover only for the period 1st April 2001 to 31st October 2001.

Table 1 Key Customers of OCI

Contractors	Length of Relationship (Years)
Kumpulan Liziz Sdn Bhd	15
Pembinaan Mitrajaya Sdn Bhd	12

Contractors	Length of Relationship (Years)
Gamuda Construction Sdn Bhd	12
MTD Construction Sdn Bhd	11
Dynamic Marketing Sdn Bhd	10
IJM Construction Sdn Bhd	10
WCT Construction Sdn Bhd	10
Ireka Construction Sdn Bhd	8
Bina Puri Construction Sdn Bhd	8
Pati Sdn Bhd	6
Sunway Construction Bhd	5
Pesat Bumi Sdn Bhd	3
Geotrak Sdn Bhd	3
Bina Goodyear Bhd	3
Vaiva Construction Sdn Bhd	5
CL Hardware Sdn Bhd	2
Radiant Rome Sdn Bhd	2
Yang Bina Sdn Bhd	1
I.H.M Supplies Sdn Bhd	2

Source: OKAG

Distribution of the products in the marketplace is via direct selling to the contractors and various distributors. An estimated 30% of total turnover are with regards to the sales of products through distributors. Table 2 below lists the long-standing distributors of **OKAG**.

Table 2 Distributors of OKAG

Distributors	Length of Relationship (Years)
Pan Sarawak Company Sdn Bhd	15
Tong Hup Trading Company	10
Syn Tai Hung Trading Sdn Bhd	9

Distributors	Length of Relationship (Years)
Peremba Trading Sdn Bhd	8
Intraco Hardware (M) Sdn Bhd	7
Firmas Concrete Sdn Bhd	5
Hong Leong Marketing Co Bhd	5
Ipmuda Utara Sdn Bhd	4
Ipmuda Selatan Sdn Bhd	3
KCB Trading Sdn Bhd	3
Ipmuda Bhd	2
Harrisons Trading (Pen) Sdn Bhd	2

Source: OKAG

2.1.3 OKAG's Turnover

OKAG's consolidated turnover for the past 5 financial years ended 31 March 2000 is summarised in Table 3. Information is extracted from the proforma consolidated audited results of **OKAG**, based on the audited accounts of its subsidiaries. The results are prepared on the assumption that the current group structure was in existence throughout the period under review.

Table 3 OKAG's Turnover

Year Ended 31 March (RM'000)						
1996	1997	1998	1999	2000	2001	2001
14,256	26,389	34,908	22,706	28,647	32,059	23,026*

Source: OKAG

**Note: Audited figure for the 7-month period ended 31 October 2001.*

2.1.4 Major Suppliers

The basic raw materials required for the manufacture of precast products are cement, aggregates, sand and steel. These materials are readily available and found in abundance in

Malaysia. This is especially true where the manufacturing plant of **The Group** is located, in the state of Perak. Thus, **OKAG** does not depend on any single supplier for its purchases nor commits itself to long-term contracts with its suppliers. This enables **The Group** to capitalise on competitive prices, terms and flexibility of purchases. **OKAG** has an extensive list of raw material suppliers. Each individual supplier, however, does not contribute more than 10% of **The Group's** total purchases. The major suppliers of raw materials to **OKAG** is as follows:-

Table 4 Major Suppliers and Type of Raw Materials Supplied

Suppliers	Type of Raw Materials Supplied	Length of Relationship (Years)
Granite Indah Sdn Bhd	Aggregates	14
Pan Sarawak Company Sdn Bhd	Cement	12
Syn Tai Hung Trading Sdn Bhd	Steel bars	10
Sungei Way Marketing Sdn Bhd	Steel bars	10
Sri Merbuk Sdn Bhd	Wiremesh	8
Prestar Engineering Sdn Bhd	Steel bars and high alumina cement	5
CMCM Perniagaan Sdn Bhd	Cement	5
Ipmuda Utara Sdn Bhd	Cement	5

Source: OKAG

2.1.5 The People

In every organisation, dedicated and efficient employees are assets and contribute towards the success of the company. The management of **OKAG** believes this to be true and are committed to maintaining a good working relationship with its employees. As at17 January 2002, total employees of **The Group** amounts to 174. Table 5 shows that **The Group** is labour intensive as 80% of **OKAG**'s employees are general, skilled and unskilled factory workers whilst the remaining employees are involved in managerial, professional, technical and supervisory as well as clerical and related positions.

OKAG is headed by the Promoter and Managing Director, Ir Ong Koon Ann and is supported by senior managers, executives and engineers. The core management team have been with **OKAG** since the 1990s and have a thorough understanding of the business as well as invaluable experience in the respective areas of operations, namely, finance, production, administration, marketing, quality assurance and technical. This is evident from the fact that **OKAG** was able to sustain profitability and growth even during the 1998 recession.

Table 5 Employee Structure - OKAG

Category of Employees	Total Employees	%	Average No. of Years of Service (Years)
Managerial and Professional	13	7.5	8
Technical and Supervisory	12	6.9	5.5
Clerical and Related Occupations (eg. Clerks, Typist, Stenographers, Personal Secretaries, Sales etc.)	19	10.9	2
General Workers (eg. Telephone Operators, Drivers, Office Boys, Watchmen, Gardener etc.)	38	21.8	2
Skilled and Unskilled Factory Workers	92	52.8	3
Total	174	100.0	

*Source: **OKAG***

The employees are not part of any organised union.

2.1.6 Research and Development (R&D)

The Group believes that innovation will provide it with the added advantage so needed to succeed in today's competitive environment. Hence, it invests time and financial resources in R&D efforts in order to improve on manufacturing processes and quality of the products. The R&D department actively sources for cost effective substitutes as raw materials. For example, it successfully identified *Pulverised Fuel Ash* ("PFA"), which is available locally, to be used as a replacement for *High Alumina Cement* ("HAC"), abrasive resistant cement used for pipe lining, imported from France.

The team also constantly seeks to enhance its existing products via testing for compressive strength, straightness of alignment of joints and fittings of finished piles. Other responsibilities include design and development of machinery and moulds to manufacture new products as per client's specification, which would greatly reduce machinery set up costs.

The R&D division comprises 4 employees and is headed by Mr Yee Chut Yau, who has more than 10 years of experience in the concrete industry.

2.1.7 Quality Control ("QC")

Mr Yee Chut Yau, also heads the QC team, as the QC and Technical Manager, assisted by other experienced team members. To ensure that the quality of manufactured products is consistent and maintained, the QC team applies stringent procedures to all raw materials and components in the concrete products manufacturing process. Moreover, regular testing is performed to ensure products are in accordance to SIRIM standards and specifications. Results of testing are graphed and monitored to identify trends and for easy reference to be made. In addition, each finished product carries an identification number to allow for an audit trail. **The Group** was accredited ISO 9002: 1994 Quality Systems – Model for Quality Assurance in Production on 7 December 1998.

Some quality control procedures performed are listed below:-

1) Daily Analysis on Sand and Aggregates
2) Tests Conducted on Mixing for Every Batch of 50 Finished Products
3) Mould
4) Reinforcement Test Conducted on Every Reinforcement Cage Made
5) Bending/ Fabrication Test on Steel Bars for Every Reinforcement Cage Made
6) Welding Test Conducted on Every Reinforcement Cage Made
7) Mould Assembly Concreting Test Conducted on Every Mould
8) Finished Products

2.1.8 Future Plans, Growth Strategies and Prospects

The Group aims to capture a bigger market share in the building materials industry in line with the expected implementation of infrastructure projects, modernisation, expansion and upgrading works over the next 5 years. This is deemed possible as **OKAG** has an established reputation as a manufacturer of drainage and sewerage culverts as well as manholes and is an approved manufacturer recognised by local authorities.

Anchored on a sturdy firm base, management team and positive track record, **The Group** is ready to spread its wings and seek opportunities in more developed countries, for example, Singapore, where highways are constructed almost completely using "precast methods" as compared to "conventional construction methods". Consequently, **OKAG** proposes to expand its business to Johor Darul Takzim via the inception of a fully automated factory that requires minimal labour participation.

While planning for expansion abroad, **The Group** does not intend to neglect the local industry as it foresees strong demand for ready-mixed concrete especially in the "home ground" state of Perak Darul Ridzuan. It is in a position to capitalise on the many new substantial business opportunities in the building materials industry due to emphasis on the development of low and medium cost houses by the Perak State Government. Moreover, having a strong foothold in the supply of sewerage culverts and manholes, **The Group** will capitalise on the increasing demand for sewerage products due to the implementation of Indah Water Consortium's modernisation and expansion sewerage services, in order to boost future earnings.

2.1.8.1 Future Plans

To materialise the plans for expansion and growth, **The Group** proposes various means to achieve its objectives. Three major plans to be implemented over the next 3 years are outlined below:-

2.1.8.1.1 Purchase of Land

In order to capture a bigger portion of the local market, **OKAG** intends to acquire land for the construction of factories in the following locations:-

- Kota Bahru, Kelantan
- Kulai, Johor
- Kuantan and Gambang, Pahang; and

- Nilai, Negeri Sembilan

It is to be noted that the locations chosen are in line with the future development plans of the country. For example, Nilai in Negeri Sembilan is at the doorstep of Cyberjaya and Putrajaya where opportunities for infrastructure and property projects remain endless whilst Johor is where demand for property remains high, second only to the Selangor and the capital city, Kuala Lumpur. Meanwhile, Pahang is one of the proposed sites of the 4 new universities to be constructed under the RM3 billion supplementary budget announced by the government on 27 March 2001.

By being strategically located, **The Group** would be able to meet the market demand geographically and indirectly, minimise the escalating transport costs. Moreover, to achieve the status of preferred supplier, strategic location of manufacturing plants would enable competitive strategy based on terms of services and delivery promptness.

Completion of proposed acquisitions are expected by the end of year 2003.

2.1.8.1.2 Purchase of New Plant and Machinery

In line with **The Group's** expansion as outlined in Section 4.1.10.1.1 above, it is inevitable that investment will be made in terms of plant and machinery. To divest from being labour intensive, **OKAG's** proposes to purchase new plant and machinery that are fully automated.

Completion of proposed acquisitions are expected by the end of year 2003.

2.1.8.1.3 Automation and Upgrading of Existing Factory

At present, **OKAG**'s manufacturing plant operates on a single shift, producing 700 to 900 metric tonnes of concrete products daily. This, however, represents only 50% of the daily production capacity, as more than 80% of products are produced manually or with minimal automation. The manual production processes significantly limit the daily production capacity of the plant. By automating certain processes, **The Group** would be able to fully utilise the production capacity.

As **The Group** diversifies its product range to include prestressed beams, larger piles and the manufacture of raw materials, existing manufacturing facilities would also require to be upgraded and automated. **OKAG** intends to manufacture a raw materials required for concrete production. One such raw material is known as wiremesh. This is the core component used in the manufacture of reinforced concrete pipe culverts and would enable **The Group** to cater to client's requirements as well as special classes of pipes and reinforcements. The manufacture of wiremesh would also reduce costs, enhance efficiency and timeliness of delivery, as production of raw materials would be on a needs basis.

In addition, there are plans in the pipeline to upgrade the existing computer network to a real time system whereby all accounts would be fully integrated as compared to the current system where billings are independent from the stock delivery system of the factory. The real time network system at various locations would enable efficient sharing of information required to run the business effectively. Information readily available through the network would include stock and raw material availability, automatic billings and updated production records.

By automating and upgrading its existing facilities, productivity is expected to improve substantially, decreasing variable costs and allowing flexibility in fixing of prices. Coupled with the upgrading of the computer systems, daily average production is expected to increase from the current production of 700 to 900 metric tonnes of concrete products to approximately 1000 metric tonnes.

The above exercise s expected to be completed by the end of year 2002.

2.1.8.2 Prospects

The prospect of **The Group** is outlined below in terms of viability and vulnerability.

2.1.8.2.1 Viability of the Group

To maintain competitiveness, **the Group** aims to capture potential market share through ensuring high standards of product quality and diversity, active R&D as well as maintaining a strong financial base.

With approximately 20 years of experience in the industry, **OKAG** has a reputation as one of the leading suppliers of a full range of high quality precast concrete products. Besides manufacturing a full range of reinforced concrete pipe culverts for drainage works which includes large diameter pipes up to 3000mm, **OKAG** also manufactures a full range of reinforced concrete box culverts, U-shaped drains, L-shaped retaining walls and other nonstandard products upon specific request. In addition to the abovementioned products, a full range of HAC lined reinforced concrete pipes and manholes specified by the Jabatan Perkhidmatan Pembetungan for use in the sewerage system is produced. Due to the recent reduction in permitted timber logging activities, there has also been a surge in demand for smaller sized reinforced concrete and prestressed piles, which replaces timber piles.

The implementation of stringent quality control procedures throughout the manufacturing process, from acquisition of raw materials to the output stage of production, exemplifies **The Group's** commitment towards continuous product excellence and quality. Moreover, **OKAG** believes in constructive feedback from the distributors and customers to ensure that all requirements and expectations are met.

Another strategy for future growth is the Group's investment in Research and Development ("R&D"). Emphasis will continue to be placed on innovation and the development of products to ensure competitiveness in the marketplace.

In terms of the financial stability, **OKAG** has strong financial fundamentals evident in the negligible borrowings to-date and a well-managed cash flow position. This has contributed to the flexibility in its product pricing strategy. Moreover, **The Group** does not require heavy bank borrowings to fund its operations. Thus, enabling **The Group** to weather through the boom-bust cycles of the economy.

2.1.8.2.2 Vulnerability of the Group

OKAG believes there is low risk involved with regards to long term contracts/ relationships with suppliers and customers, availability of resources and the capability to diversify. This is due to the following reasons:-

- **OKAG** is not dependent on any single supplier or customer nor has it committed to any long-term contracts for the purchase of raw materials. This factor coupled with strong financial fundamentals, enables **OKAG** to reap the benefits of flexible and competitive market prices.
- Raw materials required for the production of concrete products such as steel bars, cement, aggregates, sand and steel are readily available in abundance and can be sourced locally via a wide supplier base.

- Concrete products are easily diversified. For example, precast concrete products can be diversified by substituting production moulds based on customer specifications.

3 Economic Outlook[1]

3.1 Overview of the World Economy

On a global basis, real Gross Domestic Product ("GDP") growth for the year 2000 of the major industrial nations as a group stabilised at 4.1% while that of developing countries expanded by about 5.8% (1999: 3.8%). On an exceptional basis, Asian countries like China and India grew above the norm at about 7%. Overall, inflation declined in developing countries moving from 6.7% in 1999 to 6.1% in 2000.[2]

In 2001, *world output* is expected to slowdown slightly, with potential for rebound in middle 2002. The latest World Output projections from IMF are as follows:-

Table 6 World Economic Outlook – Real GDP Annual Percent Change

(%)	1997	1998	1999	2000	2001	2002[3]
World	4.2	2.8	3.6	4.7	2.4	2.4

Source: IMF

As indicated on the above table, following the global slowdown in the wake of the Asian crisis, and the bouts of financial turbulence and contagion associated with both the Russian and the Brazilian crisis, the world economy *appeared* to be on the mend. There was evidence of a rebound in the global economy, with global output growth reaching 3.6% in 1999 (compared with a projection of only 2.2%), 4.7% in 2000[4] and moderate world growth *projected* at 3.5% in 2001. However, since May of 2001, growth in world output has been revised downwards, due to the softening and slowing down of the larger economic powers of the world, namely the G7[5] countries. Factors attributed to the slowdown pre-September 11, 2001 were – delayed economic recovery in US, weakening domestic demand in Europe and Japan moving into their 4th recession[6], decline in information technology spending impacting most of Asia; and deteriorating financing conditions, particularly in Latin American.

[1] Bank Negara Report 1999
Malaysian Economic Report 2000 / 2001
Business Times 4/4/2000
[2] IMF World Economic Outlook, April 2001.
[3] IMF Global Outlook After September 11, 2001 (18 December 2001)
[4] IMF: World Economic Outlook, September 2000 (advance copy)
[5] G7 – United States of America, Japan, Germany, United Kingdom, Italy, France, and Canada
[6] Structural reforms introduced by the Japanese Government will only have impact in the medium-term.

The ASEAN countries will maintain its positive economic growth rates, given the slightly slower growth for the US, led by increased export and domestic demand. Rising global demand for electronic goods and increased intra-ASEAN trade have improved exports for Malaysia, Singapore and Thailand, while favourable weather conditions have increased the agricultural output in the Philippines. In addition, activity in China and India is expected to remain relatively well sustained, providing an important source of stability to the ASEAN region.

The overall outlook for the world economy in 2001 remains bullish despite some potential risks and uncertainties. Economic, financial and structural imbalances threaten to disrupt the strong global growth and trade momentum following the predicted slowdown in the US [7] and the Japanese economies[8]. Another potential threat would be the recent oil prices increase, if left unchecked, could derail global demand and send inflation spiralling.

Given the current global economic environment void of tensions in the financial markets, projected growth for 2001 is 3.2%[9], with the industrial countries projecting 1.9% growth, developing countries projecting 5.7% growth and the transition economies projecting about 4% growth. In line with this, growth in world trade is projected at 6.7% while inflationary pressures remain subdued.

Progress in the local economy is dependent on the global outlook and although there has been a decrease in projected growth, the trends remain encouraging for the domestic market.

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[7] Forecasted 2-3% growth for 2001. (Fortune Magazine, January 8, 2001)
[8] Forecasted 1- 1.5% growth for 2001. (Business Week, January 15, 2001)
[9] IMF World Economic Outlook, April 2001.

3.2 Overview of the Malaysian Economy

Malaysia's "V-shaped" economic recovery has been impressive, rebounding from the sharp output decline in 1998 and early 1999, due to the severe deflationary impact of the financial crisis, to the path of sustained growth. Economic turnaround began in the second quarter of 1999 underpinning the return of investor confidence and a more stable economic environment, making it possible for the introduction of selective capital controls and the pegging of the Malaysian Ringgit. The banking sector also returned to profitability in 1999 and made significant progress particularly in terms of the restructuring and merger of financial institutions in view of the forthcoming globalisation of the financial sector.

During the Seventh Malaysian Plan ("7MP"), the Malaysian Economy recorded an average growth of 4.7% per annum, which was 1.7% above the target of 3% projected from 1996 – 2000. Between 1996 till 1997, GDP was recorded at 8.7%. This shrank to –7.4% in 1998 during the ASEAN crisis and rebounded to 5.8% in 1999. For the year 2000, real GDP's growth rate recorded a high of 8.3%[10], 2.5% higher than the estimate of 5.8% announced in February when the 2000 Budget was tabled in parliament. This growth, while initially external sector led has since become broad based, driven by the increase in private sector consumption. However, the growth rate slowed to 3.2% for the 1st quarter of 2001, down from 7.6% and 6.3% in last year's 3rd and 4th quarters respectively, reflecting adjustments to global economic slowdown. The growth rate for the 1st quarter of 2001 does not dampen the prospects for the remainder of the year as real GDP is expected to expand by 5-6% for the year 2001[11].

On the supply side, growth will remain broad-based, with all sectors predicting to register positive results. This expansion will be led by the manufacturing and services sectors. Value added manufacturing would take the lead growing at an average of 8.9% from 2001 onwards. Due to an expansion in both the export and domestic oriented industries, this sector recorded and average growth of 9.1% during the period of 1996 – 2000[12], with 21% in 2000, 13.5% in 1999 and a sharp contraction of –13.4% in 1998.

[10] Department of Statistics
[11] Bank Negara Malaysia, 2000 Annual Report
[12] Target for 7MP was 3.9%.

After 2 years of contraction, the construction sector has experienced a growth of 2.3% in 2001 and is expected to grow at 4.3% in 2002[13]. (2000:1.0%; 1999: -5.6%). The demand for housing, in particular low and medium-cost units as well as infrastructure projects in the health and education sub-sectors and rural development from the RM3 billion pre-emptive measures in March 2001 and the more recent RM4.3 billion package in September 2001 will also contribute towards further growth in the construction sector. In addition, the 8MP boasts an allocation of RM4.4 billion to the housing and renovation sector over a period of 5 years.

3.2.1 Post 2000 and Post September 11, 2001

The year 2001 held promises of great economic recovery and strong growth in all the major economic sectors, similar to 2000. However, that was not the case. The global economic slowdown has finally made its mark in the Malaysian economy, with the country reporting another month of declining exports. Exports fell by 18.1% in August from a year ago and represent the largest decrease in exports for the past 5 years. This also represents decrease that occurred *before* the terrorist attacks on September 11, 2001 in US. Specifically, exports of electrical and electronic products, which make up 55.3% of total exports for the month of August 2001, fell by 25.4% from the same period last year. However, the contraction of exports for Malaysia is still less severe than that of other Asian countries like South Korea, Taiwan and Singapore.

While the sharp decline in imports, falling by 24.9% from a year ago, has caused **Malaysia to record its 46th consecutive month of trade surplus since November 1997**.

The trade surplus in August 2001 grew by 23% compared to the same period last year, however, this was mainly due to the large decrease in imports of intermediate and capital goods. Imports of these goods, which make up 86.5% of total imports for August fell by 27.7% from a year ago. As intermediate goods are used in the manufacturing sector and capital goods are a sign of investment activity, the trade numbers do not paint a very positive outlook for the rest of 2001. Therefore, the trade surplus is timely, as it should help cushion the domestic economy from weakening external demand.

[13] Bank Negara Malaysia – Economic & Financial Developments in the Malaysian Economy in the Fourth Quarter of 2001; Economic Report 2001/2002

In terms of purchasing power parity, per capita income is estimated to increase by 1.3% to USD8,944 in 2001 (2000: USD8,831; 1999: USD7,277). In terms of demand, growth in aggregate domestic demand is expected to be wide reaching, considering increase in both public and private expenditures. With the higher consumption, gross national savings are expected to decelerate to 36.6% of GNP in 2001 (2000: 39.5% of GNP; 1999: 41.1% of GNP), projected gross national savings for 2002 are expected to increase slightly to 37.4% of GNP.

Malaysia's official 2001-growth had been officially released by Bank Negara Malaysia in March 2002 as 0.4%. In addition, as an added shield to the September 11, 2001 terrorist attacks, the Government has announced an additional RM4.3 billion (USD1.1 billion) stimulus package to boost the economy. This stimulus package is the latest measure used to prop up the economy, following the RM3 billion supplementary budget in March 2001 and the RM28 billion spending package from the 2001 budget.

Further to the above fiscal measures, Bank Negara Malaysia has also announced the reduction of its 3-month "intervention" rate by 50 basis points[14], and also allowed banks to reduce savings deposit rates by up to 0.25% points. While increased spending and lower interest rates will assist Malaysia in limiting the impact of a global slowdown, its huge reliance on exports (particularly in the high technology sector) will potentially delay growth to the 2nd or 3rd quarter of 2002. Malaysia's foreign exchange reserves also remained strong, rising by RM538 million, ending 2001 with total reserves of RM117.2 billion[15]. These positive signs coupled with the government's expansionary economic policies are expected to push the country's growth up to 3.5% in 2002[16].

[14] Basis points refer to hundredths of a percentage point. This intervention rate is used by banks to calculate their base-lending rate.
[15] The Edge, January 14, 2002.
[16] Bank Negara Malaysia Annual Report 2001