CHAPTER 1

INTRODUCTION

1.0 OVERVIEW

The structural transformation in the Malaysian economy, had significantly developed the Malaysian economy increasingly outward-looking. Being one of the most open economies in the world, Malaysia is the second fastest growing economy in the South East Asian region with an average Gross National Product (GNP) growth of eight-plus percent per year in the last seven years. Over the years, the services sector has assumed greater importance in Malaysian economy. The share of services in the GDP has been on the rise since 1980 from 40.07 percent to 56.78 percent in 2004 (Table 1). Its share of total employment has also increased from 37.8 percent to 49.68 percent over the same period (Table 2).

In achieving the objective of balanced growth, economic policy in Malaysia has concentrated on the diversification of the economy. For almost five decades our economic structure has undergone waves of transformation. The Malaysian economy has shifted from a commodity based to a more industrialized economy, reinforced by the discovery of petroleum and, more recently to an economy where the services sector is becoming an increasingly important source of growth.¹

¹ Governor Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz Bank Negara Malaysia, Address at the OIC Business Forum, Putrajaya Marriott Hotel, October 2003.
There are many significant basis for any countries to develop its service sector. Many developing economies show that the adequate provision of services is undoubtedly a vital element in ensuring dynamic economic growth. An expansion of this sector will help create national wealth. There is a positive correlation between high GDP per capita and the intensity of service-based activities in the economy, generally because cost return point in this sector generally exceed those in agriculture and manufacturing. Growth in services is also recognised as an important aspect of economic development and is strongly linked with income growth and economic modernisation (Francois & Reinhert 1996).

Table 1
GROSS DOMESTIC PRODUCT BY INDUSTRIAL ORIGIN
in 1987 real prices, Malaysia
RM million

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry and fishing¹</td>
<td>22.89</td>
<td>18.62</td>
<td>8.60</td>
<td>8.50</td>
<td>8.41</td>
<td>8.23</td>
<td>8.04</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>10.07</td>
<td>17.85</td>
<td>7.33</td>
<td>7.24</td>
<td>7.22</td>
<td>7.22</td>
<td>7.08</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>19.64</td>
<td>26.85</td>
<td>32.03</td>
<td>30.07</td>
<td>30.05</td>
<td>30.63</td>
<td>31.12</td>
</tr>
<tr>
<td>Construction</td>
<td>4.64</td>
<td>3.57</td>
<td>3.32</td>
<td>3.37</td>
<td>3.32</td>
<td>3.25</td>
<td>3.16</td>
</tr>
<tr>
<td>Services</td>
<td>40.07</td>
<td>42.60</td>
<td>54.01</td>
<td>56.95</td>
<td>56.97</td>
<td>56.78</td>
<td>56.78</td>
</tr>
</tbody>
</table>

1 Includes livestock and horticulture.
2 Estimate by Ministry of Finance.

The services sector in Malaysia scenario during the initial stage of development appeared as a "non-productive" sector, whose growth and development was dependent upon the enthusiasm of the agriculture and manufacturing sectors, which
remained the key engines of growth. However, policy interest was placed on the development of non-commercial services, such as health, education and infrastructure to ensure fast growth and an equitable distribution of these services. The main objective in the development of the services sector in the early phase was to support the growth and development of the agriculture and manufacturing sectors, and to provide basic needs such as education, health and utilities to the growing population in the urban and rural areas.

Table 2
EMPLOYMENT BY INDUSTRIAL ORIGIN

<table>
<thead>
<tr>
<th></th>
<th>1980 '000</th>
<th>1990 '000</th>
<th>2000 '000</th>
<th>2001 '000</th>
<th>2002 '000</th>
<th>2003 '000</th>
<th>2004 '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry and fishing¹</td>
<td>1910.9</td>
<td>2002.2</td>
<td>1407.5</td>
<td>1406.5</td>
<td>1405.6</td>
<td>1402.6</td>
<td>1400.3</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>80.1</td>
<td>40.5</td>
<td>41.2</td>
<td>41.8</td>
<td>42.2</td>
<td>42.8</td>
<td>43.4</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>755.1</td>
<td>941.1</td>
<td>2558.3</td>
<td>2558.8</td>
<td>2679.8</td>
<td>2857.8</td>
<td>3064.5</td>
</tr>
<tr>
<td>Construction</td>
<td>270.2</td>
<td>476.7</td>
<td>155.0</td>
<td>771.7</td>
<td>782.1</td>
<td>791.9</td>
<td>798.2</td>
</tr>
<tr>
<td>Services</td>
<td>1800.6</td>
<td>2653.2</td>
<td>4509.2</td>
<td>4756.7</td>
<td>4920.5</td>
<td>5086.0</td>
<td>5239.2</td>
</tr>
</tbody>
</table>

1 Includes livestock and horticulture.
2 Estimate by Ministry of Finance

The second phase in the development of the services sector can be recognized during the mid-1980s, when many of the sectors that were traditionally services supplied by the government were privatized. With privatisation, the services, production and delivery became more commercially driven. These comprise roads, rail, air and sea transport, telecommunications, power generation and distribution,
water supply and sewerage and other utilities. The primary objective was to
develop the financial load on the public sector, ensure adequate supply to meet
rapidly increasing demand and to instill greater efficiency and quality in the
services provided.

The services sector is integral in the clustering process under the Second Industrial
Master Plan (IMP II:1996-2005) a cluster-based industrial development strategy as
it creates the national competitive advantage. The second IMP recommended a
wide range of incentives and programmes to develop the services sectors
supporting the development of the manufacturing sector. Unlike manufacturing, the
services sector has traditionally been driven by domestic investment initiatives.

1.1 The Objectives of the Study

Labor Productivity refers to the quantity of output produced by a given quantity of
labor input. From a macroeconomic point of view, productivity gains are the key to
improvements in material standard of living. If labor productivity stay unchanged,
then rising wages would increase the cost of producing a given quantity of output. If
this appear on the economy, subsequently prices would increase. In a while it will
restraint any real gain in worker purchasing power even under competitive
conditions. On the other hand, if labor productivity is rising, then nominal wage
growth is expected to outpace inflation, meaning rising real wages and purchasing
power.
Every goods and services provided by labour had a with value, therefore an increase in productive workers will add more value than less productive workers. The implication is that highly productive workers in a market economy command higher wages and salaries than their less productive fellow workers. In fact, under competitive conditions microeconomic theory predicts equilibrium wages will equal the added revenue generated by a marginal unit of labor (marginal revenue product).

The objectives of the study are:

- to measure the labour productivity in the distributive trades
- to see the trends of the distributive trade industry.
- to increase labour productivity awareness among distributive trade firms.

1.2 Significance of the Study

The significance of this study is that:

- to enhance data and information of the distributive trades sector especially in the labour productivity.
- as an information of the existence Key Performance Indicators used in measuring productivity in the distributives trades.
- as an information of the role of distributives trades in the Malaysian economy.
1.3 Data

Two types of data used in this paper are national accounts data and production figures. The production statistics are developed and published by the Department of Statistics, Malaysia, obtained through annual and quarterly survey. The national accounts is essentially a secondary statistical figure, which are constructed by various sources such as Economic Report on the basis of primary statistics, including the production statistics. This thesis focuses on trends over the 1999-2004 period.

1.4 Output Measurement

The measurement of output of a distributive firm is typically based on a gross margin concept in the national income and product accounts. Retailers purchase commodities from manufacturers and then engage in a variety of services involving the transfer of the goods to individuals. As discussed elsewhere (Oi, 1992) trade related services include many things such as warehousing, display and advertising, convenience locations and hours of opening, packaging and reprocessing, and transportation and credit. While there are exceptions, trade-related services are usually included in the price of the good the consumer purchases.
Thus for example, a retail firm purchases ladies accessories and prices them for sale to consumers by adding a mark-up to cover the costs of inventory, the store, salespersons to provide fitting services, and related expenses. The value of these "middleman" services will vary across outlets as some firms offer more or less services than others. For example, a discount outlets will provide less fitting services and charge appropriately lower markups. This means that there is widespread heterogeneity in the distribution of firm output.

1.5 Organisations of chapters

The study comprises of six chapters that discusses several elements and factors within their own particular scope.

Chapter one begin with the introduction of the subject matter, clarify the objectives, methodology and the organization of the study. Chapter two provides a overview of the nature of the distributive trades which consist of wholesales and retail trades. It highlights the definitions, the role and functions and also the regulations of each sectors.

The next chapter provides interpretation of input data, methods productivity trends. The chapter then presents an overview of the productivity trends in the wholesales and retail trades. Chapter four will discuss the findings from the chapter three in detailed which consist the productivity, competitiveness capital
productivity and efficiency. Chapter five view the challenges, opportunity and emerging trends in the distributive trades. Chapter six provides some recommendation to the enhancement of productivity in distributive trades and also the conclusion of the paper.