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**PREPARED BY**

**CIDB MALAYSIA**



# **COUNTRY REPORT**

## **1.0 EXECUTIVE SUMMARY**

The Malaysian Economy continues to be resilient showing encouraging growth due to the Ninth Malaysian Plan (9MP, 2006 – 2010). Projects under the 9MP gave positive impact to the country's main sectors particularly the construction and trade as well as Domestic demand.

Every year, construction activity shows growth in terms of the number as well as value of projects involved. The encouraging amount of activity within the construction industry has increased the number of registration of contractors and construction personnel with the Construction Industry Development Board (CIDB) Malaysia.

The Gross Domestic Product (GDP) value per worker has increased in 2007 due to an increase in production, improvements in technology, skills as well as knowledge of workers and innovative production processes.

The increase in construction cost as a result of material cost increase has to a certain extent impacted the implementation of construction works. The Government has intervened with some proactive measures to reduce the burden on contractors.

## **2.0 MACRO ECONOMIC REVIEW 2007**

### **2.1 Overview of Malaysian Economy**

The Malaysian economy continued to grow and was able to record a growth of 6.3% in 2007 (2006 : 5.9%). The growth of Malaysia's economy exceeded the initial forecast of 6.0%. Part of the growth was supported by the results of the 9MP projects which gave positive impact on construction and trade activities, in spite of the moderate growth of the export environment.

### **2.2 The Performance of the Economic Sector**

Large number of Malaysian key economic sectors showed positive growth in 2007. The growth was led by the construction sector, i.e. at 4.6% (2006 : -0.5%), the mining sector at 3.3% (2006 : -2.7%), and services sector at 9.7% (2006 : 7.3%). Sectors which experienced decline were agriculture at 2.2% (5.4% : 2006), and manufacturing at 3.1% (2006 : 7.1%).

**Table 1 The Growth of Gross Domestic Product (GDP) Malaysia from 2003 to 2007 at Fixed Price 2000 (%)**

Sector	2003	2004	2005	2006	2007				
					Q1	Q2	Q3	Q4	Average Growth (%)
Agriculture, forestry and fishery	6.0	4.7	2.6	5.4	3.8	-1.5	1.9	4.7	2.2
Mining and quarrying	6.1	4.1	-0.4	-2.7	-0.4	7.8	2.5	3.5	3.3
Manufacturing	9.2	9.6	5.2	7.1	2.0	1.5	3.3	5.6	3.1
Services	4.2	6.4	7.2	7.3	9.4	9.4	10.5	9.3	9.7
Construction	1.8	-0.9	-1.5	-0.5	4.1	4.8	4.7	4.7	4.6
GDP	5.8	6.8	5.3	5.8	5.5	5.8	6.6	7.3	6.3

Source : Monthly Statistical Bulletin, January 2008, Central Bank of Malaysia  
Monthly Statistical Bulletin, July 2008, Central Bank of Malaysia  
Central Bank of Malaysia Yearly Report 2007

**Table 2 The Growth of Gross Domestic Product (GDP) Malaysia from 2003 to 2007 at Constant Price 2000 (RM Million)**

Sector	2003	2004	2005	2006	2007				
					Q1	Q2	Q3	Q4	Total
Agriculture	33,369	34,929	35,835	32,769	8,868	9,299	10,512	9,914	38,583
Mining and quarrying	40,959	42,627	42,472	41,315	10,577	10,479	10,468	11,139	42,663
Manufacturing	119,687	131,127	137,940	147,672	36,343	37,547	39,625	38,748	152,262
Services	201,568	214,528	230,043	246,895	64,415	66,193	69,037	71,116	270,761
Construction	15,031	14,903	14,685	14,604	3,524	3,926	3,911	3,918	15,279
GDP	399,414	426,508	449,250	475,192	120,225	123,896	130,070	131,162	505,353
GDP (at current price)	418,769	474,048	522,445	573,736	144,566	154,283	166,306	176,709	641,864

Source : Monthly Statistical Bulletin, January 2008, Central Bank of Malaysia  
Monthly Statistical Bulletin, July 2008, Central Bank of Malaysia  
Central Bank of Malaysia Yearly Report 2007

### **2.2.1 Agriculture Sector**

The agricultural sector (agriculture, forestry and fishery) grew at a moderate rate of 2.2% in 2007. This sector was supported by food related activities with a value added growth of 4.9% (2006 : 6.8%).

15.8 million tonnes of the industries main crop, i.e., crude palm oil was produced, while the total production of rubber was 1.2 million tonnes, contributing to 36% of the total added value of the agricultural sector. The slow performance of the industry's main crop was due to production's declining cycle, heavy rain which consistently interrupted the cycle, dry spells in a number of areas at the beginning of the year as well as continuous reduction of planting area. Nonetheless, the positive growth in the industry's main crop in 2007 was due to the significant increase in crude palm oil prices of 62.6%, the highest price ever reached, i.e. RM 2,472 per tonne as well as the increase in the price of Malaysian rubber (SMR20) of 3.9% to an average of 837 cent per kilogram. These developments were impelled by the increase of strong demands and the increase in crude oil prices.

In the forestry sub-sector, logging activities declined at 5.3% in response to conservation efforts and the reduction of demand from Japan. The production of cocoa increased to 10.2% (2006 : 14.2%) as a result of increase in productivity.

### **2.2.2 Mining and Quarrying Sector**

In 2007, this sector recorded a growth of 3.3% (2006 : -2.7%). The production of crude oil (including condensates) showed an increase of 4.3% (2006 : -5.2%) with an average production of 695,276 barrels per day. The production of natural gases increased 1.4% (2006 : -0.4%) to 5,854 million standard square cubes per day.

2007 saw a sudden increase in Tapis Blend (Malaysia's benchmark oil grade) which recorded USD 57.44 a barrel earlier in the year to the highest price ever of USD 99.57 a barrel at the end of the year. The increase in prices was a consequence of strong demand from the global economy, the involvement of speculative funds and consistent geopolitical concerns within the region of the main oil producers.

### **2.2.3 Manufacturing Sector**

The manufacturing sector grew at a moderate rate of 3.1% in 2007 (2006 : 7.1%) supported by domestic oriented industries, namely construction related products (5.0%) in line with construction activities which were more actively undertaken and private sector consumption such as food, drinks, and tobacco. Export oriented industries were a little slower at a rate of 0.7% (2006 : 7.5%).

Electronics and electrical production were a little hampered by the slow production of computers and spare parts in the United States of America (US), lower semi conductor production as well as slow investments in equipment and software by the US corporate sector, particularly at the beginning of 2007. Production in the Off-estate manufacturing industry declined along with upstream crude palm oil and rubber activities. Meanwhile, the transportation sector was also affected by the slowing down of the used car market during the first half of the year.

The growth of rubber production continued due to the improvements in the tyre, tube and glove segments. The petroleum production sector benefited from the improvement in liquid natural gas production. The chemical industry and chemical produce improved moderately supported by the production of industrial gases, pharmaceuticals, medical chemicals and botany produce.

#### **2.2.4 Services Sector**

The services sector continued to grow at a rate of 9.7% in 2007 (2006 : 7.3%). The combinations of all sub-sectors recorded encouraging growth and were the main contributors to the GDP. The biggest contributor within the services sector was financial and insurance, property and business services, transportation and storage, wholesale and retail trade as well as accommodations and restaurants.

Firm improvements in income and high commodity prices, review of public servants wages, robust capital markets and tourism activities in the Visit Malaysia Year 2007 as well as the various initiatives put forth by the relevant authorities to encourage Islamic Finance activities as well as ICT services has propelled strong demands for the services sector. Meanwhile, the increase in disposable income led to improvements in private medical services, beauty care, entertainment, private education which in turn led to stable growth in the other services sub-sector.

#### **2.2.5 Construction Sector**

The growth of the construction sector recovered after experiencing three consecutive years of decline, recording a growth of 4.6% (2006 : -0.5%). The civil engineering sub-sector was the major contributor as a result of the RMK9 projects executed expediently in 2007. Federal Government development expenditure increased to RM 40.6 billion (2006 : RM 35.8 billion) due to the funding of building and improvements of infrastructure such as, schools, hospitals, and government living quarters.

The growth of non residential segment also increased stimulated by the increase in demand

for office and retail space. Activities in the residential sub-sector continued to remain positive, supported by residential property transactions with foreign citizens which increased by 30% during the first half of 2007. This was due to the Government's efforts in liberalising property purchases, Property Gains Tax exemptions and relaxation of residential property borrowings allowing foreigners to also obtain loans for the purpose.

Future offers for the housing sector in 2007 increased to 1.5%. However, the national house prices measured by the Malaysian House Prices Index increased 3.8% during the first half of 2007 (2006 : 1.9%). This increase was partly due to the constantly increasing building materials prices. The whole ceiling price has been reviewed thrice with a total increase of 45% while the ceiling price for cement was revised at the end of 2006 with a total increase of up to 10%.

### 2.3 Demographic Indicator

The labour market grew well in 2007, along with improvements in the Malaysian economy. Job availability also improved in many sectors. Unemployment rate remained low due to the increase in the demand for workers and very low termination rates.

**Table 3 Labour Market Indicator**

	2003	2004	2005	2006	2007
Population (people)	25.3 million	26.0 million	26.1 million	26.6 million	27.2 million
Population Growth Rate	3.3%	2.8%	0.4%	1.9%	2.3%
Labour Force (people)	10.0 million	10.5 million	10.9 million	11.2 million	11.4 million
Labour Force Growth Rate	2.5%	4.1%	4.1%	2.4%	2.1%
Unemployment Rate (% from Labour Force)	3.6%	3.5%	3.5%	3.3%	3.3%

Source : Central Bank of Malaysia Yearly Report 2007

### 2.4 Financial Indicator

The financial scenario remained encouraging for 2007. The domestic financial markets remained resilient as a result of strong macroeconomic fundamentals. Short Term and Long Term Interest Rates for merchant banks' fixed deposits showed a marginal reduction of 3.17% (2006 : 3.19%) and 3.71% (2006 : 3.73%) respectively. Consumer Price Index (CPI) increased 2.0 points compared to

2006. The value of the Ringgit improved by 6.8% compared to the USD and recorded an exchange rate of RM 3.31 to a Dollar by the end of 2007.

**Table 4 Financial Indicator**

	2003	2004	2005	2006	2007
Short Term Interest Rate (commercial bank fixed deposit ) for 3 months)	3.00%	3.00%	3.02%	3.19%	3.17%
Short Term Interest Rate (fixed deposit for commercial banks for 12 months)	3.70%	3.70%	3.70%	3.73%	3.71%
Change in Consumer Price Index	1.2 <sup>1</sup>	1.4 <sup>1</sup>	3.0 <sup>1</sup>	3.6 <sup>2</sup>	2.0 <sup>2</sup>
Change Against USD (as of December, 31)	3.80	3.80	3.78	3.53	3.31

Source : Central Bank of Malaysia Yearly Report 2007

Note : <sup>1</sup> base year 2000

<sup>2</sup> base year 2005

### **3.0 OVERVIEW OF THE CONSTRUCTION INDUSTRY**

#### **3.1 Construction Demand**

The original allocation for 9MP, totaled RM220 billion promised an improved performance for Malaysia's economy. 2007 (third year of 9MP), demonstrated consistent growth as a result of active implementation of projects under the 9MP. The value of construction projects awarded in 2007 exceeding RM500.000.00 increased significantly by RM87.97 billion i.e. an increase of 49.2% as compared to the total awarded in 2006 (RM58.96 billion). This increase was a result of the high increase in Government projects of 117.1% translated into a value of RM46.68 billion (2006 : RM21.50 billion) and 73.4% in terms of number of projects to 2,811 projects (2006 : 1,621). Table 5 shows value of projects awarded according to sector and year of awarded. Infrastructure projects constituted the main development category for the Government (58.7%) followed by the development of social amenities (22.0%). The value of private sector projects also increased by 10.2% compared to the previous year but experienced a decline of 5.1% in terms of the number of projects executed. The private sector focused on the development of business and residential properties comprising 77.2% of total value of private projects. Some of the major projects implemented in 2007 was the Double Tracking Project from Ipoh to Padang Besar worth RM12.49 billion, the Double Tracking



Project between Seremban and Gemas worth RM3.45 billion and the South Klang Valley Expressway Project with a value of RM1.10 billion.

Up to June 2008, the value of projects recorded by CIDB totaled RM27.77 billion. There were no signs that the private sector will increase its investments in the near future due to the unpredictable nature of external factors, the discomfort experienced in local politics and the increase in food prices which impacted household expenditure. There are no indicators which can stimulate the demand in the construction sector as shown in 2007.

New construction in 2008 is forecasted to be around RM69.00 billion. This is a reduction of 21.1% from the contract value in 2007 (RM87.97 billion). The decline in forecast is due to extraordinary Government expenditure in 2007, which are not expected to recur in 2008 up to the final implementation years of the 9MP. The estimated value (RM69.00 billion), approximates the forecast of average construction expenditure for a period of five (5) years, i.e. at RM70.00 billion per annum.

**Table 5 Construction Demand by Sector and Year of Awarded**

Type of Projects by Sector	2003	2004	2005	2006	2007	2008 (forecast)
RM billion (current rate)						
Private Residential	11.22	14.93	15.39	13.57	12.84	35.95
Private Non-Residential	18.59	24.67	21.94	23.89	28.45	
Public Residential & Non-Residential	19.26	14.73	17.66	21.50	46.68	33.05
Total	49.07	54.33	54.99	58.96	87.97	69.00
Repair & Maintenance (Private & Public)	1.68	1.67	2.39	2.16	2.17	2.00

Source : CIDB Malaysia

### 3.2 Construction Companies

It is mandatory for all contractors whether local or foreign to register with CIDB before they undertake to execute and complete any construction works in Malaysia. Any person who undertakes to carry out and complete any construction works without being registered as a registered contractor with CIDB shall be guilty of an offence under Construction Industry Development Board Malaysia Act 1994 (Act 520).

Based on contractor registration records with CIDB, the number of contractors registered year by year. In December 2007, a total of 63,610 contractors including 163 foreign contractors registered with the CIDB. 66.2% of this total were small contractors i.e. those in grades G1 and G2 categories, who are qualified to tender for projects valued at less than RM500,000.00 (Table 6). The balance of 21,246 contractors was registered under grades 3 to 7. From this total, 3,948 contractors including 41 foreign contractors succeeded in acquiring contract works as main contractors in 2007.

**Table 6 Number of Contractors Registered With CIDB**

Grade	Tendering Capacity	2003	2004	2005	2006	2007
G1	Not Exceeding RM 200,000	32,189	36,335	37,067	36,141	34,581
G2	Not Exceeding RM 500,000	6,146	6,901	7,076	6,937	7,300
G3	Not Exceeding RM 1,000,000	8,785	9,426	9,760	10,043	10,572
G4	Not Exceeding RM 3,000,000	1,816	1,975	2,017	2,140	2,340
G5	Not Exceeding RM 5,000,000	2,642	2,829	2,762	2,816	3,078
G6	Not Exceeding RM 10,000,000	977	1,077	1,033	1,003	1,065
G7	No Limit	3,637	3,637	3,472	3,736	4,191
Foreign	No Limit	135	157	156	163	163
Total		56,327	62,337	63,343	62,979	63,290

Source : CIDB Malaysia

Based on the Construction Economic Census 2006, issued by the Department of Statistics Malaysia, a total of 37.3% (205,625 individuals) of the total number of workers are paid wages by organizations which employ between 100 - 499 workers. This is followed by organizations in the category of 100 workers or less, i.e. 33.0% (182,302 workers).

Most organisations, i.e. 88.6% (9,172 organisations) have less than 100 workers but contributed only 31.7% (RM17.1 billion) to the total gross output as compared to 1,175 organisations with more than 100 workers which contributed 68.3% (RM36.9 billion) to the gross output.

**Table 7 Number of Organisations and Total Number of Workers According To Worker Size 2005**

Worker Size	Number of Organisation	Total Number of Workers
< 100	9,172	182,302
100 - 499	1,013	205,625
500 - 999	116	78,629
≥ 1,000	46	85,199
Total	10,347	551,755

Source : Construction Economic Census 2006, Department of Statistics Malaysia.

### 3.3 Construction Personnel

CIDB is given the responsibility to register the nation's construction personnel. From this registration, a database created can be used as a basis to outline the directions, policies and facilitates planning of the construction sector's human resource development programs. As at 31<sup>st</sup> December 2007, the total cumulative number of construction personnel registered with CIDB increased by 17.8% to 826,840 construction personnel in various categories. From this total, 635,717 (76.9%) are local personnel, while the balance are foreign workers.

**Table 8 Construction Personnel Registered With CIDB**

Category	2003	2004	2005	2006	2007
Construction Worker	193,847	249,389	298,647	356,385	419,951
Semi-skilled Worker	23,893	29,878	34,165	38,161	42,293
Skilled Worker	82,566	94,274	101,242	111,087	123,460
Construction Site Supervisor	49,319	54,806	58,374	62,868	73,017
Construction Manager	34,066	37,705	40,067	43,593	48,503
Administration Personnel	41,431	51,271	65,776	89,587	119,616
Total	425,122	517,323	598,271	701,681	826,840

Note : Data as at 31<sup>st</sup> December every year.

### 3.4 Productivity

Table 9 shows Malaysia's GDP and the number of employee for the construction sector each year. The GDP value for 2007 was RM15.28 billion compared to employee for the construction sector which was 757,300 employees. Therefore, the GDP per employee for 2007 was RM 20,176. This

was an improvement of 4.3% compared to 2006 (RM 19,338 per employee).

**Table 9 Construction Sector Value-added and Employment**

	2003	2004	2005	2006	2007
Construction Sector Value-added (RM million)	15,031	14,903	14,685	14,604	15,279
Construction Sector Employee ('000 worker)	774.6	767.3	759.6	755.2	757.3
Value-added per Employee (RM)	19,405	19,423	19,332	19,338	20,176

Note : Value-added measures the output created through production and services processes and it is distributed to those who have contributed to its creation.

Source : Monthly Statistical Bulletin, July 2008, Central Bank of Malaysia  
Central Bank of Malaysia Yearly Report 2007

### 3.5 Construction Cost

Based on reports issued by Public Works Department of Malaysia, the average per square meter cost of Government buildings were affected by the project location (states in the Peninsular of Malaysia). Table 10 shows average per meter cost for Peninsular Malaysia based on building category.

**Table 10 Average per Square Meter Cost for Government Buildings in Peninsular Malaysia (1980 – December 2006)**

Building Category	Average Per Square Meter Cost (RM)
3 Storey school building	717.61
4 Storey Hospital Ward Block	885.86
Government Offices Tower Block	1,175.63
2 Units of Fire Department	790.65
Police Station	1,277.15
Bungalow Quarters (D Class)	1,258.17
5 Storey Apartment Quarters	1,110.28

Source : Kos Purata Semeter Persegi Kerja-kkerja Pembinaan Bangunan bagi tempoh Julai 2006 hingga Disember 2006, Jabatan Kerja Raya Malaysia  
(Average per Square Meter Cost for Construction Building Works from July 2006 to December 2006, Public Works Department Malaysia)

By the end of 2006, prices of building materials increased, particularly for round steel bar, cement, concrete and bitumen. Throughout 2007, most building materials experienced a price hike between 2% to 42% compared to the prices in 2006. The average price of steel bar increased from 29.8% to 31.6% in 2007 due to the rapid increase in raw materials and other side production materials. Other construction materials experiencing price increases included concrete (9.1%), cement (8.5%) and bitumen (6%). The remaining materials only experienced marginal price increases.

**Table 11 Average Price of Construction Materials in Peninsular Malaysia (RM / tonne)**

Construction Material	2003	2004	2005	2006	2007
Mild Steel Round Bar	1,186.70	1,446.53	1,565.20	1,565.20	2,060.54
High Tensile Deformed Bar	1,225.50	1,485.33	1,604.00	1,604.00	2,082.42
Cement	10.14	10.14	10.14	10.14	11.00
Concrete	126.28	126.61	137.43	144.79	153.86
Sand	23.43	25.42	17.13	13.51	14.14
Aggregate	23.13	23.19	24.00	18.23	18.85
Clay Brick (RM / unit)	0.24	0.25	0.24	0.25	0.26
Cement Brick (RM / unit)	0.15	0.16	0.14	0.15	0.16
Bitumen	816.67	730.83	742.50	1,176.67	1,247.50

Source : CIDB Malaysia

Based on studies conducted by CIDB, the average wage rate in 2007 was RM 70.00 per day for skilled workers and RM 51.00 per day for semi-skilled. The rate deferred from construction equipment operators, which was RM 68.00 per day for skilled workers and RM 49.00 per day for semi-skilled. Building general workers on the other hand, received an average wage of RM 41.00 as compared to RM 44.00 for civil general workers. Wages for skilled electrical wiremen were at the rate of RM 2,140.00 per month.

**Table 12 Average Labour Wage Rates 2007 (RM daily)**

	Construction Worker	Machine Operator
Skilled Worker	70.00	68.00
Semi-skilled Worker	51.00	49.00
General Construction Worker-Building	41.00	-
General Construction Worker-Civil	44.00	-
Electrical Wireman, Skilled (monthly wages)	2,124.00	-

Source : CIDB Malaysia

### 3.6 Import and Export of Construction Services

Besides local contractors, foreign contractors were also involved in construction works in Malaysia particularly those works requiring specific specialisation. In 2007, foreign contractors were involved in construction works with projects awarded totaling RM 5.82 billion or 47% increase in term of value from the year before (2006 : RM 3.96 billion). In terms of percentage, foreign contractors contributed to 6.6% of domestic projects (2006 : 6.7% , 2005 : 8.1%). Foreign contractors mainly came from Japan (26.2%), Singapore (17.9%), China (11%) and Germany and Korea (8.3%) respectively. Some of the major projects executed by these contractors in Malaysia in 2007 included the Double Tracking Projects from Seremban to Gemas with a value of RM 3.45 billion, Factory Construction in Bintulu, Sarawak at a value of RM 0.34 billion and Residential Project in Ampang with a value of RM 0.30 billion.

Malaysian contractors' involvement in the global market in 2007 showed that they were successful in acquiring 39 projects of various categories with a value of RM 14.42 billion. This is a reduction by 51.9% compared to the earnings from such projects in 2006 which was RM 30.00 billion. The Middle Eastern Market was the largest market with a value of RM 8.91 billion. This was followed by the markets in Laos (RM 2.09 billion), India (RM 1.57 billion), Pakistan (RM 1.33 billion) and Thailand (RM 1.16 billion). As at June 2008, the number of projects implemented by Malaysian contractors in global market totaled 447 projects with a value of RM 81.23 billion, involving 97 contractors. Most of the Malaysian contractors were involved in public utilities infrastructure as well as building projects including residential buildings. Among the biggest projects for 2007 was the construction of a Turf Club in Dubai, United Arab Emirates with a value of RM 2.30 billion, the construction of a power plant in the Korba District in India worth RM 2.00 billion and the construction of the Abu Dhabi City Centre in United Arab Emirates worth RM 1.50 billion.

**Table 13 Import and Export of Construction Services (RM billion)**

Type of Contractors	2003	2004	2005	2006	2007
Foreign Contractors in Domestic Market	10.06	8.25	4.43	3.96	5.82
Local Contractors in Global Market	3.73	2.89	9.57	30.00	14.42
Local Contractors in Domestic Market	39.01	44.99	50.33	55.00	82.15

Source : CIDB Malaysia