

Chapter 1

Introduction

1.1 Performance of manufacturing industries in Malaysia

The manufacturing industry, which was first launched in 1970s, has contributed a substantially towards real GDP in Malaysia. Malaysia has often been described as an example of successful economic development as the annual rates of growth of manufacturing output averaging 11.5% during the 1960s and 12.5% during the 1970s. The rapid growth in manufacturing sectors continue in the 80s, 90s and in the new millennium, has seen as a major success of creating job opportunities, greater equity and contribute to the increase of income per capita for workers. Malaysia as a resource-rich country needs to take this advantage in developing and promoting the so-called Resource-Based Industry (RBI), to push-up its economy. RBI has recently become an important issue as a development strategy in the restructuring of the Malaysian economy from primary producing country to that of a newly industrialized economy by the year 2020. The stress on RBI is very much evident in the Industrial Master Plan (IMP) and it is also explicitly stated in the Mid-Term Review of the Fourth Malaysia Plan (4MP).

1.2 Objectives of Study

This study will concentrate on the issues of total factor productivity (TFP) and so as performance of RBIs of various sub-sectors in manufacturing industries in Malaysia for the periods of 1981-1997. This study will discuss several areas of TFP and RBI that is stated below.

- i. To highlight the significance and contributions of RBIs in manufacturing sector especially regarding the issues of GDP, employment creation and its future development.
- ii. To estimates the TFP growth in 3 and 5 digits level of manufacturing industries especially concerning the 14 manufacturing industries that are identified as RBIs and analyzed the pattern of growth in the RBIs especially regarding the productivity and efficiency parameter.
- iii. Determine the source of growth and the contribution of factor inputs compared to TFP growth in Malaysian manufacturing sector.
- iv. Discuss factors that would determine TFP growth in the RBIs sector.
- v. Formulate some policy that would give positive impact on the development and progress of RBIs.

1.3 Organization of Study

The study is divided into six chapters. Chapter 1 presents the introduction. Chapter 2 presents the literature review of Total Factor Productivity (TFP) in various sectors namely manufacturing and services. In Chapter 3, the issues concerning Resource Based Industry (RBI) will be discussed in particular area viz. characteristics and the significant contributions to microeconomic variables as well as investments. Chapters 4 discuss the methodology of the study and source of data used in TFP estimation function using the Cobb-Douglas production function analysis and also factors that would determine TFP growth using econometrics modeling. Chapter 5 will present the findings and statistical results. The policy implication concerning the stipulated issues, future prospect and

conclusion for this study presented in chapter 6. The First Industrial Master Plan-IMP1 (1986-1990) and Second Industrial Master Plan-IMP2 (2001-2005) as a vital document in industrial development process in Malaysian economy will be critically reviewed in order to cater any future issues concerning the RBI especially regarding manpower constraint, technology advancement and as well as competition and uncertainty in the global markets.