

### 3.0 ECONOMIC EVOLUTION

#### 3.1 Economic Sectors

The Malaysian economy has been evolving from an agricultural dominated economy to a more manufacturing based economy with the service sector poised for large growth gains.

##### 3.1.1 *Agricultural Sector*

In the early years after independence, the Malaysian economy was dominated by the agricultural sector. During the First Malaysia Plan (1966-1970), agriculture's share of the GDP was 31.5% and labour usage stood at 51.2%. Agriculture's share of the GDP however began to decline after the 70s with its GDP and employment contributions standing at 27.7% and 47.6% respectively during the Third Malaysia Plan (1976-1980). Two decades later, its share continues to decline although it remains an important sector.

##### 3.1.2 *Manufacturing Sector*

With the agricultural sector declining, the manufacturing sector however began to grow. The country's strategy in embarking on industrialisation was to diversify from its primary exports. Initially under the New Economic Policy (NEP), the government encouraged import-substitution manufacturing with various incentives given to encourage both local and foreign capital to invest in industries of these types. Subsequently, the emphasis was switched to export led manufacturing growth. The manufacturing sector's share of the labour market has increased from 15.8% at the end of 1984 to 25.5% at the end of 1995. It is forecasted that the manufacturing sector's share of GDP will increase from 33.1% in 1995 to 38.4% in 2005.

The manufacturing sector has contributed significantly to the country in terms of employment with close to full employment being achieved.

Instead today the country faces an acute labour shortage problem, which requires low wage foreign workers from neighbouring countries to help alleviate the problem.

The forecast of manufacturing's continued growth may however be over optimistic. Malaysia's manufacturing competitiveness is being eroded by other low wage manufacturing nations such as Thailand, Indonesia and China. Businessweek (October 22, 2001) reports of many companies from the United States and Japan are shifting their operations to China from Penang. One of the key factors cited is the low labour cost in China with engineers in China demanding less than half what a Malaysian engineer would demand. It is estimated that during the first half of 2001, Penang shed some 12,000 high-tech positions.

### *3.1.3 Service Sector*

The service sector having previously played second fiddle to the agricultural and manufacturing sectors is poised to be a key growth sector. Service industries are also becoming globalised like manufacturing due to labor cost differentials, market access considerations, capital mobility and the growing dispersion of intellectual resources.

## **3.2 Transition to K-Economy**

Today Malaysia is attempting to make a transition to a knowledge based economy or commonly known as K-economy. This refers to an economy dominated by knowledge workers. Knowledge workers create knowledge and information-intense products such as computer games, which require a great deal of learning and knowledge to produce. Drucker (1998) defines the knowledge worker as workers who use their education to deliver value, as opposed to delivering it with manual skill or sheer brawn as in the case of low wage manufacturing. He goes on to say that teachers of all kinds, draftsmen, engineers, doctors, scientists, accountants, designers, information systems people all qualify for the term.

The Malaysian government came up with the MSC concept in order to meet current and anticipated future economic challenges with the MSC expected to be a catalyst spreading development to the whole country. The MSC will particularly be concerned with employing knowledge workers in the multimedia and information technology sectors.

With labor cost in Malaysia rising and the emergence of new low wage manufacturing countries, there was a need to reduce our dependence on that sector and move up the value chain with the MSC being the vehicle to spur the country towards creating knowledge based, information intense products.

Shortage of low wage laborers as well has contributed to the urgency of the countries need to evolve into an economy, which is less dependent on migrant low wage workers. Recent problems with Indonesian and Filipino migrant workers highlight the difficulties inherent with excess dependence on cheap foreign labor.

By successfully transitioning from a low value add manufacturing economy to a high value add knowledge economy, the country will be able to enjoy continued high rates of economic growth its the associated benefits of peace and stability.

The change of economic strategies to one which relies less on low wage manufacturing is timely and necessary in order to prevent future economic problems.