

**AN ANALYSIS OF STRUCTURAL INTERDEPENDENCE : THE
MALAYSIA CASE STUDY**

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Abstract

Interdependency among sectors is the essential characteristic of modern production. This experience has suggested the importance of studying sectoral interdependence. One of the aims of this study is to estimate and measure the intersectoral output and employment linkages in the Malaysian economy by employing the input-output analysis which was introduced by Leontief and subsequently developed by various economists. Output linkages are used to identify key sectors in the Malaysian economy in terms of demand and supply generated. Employment linkages are used to identify key sectors for employment creation in Malaysia industry. Another objective of this study is to analysis the impact of intersectoral interdependence with particular reference to telecommunication and construction sectors. A modified demand vector was then used to test the implications of increased investment in these sectors.

The findings of our structural analysis indicate that primary and non tradable industries are sectors with high output forward linkages. On the other hand, light and heavy industries have high output backward linkages. Meanwhile, the analysis based on employment linkages indicate that primary sectors especially Others Agriculture and light manufacturing such as in the production of Rubber products, Food processing, Non Metallic products and Metallic products have higher labour absorption. Therefore, the conclusion drawn from output backward linkage studies suggest that an expansion in final demand markets would stimulate output from the supplying sectors which feed these industries. The results from output forward linkages suggest that emphasis on the expansion of intermediate markets

would stimulate output of the buying industries. Employment linkage analysis show that if the unemployment rate is high, policies should emphasis sectors with high backward employment linkages. Emphasis on forward employment linkage is appropriate if the economy is facing a supply side shortage.

The findings based on increased investment in telecommunication and construction sectors show that most sectors experienced higher output levels. The greater the amount of investment the more significant the increase in sectoral output level. The study of increased investment in telecommunication indicate that most sectors attained higher output especially the services sectors. The result from increased investment in construction sector shows that other sectors like Non Metallic products, Metallic products, Wood products and Chemical have significantly higher output levels.

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