CONCLUSIONS AND RECOMMENDATIONS

(i) Summary and Conclusions

With the consolidation of trade reforms and the availability of reciprocal market access with WTO members that comes with accession, China will undoubtedly see an increase in its share of world trade. For Malaysian exports, the decline in the export share of labor-intensive products such as textile, apparel and assembly of low-value products will be further accelerated according to products relocation and restructuring.

For high-technology products, Malaysia still has relatively high comparative advantage while JDI that has helped to develop these exports remains committed with Malaysia. However, the future development of this sector depends on the future outflows of FDI and this may face constraints as Japan struggles with the restructuring of its economy while the scarcity of skilled labor within Malaysia continues to impede the desired technological transformation. Moreover, Malaysia also faces competition from within ASEAN as they share common strategies and goals in developing their respective economies.

Given that China is expected to grow even more rapidly with the WTO accession, short and medium-term policies for Malaysia should focus on improving the market access for Malaysian products in China. In this regard, trade facilitation measures will enhance Malaysia’s opportunities to exploit the growing Chinese market. Thus, inter-governmental exchange of information on legal enactments, regulations, product standards and customs procedures via regular trade policy dialogues will increase the transparency and
understanding of China’s market and assist Malaysian exports to China. Improving visa arrangements to promote the flow of business personnel will also contribute to easing the procedures for conducting business in China.

More importantly, cooperation in terms of aligning domestic standards with international standards and the mutual acceptance of each country’s conformity assessment will help to reduce hidden trade barriers. In the medium to long-term, however, Malaysia will have to accelerate its output of skilled labor, diversify exports and export markets and develop indigenous R&D capabilities in order to counter the challenges posed by China’s accession into the WTO.

While Malaysian manufacturing has been successful in moving towards knowledge and technology-intensive industries, the convergence of manufacturing export specialization patterns between Malaysia and other ASEAN countries add further competitive pressure to Malaysian manufacturing. This pressure to achieve and enhance export competitiveness will be reinforced with the removal of tariffs and non-tariff barriers by 2003 in the ASEAN region under a common effective preferential tariff scheme (CEPT). It is envisaged that the level of intra-ASEAN trade would accelerate under CEPT. The liberalization of the ASEAN trade, however, present both challenges as well as opportunities for Malaysian manufacturing. (Amir Mahmood, 1999)
(ii) Recommendations

Pertaining to the rise of China as main destination for FDI and is fast catching up for the manufacturing of high tech products of which poses new challenges for Malaysian manufacturing.

First, unlike some of the other ASEAN countries, Malaysia with its tight labor market is no longer a low wage country and therefore would require to increase labor productivity to keep unit labor costs low in order to sustain and to enhance export competitiveness of its manufacturing sector against China manufacturing sector.

Secondly, in some instances, industrial restructuring would require moving away from areas of decreasing revealed comparative advantage and allocation of resources to the segments of manufacturing with greater export potential. As our analysis indicates, such an industrial reorientation implies a shift towards knowledge and technology intensive activities. Such a shift, however, would require vigorous efforts to develop and upgrade workforce capabilities through education, retraining, and skill acquisition programs. In some industries maintaining export competitiveness would necessitate adding more value through non-price measures to offset high-cost disadvantages. Pressure for industrial restructuring would become increasingly important with full implementation of AFTA commitments and with growing trade liberalization that is external to ASEAN (Mahani: 1997). In this context, it is important to recall the successful conclusion of the Uruguay Round of Multilateral Trade Negotiations that led to an improvement in market access of ASEAN manufacturing exports to its traditional markets, such as, United States, European Union, and Japan.
This development provides both opportunities as well as challenges for Malaysian manufacturing. (Amir Mahmood, 1999)

Thirdly, the extent to which Malaysia can succeed in its drive to move into high-value added export industries, in which knowledge and technology intensive industries play a central role, depends on its emphasis on research and development, technology capabilities, and the pace of technology transfer.

Fourthly, the ability of Malaysian institutional and socio-economic infrastructures to provide helpful conditions for industrial restructuring cannot be underestimated. In this context, the quality and the type of human capital needed for such an industrial transformation would become an important issue to tackle.

Fifthly, given weak inter-industrial forward and backward linkages between small and medium industries and large multinationals, there is a need to foster these linkages to curtail overseas sourcing of parts and other inputs. The above sources of competitiveness at the macro level will also play an important role in attracting foreign direct investment in to manufacturing to support industrial restructuring.

Industrial transformation and structural change in export patterns also rely on the ability of the manufacturing sector to exploit its competitive advantages at the enterprise level by adjusting to global market conditions. Here, it is important to emphasize that international competitiveness at the micro level depends upon firms’ ability to exploit their competitive advantages under a given set of macro environments. While it is beyond the scope of this paper to analyze firm- specific determinants of international
competitiveness, this study takes the position that value-adding process profoundly affect firms' ability to acquire and sustain international competitiveness.

At the firm level, factors such as, worker's motivation and skill levels, nature of the product and technology in use, scale of production, internal organization of the firm, strategic alliances between local and foreign firms, and ownership of other unique assets, e.g., quality, reliability, and service, all are instrumental in the value adding process. The above factors, while interacting with a given macro environment, play an important role in raising the value-added productivity by influencing labor productivity and price-cost margins at the enterprise level.

(iii) Suggestions for Additional Research

Due to time constraint and appointment scheduling problems, this research merely managed to interview 42-targeted companies out of pre-selected target of 50 companies. Therefore, it is highly recommended to conduct further similar research with bigger size of samples, ideally each 100 companies for both foreign TNCs and local manufacturers as to increase the reliability of the results.

Furthermore, within the 100 sample companies for foreign TNCs, it is best to consist of companies from US, Japan and Taiwan evenly as in line with their proportion as biggest foreign investor in Malaysia.