



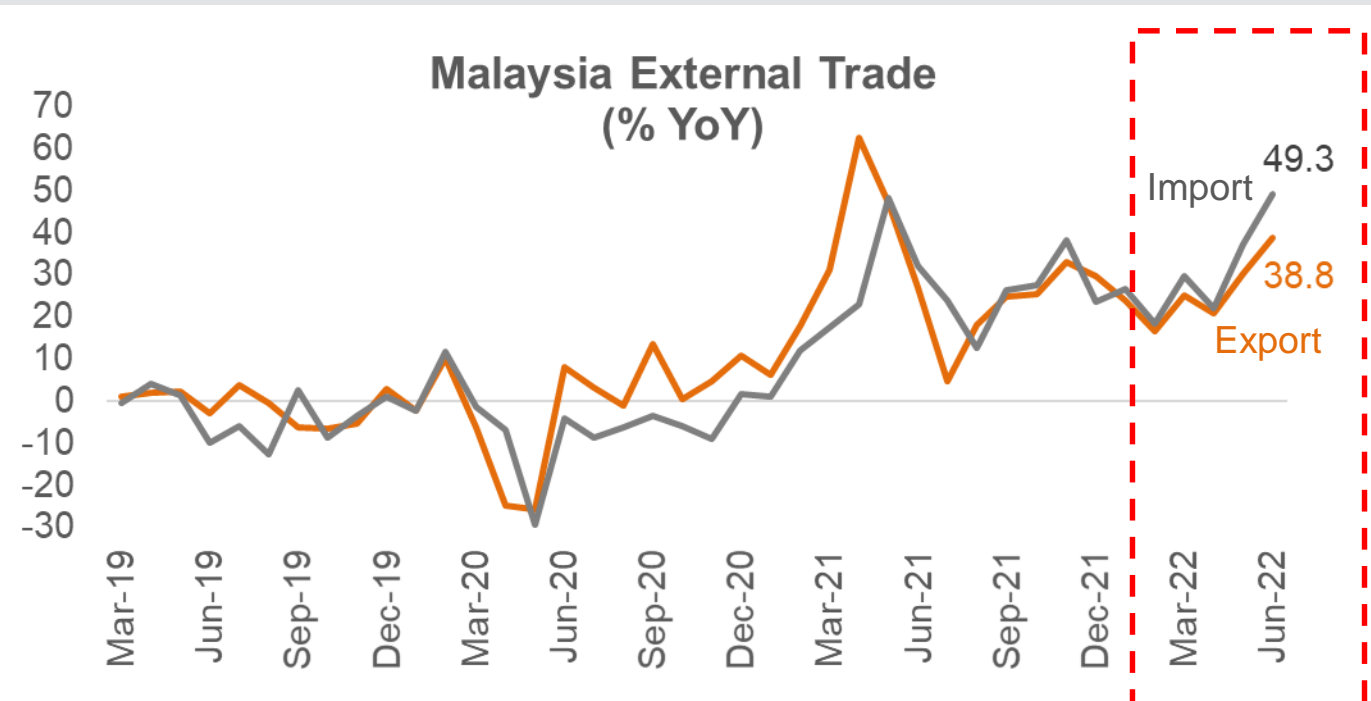
## Economic/Thematic Research: Analysis on Export (Volume vs Value)

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## External Trade Performance: Volume- or value-driven?



- Malaysia's trade performance is robust and have been trending upwards since 2H 2021, with both exports and imports **sustaining strong double digit growth**.
- Similar trend is observed in other **key ASEAN countries** where most of them posted **double digit export** growth during 1H 2022, except for the Philippines.

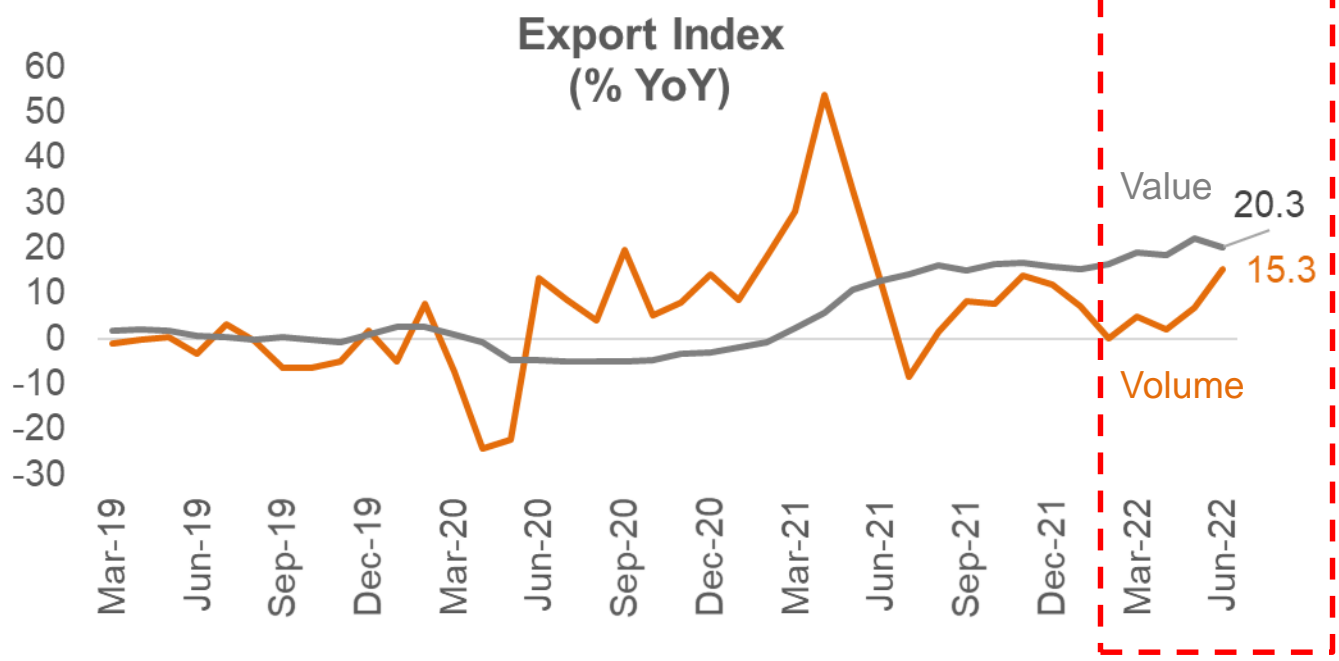
- Malaysia's import growth (49.3% YoY) > Export growth (38.8% YoY) in Jun 2022.** This trend has been observed **since the start of this year**, which reinforces the **stronger domestic demand** amid the recovery in economic activities.

- The **rosy export performance** could be partially **influenced by the high commodity prices** where **Export Value > Export Volume**.

- In Feb 2022, the export volume index almost slipped into negative territory with a meagre growth of 0.4% YoY. For comparison, value index registered a solid 16.4% YoY growth during the same month.

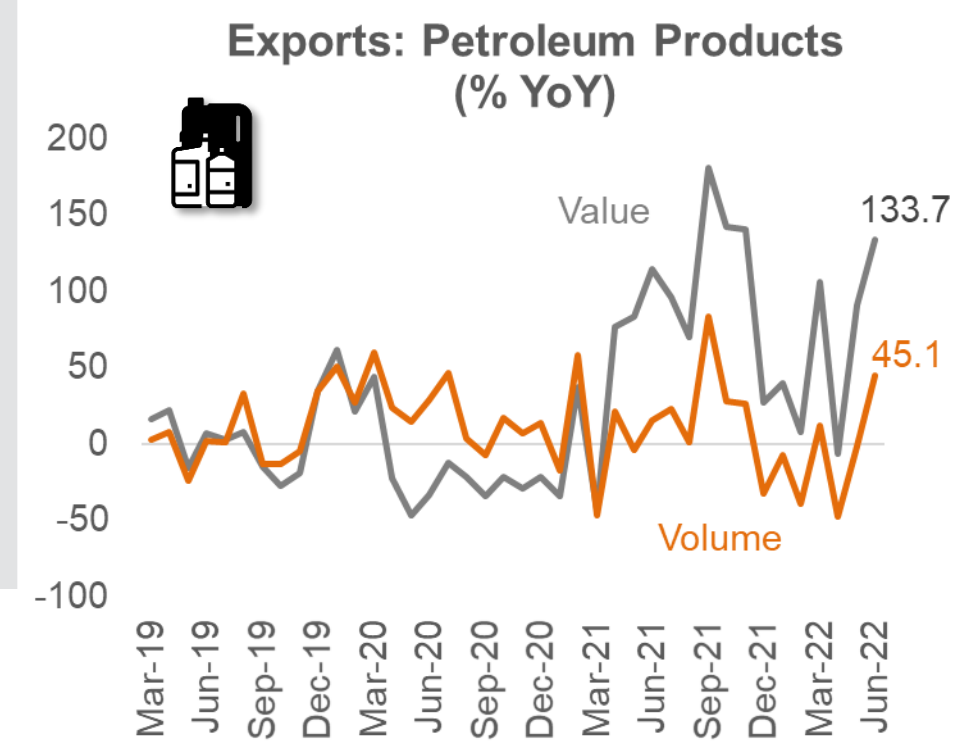
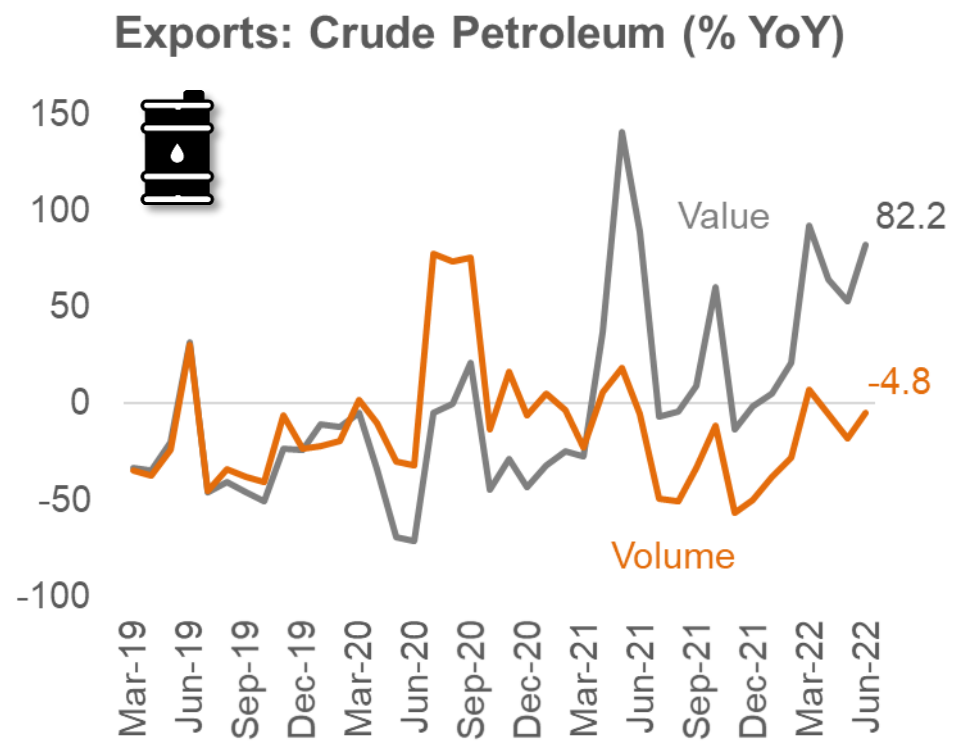
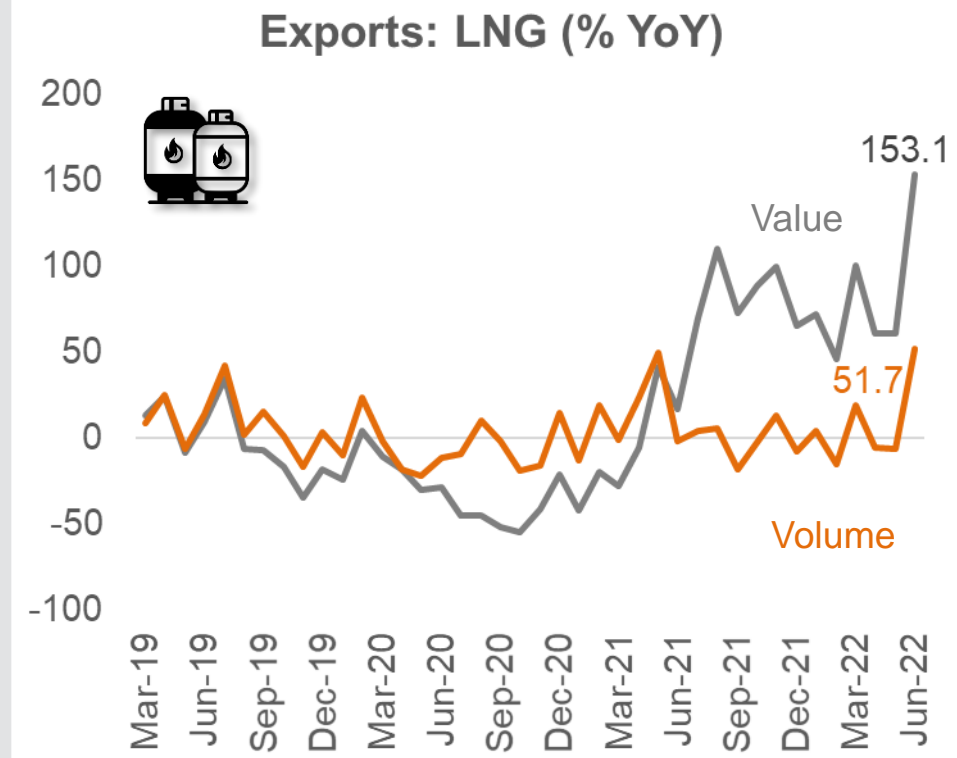
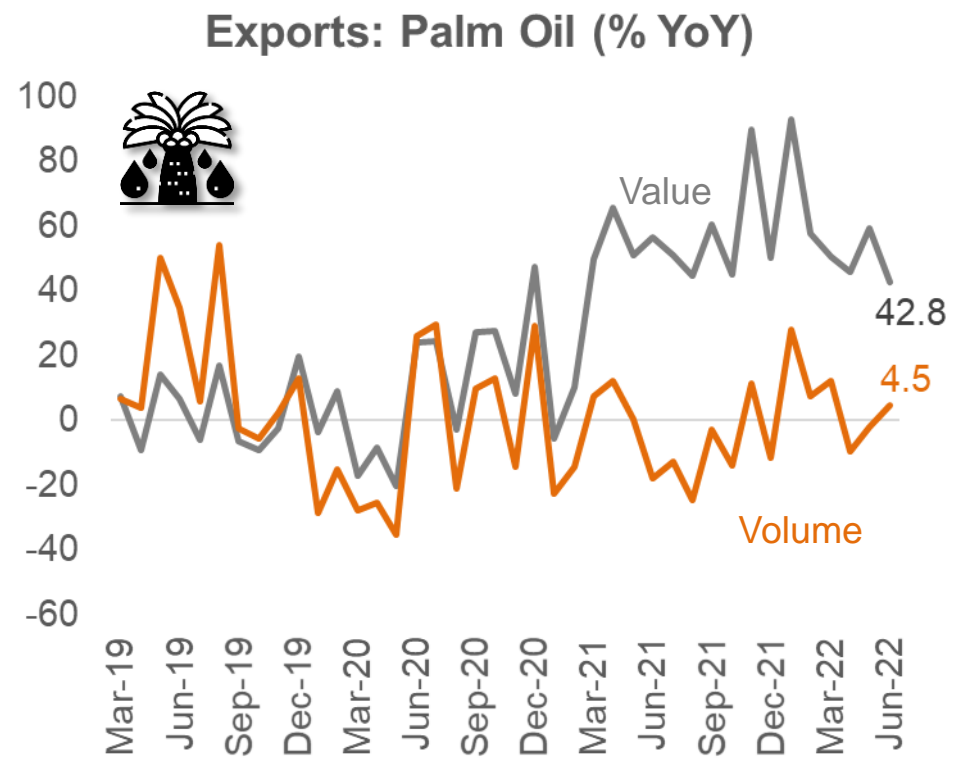
- WTO had revised downward their **world merchandise trade volume forecast for 2022 to 3.0%** in its Apr 2022 assessment (Oct 2021 forecast: 4.7%) due to prolonged Russia-Ukraine conflict, high inflationary environment and China's zero-Covid policy.

- For 2023, it expects a slightly higher growth of 3.4% however cautioned on being less certain on these estimates than usual due to the fluid nature of the conflict





# External Trade Performance: Influenced by high commodity prices

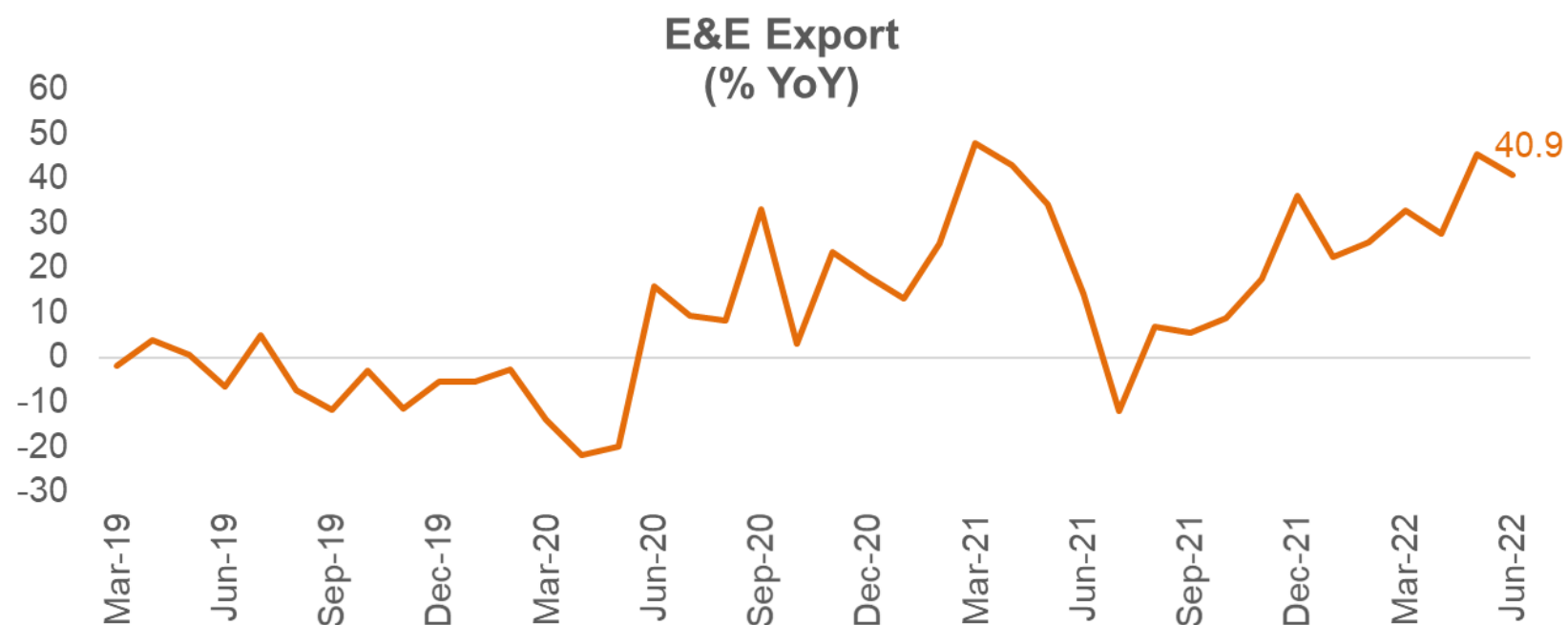
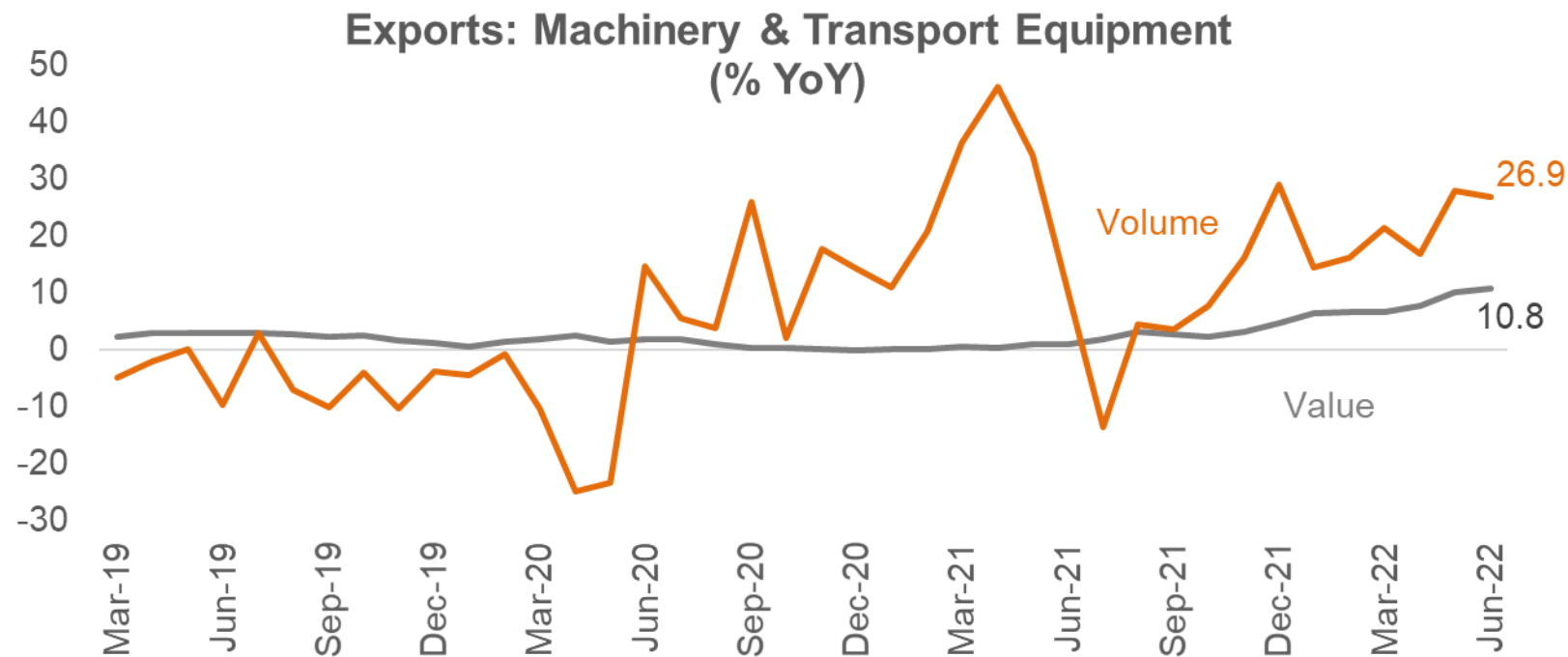


- Zooming into the exports of selected commodities, we found that **YoY growth of the export value > volume**.
- Despite multi year-high crude oil prices (export value recorded robust growth of 82.2% YoY), volume of crude petroleum export contracted 4.8% YoY in Jun 2022.
- Malaysia will continue to benefit from high oil prices which is expected to remain elevated in the near time as supply < demand. Slowing demand is a concern but tight supply due to OPEC limited capacity and underinvestment issues are feared more.

Petronas has increased its 2022 annual capex guidance to RM60 bil from RM40 – 50 bil previously, in preparation for the resumption of business activities in a post-Covid environment. The revised capex is potentially the highest since 2015, almost doubling last year's RM30.5 bil capex.

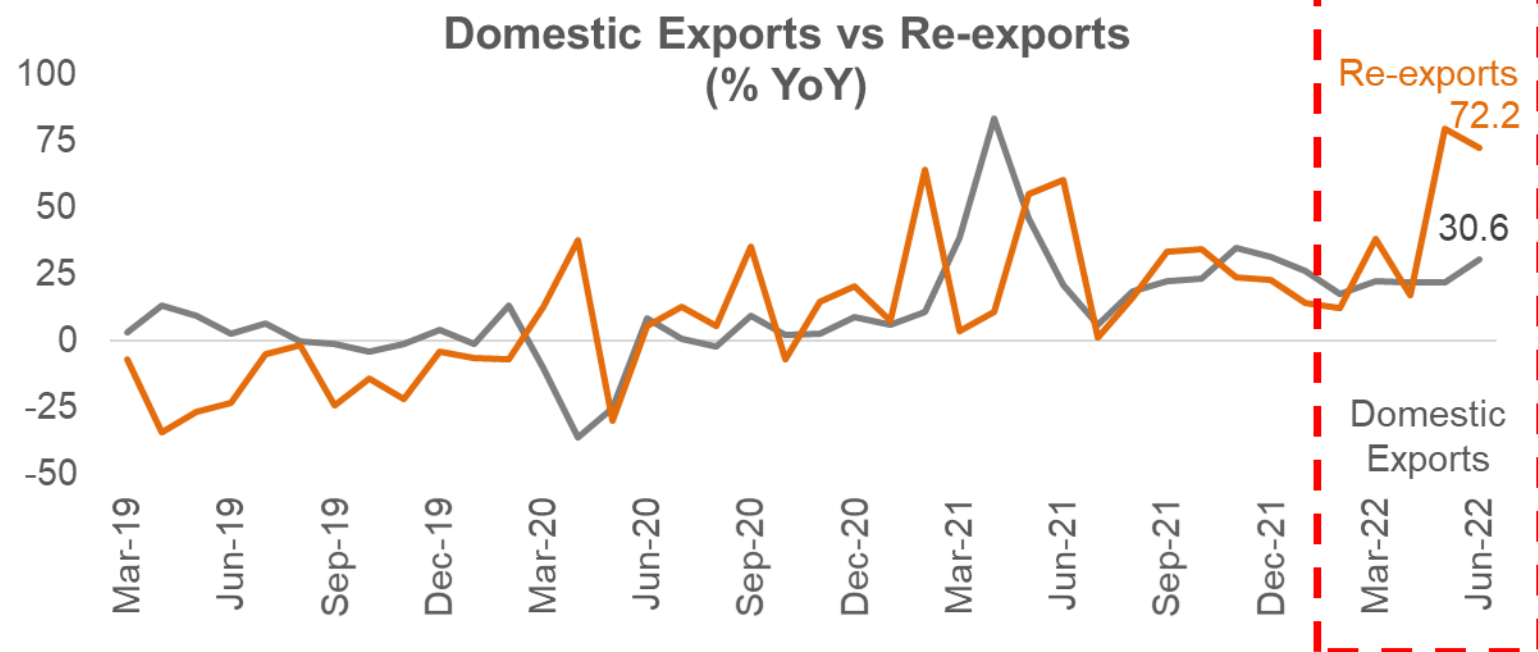
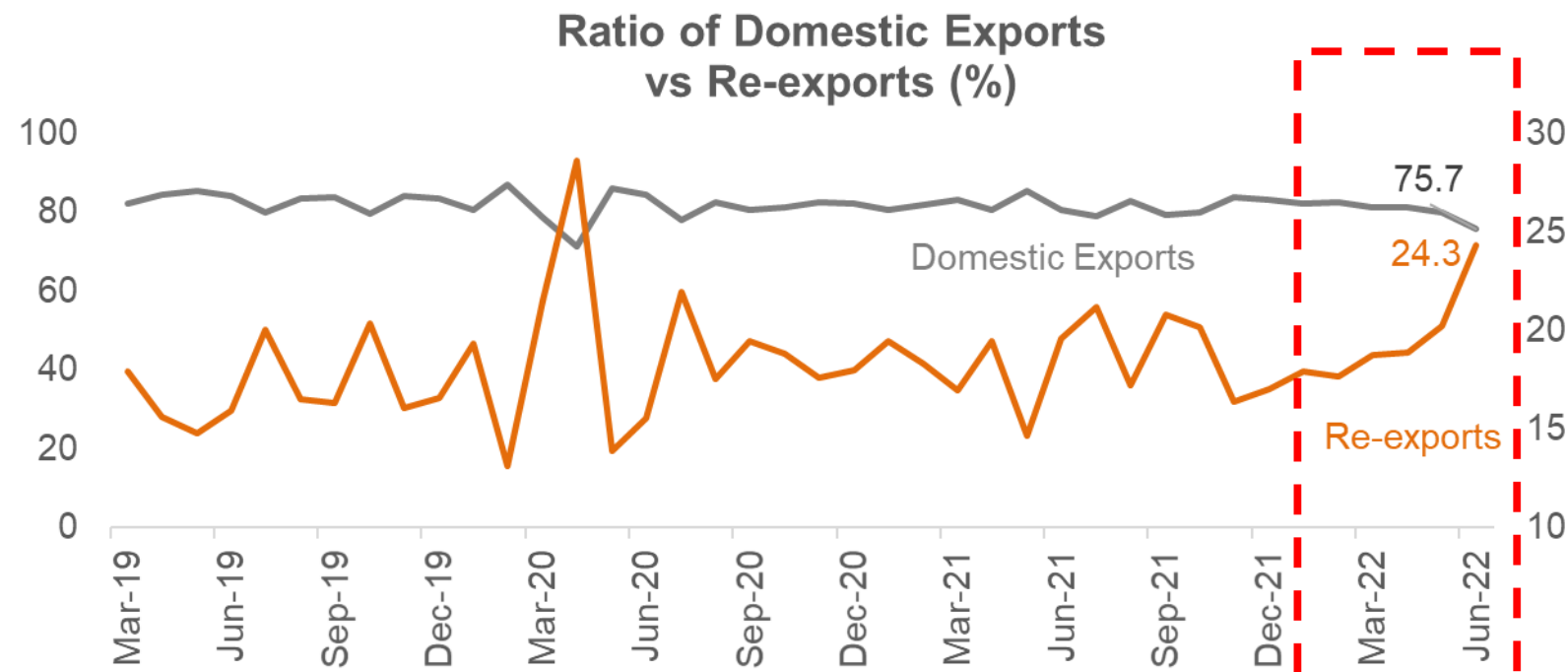
- Nonetheless, Petronas' 1Q 2022 capex is still largely underwhelming at only RM7.4 bil (-48% QoQ).
- Generally, it takes about 3 – 5 years for investments to translate into additional supply.

## External Trade Performance: Robust E&E exports



- Exports performance of machinery & transport equipment is also encouraging. **Contrary to commodities, the volume index > value index.**
- Electric & Electronic (E&E) sub-sector which holds the biggest weightage of Malaysia's total exports (~36%) is parked under this Machinery & Transport Equipment category which we believe, is driving up the overall export performance.
- Exports of E&E products by value have been increasing sturdily since 2H 2021 (Jun 2022: 40.9% YoY).
- E&E sector will continue to uplift Malaysia's export performance this year and next, mainly due to a still solid demand for semiconductor. Semiconductor makes up approximately 62% of total Malaysia E&E exports.
- World Semiconductor Trade Statistics (WSTS) forecasts the **worldwide semiconductor** market to increase by **16.3% in 2022** (up from 10.4% in Mar 2022), continuing to **grow by 5.1% in 2023**.
- Nonetheless, there are some **mix signals and downside risks** on concerns that the **semiconductor super cycle has peaked**. The **weakness in demand for consumer electronic** products is **gradually broadening to data centres, industrial and automotive**.

# External Trade Performance: Increasing reexport activities



- One of the concerning trend with current solid exports performance is the **declining ratio of domestic exports and rising re-exports**.
- In Jun 2022, the ratio of re-exports to total export stood at **24.3%**, the highest since Apr 2020 when Covid-19 pandemic first hit Malaysia.
- The ratio simply means for every RM1 value of exports, approximately 24 sen of value is made-up of re-export component.



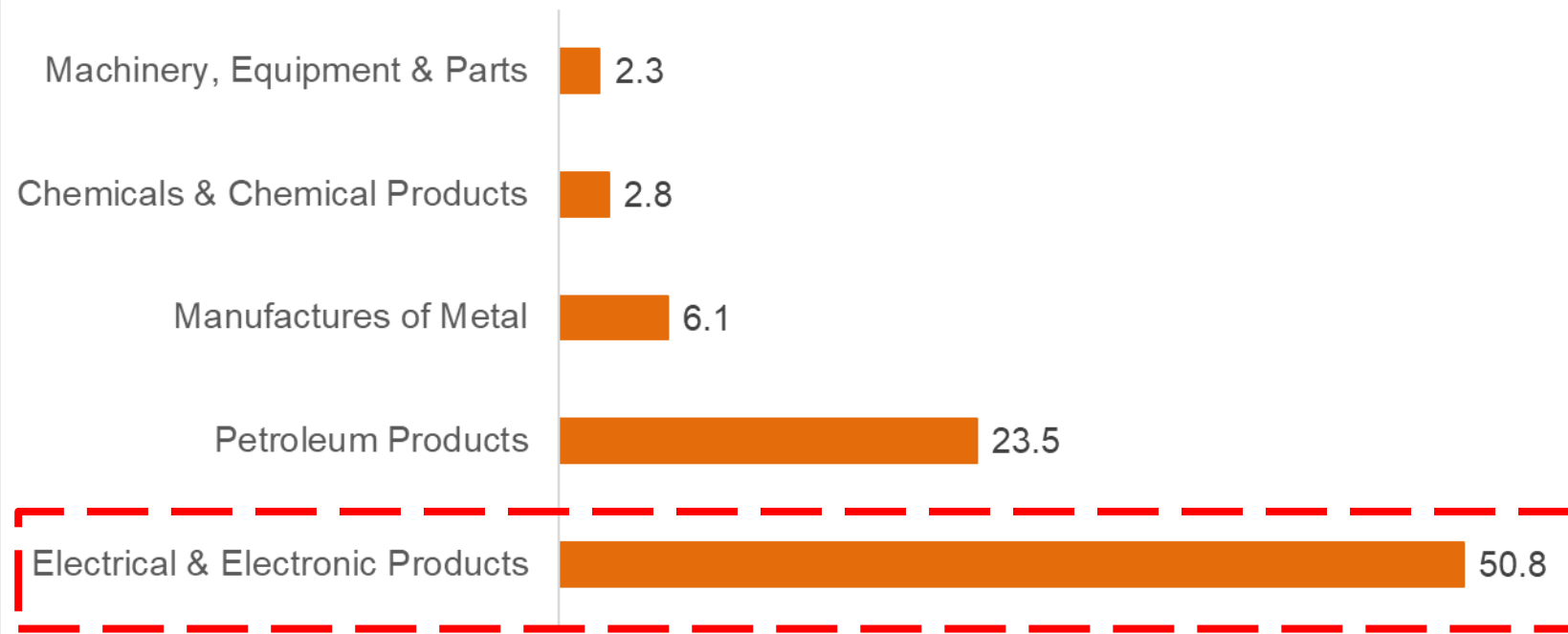
## DEFINITION OF RE-EXPORTS

**Foreign goods exported in the same state as previously imported**, from the free circulation area, premises for inward processing or industrial free zones, directly to the rest of the world and from premises for customs warehousing or commercial free zones, to the rest of the world.

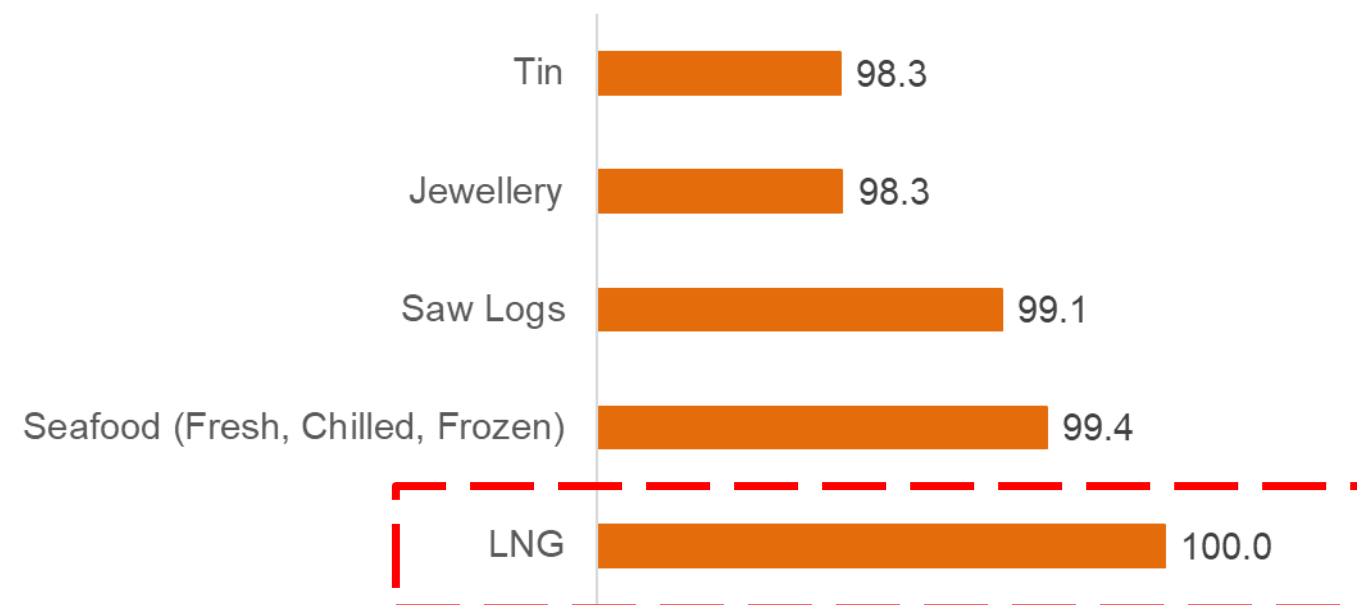
- Rising reexports is good in a way as it reflects the **increasing presence/ importance of Malaysia in global supply chain**. Nonetheless, it has **low domestic value-added elements** which mostly only involves **repackaging and labelling activities without utilising any high technology** hence technology transfer is unlikely.
- These may still create job opportunities but **focusing on low-skilled** rather than high-skilled labours which **bodes ill for our nation's** long term direction to move up the value chain and away from reliance on cheap foreign labour.

## External Trade Performance: Reexport in E&E

Top 5 Re-export Products in 2021 (%)



Products with Highest Domestic Export Ratio (%)



- While we might be comfortable with the performance of our E&E exports, this sector actually accounts for more than 50% of the total RM229 bil re-export value recorded in 2021, which corresponds to its weightage to the overall exports.
- E&E also has one of the highest reexport ratio to the total exports (25.5%).
- This is in line with Malaysia's role as one of the **leading global hub for semiconductor's assembly, test and packaging**.
- Approximately **7% of the total global semiconductor trade flow** through Malaysia, reinforcing our position in the E&E global supply chain.
- Malaysian companies are encouraged to participate in the greater E&E value chain, especially in closing the ecosystem gaps, such as in Integrated circuit (IC) design, advanced IC packaging, engineering and testing services, as well as Electronic Manufacturing Services (EMS).
- Meanwhile, LNG has the highest domestic export ratio at 100% which has significant value add to the economy.



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