

(1) INTRODUCTION

(i) Purpose and Significance of the Study

The Malaysian economy has been undergoing rapid economic growth for the past two decades, accompanied by low unemployment and inflation, falling poverty, significant improvement in income inequalities, and rising per capita income. The manufacturing sector has played a decisive role in Malaysian economic success, contributing significantly to output, employment, and exports. Since early 1990's, manufacturing industry in Malaysia consists of TNC (Trans National Company) and domestic SMI (Small & Medium Industry) has been contributing more than 35% (Table 1) to the national GDP and roughly 80% (Table 2) out of total exported value. Therefore, it is not surprise to learn that manufacturing industry especially the electronic sector appear to be the backbone of the nation's social-economic growth & development, attainment of new technology know-how and higher living standard.

Table 1 : Malaysia Gross Domestic Product by Sector (1997~2001)(%)

GROSS DOMESTIC PRODUCT BY INDUSTRIAL ORIGIN					
	1997	1998	1999	2000	2001**
Agriculture, forestry and fishing, mining and quarrying	7.5	8.1	7.5	7.0	6.6
Manufacturing	30.7	28.7	30.9	33.5	35.1
Construction	5.0	4.1	3.7	3.5	3.5
Electricity, gas, water, transport, storage & communications	3.2	3.6	3.5	3.5	3.5
Wholesale and retail trade, hotels and restaurants	15.4	16.1	15.7	15.4	15.2
Finance, insurance, real estate and business services	12.6	13.2	12.7	12.3	12.0
Government services	6.8	7.5	7.6	7.3	7.1
Other services	7.7	8.5	8.1	7.8	7.6
Less: Imputed bank service charges	7.2	7.7	7.5	7.2	7.0
Add: Import duties	4.0	2.5	2.8	2.4	2.5
GDP at market prices	100.0	100.0	100.0	100.0	100.0

* Estimate by the Ministry of Finance, Malaysia
Source : By the Ministry of Finance, Malaysia, 2001

Table 2 : Malaysia Export Structure : (1970~2000)(%)

EXPORT STRUCTURE BY PRODUCT BASE					
	1970*	1993	1998	1999	2000
Electrical and electronic products	-	45.5	54.0	57.6	58.8
Other manufactured goods	-	24.0	23.3	25.1	21.2
Palm oil	6.0	4.8	5.8	5.4	3.3
Other exports	-	3.4	4.8	4.6	2.6
Textiles, clothing and footwear	-	4.5	3.2	2.9	2.8
Liquefied natural gas (LNG)	-	0.4	2.9	2.5	3.5
Crude oil	-	6.6	2.6	3.2	4.0
Timber	5.9	6.2	1.5	2.0	1.8
Rubber	39.6	1.7	1.1	0.7	0.7
Tin	24.1	2.2	0.2	0.3	0.2
Other commodities	19.0	0.7	0.6	1.1	1.1

* Selected 1970 figures are for West Malaysia only

Source : By Ministry of Finance, Malaysia 2001

Meanwhile, the structure of Malaysia manufacturing (Table 3) has also experienced a radical change for the past decade as low value-added manufactures such as food, beverages, tobacco, textile and clothing are being replaced by the strong and robust performance of relatively high-value added manufactures like electrical and electronic products, machinery, transport equipment and other manufactures.

Table 3 : Malaysia's Structure of Manufacturing (1980 vs. 2000) (%)

	1980	2000
Electrical & electronic	~20.0	~60.0
Machinery & transport equipment	~4.0	~12.0
Food, beverages & tobacco	~24.0	~8.0
Textile, shoe & clothing	~7.0	~5.0
Chemicals	~5.0	~9.0
Other manufacturing	40.0	~6.0

Source : Department of Statistics, Malaysia

The significance of the electrical and electronic sector in the Malaysia economy can be seen from the statistical facts that it accounts for ~60 percent of total export value (Table 2) and also ~60% of total output manufacturing industry (Table 3). In addition, out of total labor force of around 10 million in 2000, about 30% are engaged in manufacturing industry as shown in Table 4

below and thus, the manufacturing industry has played a vital role and has been at the forefront of transforming Malaysian economy into an industrialized nation.

However, it has also made the country highly dependent on the buoyancy of this external-orientated sector especially the electrical and electronic sector. Whether Malaysia can sustain its export competitiveness into the next century is the interest and focus of this research.

Table 4 : Malaysia's Employment by Sector (Average 1997~2000) (%)

Manufacturing	~30.0
Others sectors	~18.7
Wholesale & retail trade, hotels & restaurants	~16.5
Agriculture, forestry, livestock & fishing	~15.2
Government services	~10.5
Construction	~ 9.1

Source : Department of Statistics, Malaysia

Subsequently, the structural change in the Malaysian economy also turned the country from an exporter of primary commodities into an exporter of high value-added manufactured products.

Table 5. Malaysia Changing Trade Structure

Merchandise Trade	Exports (% of total)			Imports (% of total)		
	1980	2000	Change	1980	2000	Change
Food	15	9	- 6	12	5	- 7
Agricultural raw material	31	5	- 26	2	1	-1
Fuels	25	8	- 17	15	3	-12
Ores & Metals	10	1	-9	4	3	- 1
Manufacturing Goods	19	76	+ 57	67	85	+ 18

Source: World Bank : 2001

Table 5 clearly showing that manufacturing exports have been the main impetus for the changing composition of the Malaysian merchandise

exports. From 1980 to 2000, the share of manufacturing goods in merchandise exports rose from 19 per cent in 1980 to 76 percent in 2000. This period also witnessed a noticeable increase in manufacturing imports and a decrease in the importance of the primary goods exports.

The most significant change came during late 1980's when the share of the manufacturing exports tripled within a span of twenty years. While exports from the manufacturing sector led the charge, the role of the agriculture sector (food and agricultural raw material as a group) in merchandise exports declined from 46 per cent to in 1980 to only 14 percent in 2000.

The robust export performance of manufacturing, combined with growth in manufacturing imports, confirms Malaysian success in perusing an outward-oriented industrialization strategy helped by trade liberalization and strategic industry policy. The growth in manufacturing imports during this period also reflects greater economic activity in the country leading to rising demand for capital, intermediate and consumer goods.

The above import trends of intermediate goods and changes in export structure supports Hoekman and Djankov (1997) argument that: (a) import of intermediate inputs and capital goods are the major determinant of the changes in the export structure; and (b) trade liberalization measures enhance firms ability to import the technology and intermediate inputs needed to adapt to changing global demand patterns. It is clear from Table 5 that changes in the structure of Malaysian exports are in line with the above observation, as the change in imports has coincided with the changes in the export structure.

The share of export-oriented manufacturing in value added, employment, and exports have risen at the expense of the agriculture sector. The competitiveness of the Malaysian economy at the macro level is shaped by: political stability, investment in human and physical infrastructure, sound macroeconomic management, strategic industry policy, deregulation and privatization of the domestic economy, relatively competent bureaucracy, and a visionary leadership. This has provided a favorable environment for local firms and TNCs to achieve competitiveness at the enterprise level. Externally, the unprecedented regional and world economic growth, trade liberalization, globalization of industries, and changing composition of world demand proved equally helpful for Malaysia to capitalize on the changing structure of global demand.

Nevertheless, the ferocious tide of globalization wave of which gearing towards the international trade and financial liberalization such as the removal of trade barriers, formulation of regional trade-block and China's accession to WTO will inevitably posing stiff challenges and cloudy effects to Malaysia.

Nowadays, not only Malaysia but the whole ASEAN region is facing stiff competition from China in terms of luring foreign investment and retaining the existing one as almost all the manufacturers are scrambling to a place that can offer cheaper labor cost, higher profit margin and in return a bigger market share in the midst of global recession.

Therefore, in relating to the importance and significance of manufacturing sector's contribution to the Malaysian economy, this research project seek to examine the followings :

- (1) What is the global economic and industrial scenario after China's entry to the World Trade Organization (WTO) ?
- (2) The research tends to assess the awareness and counter-measures of the Malaysia manufacturing sector (Both local and foreign manufacturer) in facing stiff competition from China and their preparation and 'future direction' after China joining the WTO.
- (3) Besides, this research would like to contribute to the Malaysia's manufacturing competitiveness especially the high-value-added capital & technology intensive manufacturing industry by recommending the necessary steps to be taken in order to compete and survive against China's entry to WTO.
- (4) Meanwhile, this research also seeks to find out what are the Malaysia's leading manufacturing industries in terms of their revealed comparative advantage (RCA) and to what extent has manufacturing sector witnessed a shift in its export specialization over time? To address this aspect, this research will look into the comparative advantage of export structure for selected manufactured goods between Malaysia and China in labor-intensive products (SITC 65~69 & 84) and technology-intensive or high-end products (SITC 71~77).
- (5) Also, it is vital to examine what are the profound impacts & great challenges of China's WTO accession to Malaysia's export specialization and competitiveness of Malaysia manufacturing industry in both labor-intensive and technology-intensive ? To address this issue, this research project will look into the degree of association in manufacturing export specialization by verifying the World Export Ratio

(WER) base on revealed comparative advantage (RCA) indices between Malaysian-China in their respective high-end products.

(ii) Research Questions

Pertaining to the objectives of this research project, the proposed research questions are as per following propositions :

- (1) Will Malaysia most likely to lose its comparative advantage of the labor-intensive manufacturing industry such as assembled-products of low-value-added or low-end electronic parts such as radio cassette players, toy, shoe, textiles and apparel to China ?
- (2) At present moment, Will Malaysia mostly likely to retain its comparative advantage of the high-end and high-value-added manufacturing industry from China ? Nevertheless, these comparative advantages will be fast losing out within years unless immediate countermeasures being taken and implemented to counter the rise of China as the 'World Factory' to all kinds of consumer-products.
- (3) Due to cost-pressure factor and higher profit margin consideration, Are foreign companies more likely to consider production-relocation and restructuring to country that offering cost-effective resources than local companies ?

(iii) Scope of the Research

This research will mainly concentrate on the electronic sector of the manufacturing industry since it has been a main contributor to the total export value (~60%) and major employment sector of the Malaysia labor force.

Therefore, in terms of comparison of export specialization and manufacturing competitiveness between China and Malaysia, this research will mainly look into the electronic and electrical sector as main indicator instead of other sectors such as textile and wearing apparel and petrol-chemical sector. As such, a detailed analysis of comparison concerning these sectors is beyond the scope of this research.

(iv) Limitations of the Research

Due to time-constraint factor, the survey conducted for data collection of which to verify the proposition no. (3) is mainly targeted at selective electronic manufacturing companies and its supporting industries. Therefore, conclusions derived may not present an overall well-balance picture of the manufacturing industry in Malaysia in terms of decision-making of production relocation and adoptions of various constructive strategies to counter the impact of China's entry to WTO to their companies.

Furthermore, the number of 50 companies of which the survey conducted may not representative and conclusive enough to generalize an overall picture of the manufacturing trend in Malaysia pertaining to the impact of China's entry to WTO, given the differences in company originality, size, product and management policy.

Meanwhile, touching the confidential and sensitive of the issue such as company and product relocation in the survey may cause the respondents (usually the top management of the company) less willing to reveal the real intention or policy of the company in view of the negative consequence and thus, affecting the accuracy and reliability of the data collected.