

Case Analysis 1

Premature Deindustrialisation and International Competitiveness: The Case of Malaysia

EE 459

Semester 2/2017

Policy-induced premature deindustrialisation: Malaysia

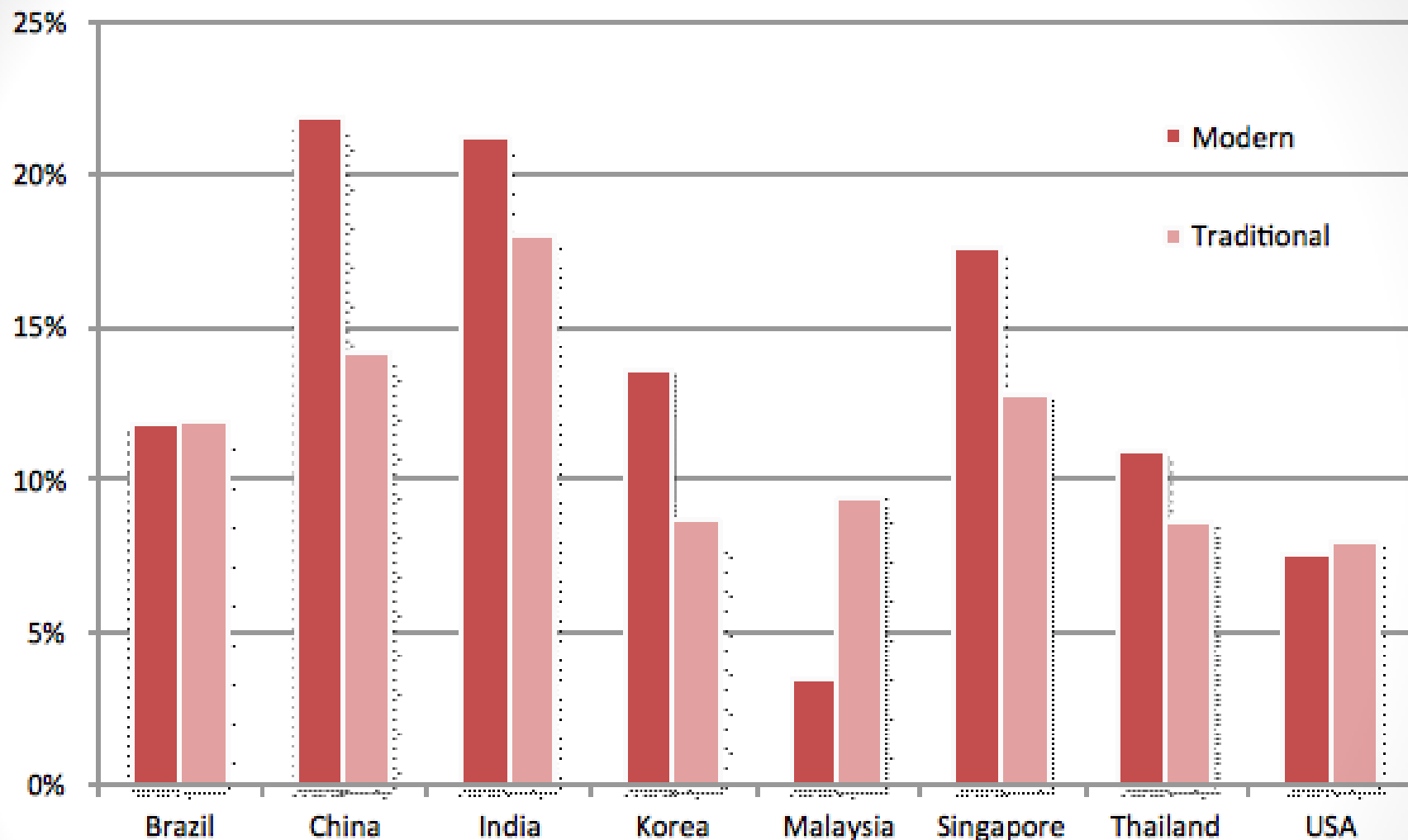
- A legacy of **its colonial past, primary commodities** – particularly **tin ore** and **natural rubber** – accounted for a third of Malaysia's GDP and over **75% of exports** by 1970.
- The **Promotion of Investment Act of 1986** extended generous incentives for private investors, and regulations on foreign direct investment (FDI) were relaxed, allowing 100% foreign ownership of export-oriented companies. **Massive FDI inflows ensued.**
- This opened Malaysia's gates to the global production network and it succeeded in developing a vibrant and competitive electronics sector, concentrated around Penang (Athukorala and Menon 1999). **Manufacturing grew** sharply from about 12% of GDP in 1970 to **over 30% by the mid-1990s.**

Policy-induced premature deindustrialisation: Malaysia

- Department of Statistics of Malaysia (2014) show **petroleum refining** accounted for almost **19%** of manufacturing output in 2012, while **oil palm** processing was **12.1%**.
- While low- and lower-middle income countries are often **encouraged to process agricultural or mineral output before export** to **increase value-added content**, **Malaysia appears a rare example of an upper-middle-income country** –aspiring to high-income status – stunting or even reversing its previous success.
- Malaysia may be experiencing ‘**premature deindustrialisation**’ the way **Rodrik (2015)** has **recently warned**.

Policy-induced premature deindustrialisation: Malaysia

- The main concern about **petroleum refining** and **palm oil processing** is that they are **capital-intensive** and **generate few jobs**.
- Despite their importance in overall output, they account for only a **small share of employment**.
- Just **14,400 workers** are employed in manufacturing **refined petroleum** products, compared to nearly **200,000** in **electronics manufacturing**, the main source of employment in the sector.
- Also, greater reliance on commodity processing increases **vulnerability to commodity price volatility**, as we have witnessed in 2015.



Source: IMF Balance of Payments 2009 and <https://voxeu.org/article/how-avoid-middle-income-traps-evidence-malaysia>

Note: Modern services include exports in telecommunications, computer and information services, other business services, financial services, insurance, royalties, and license fees. Traditional services include travel, transportation, construction and personal, cultural, and recreational services exports.

Task#1: Use analytical techniques to examine **Malaysia's competitiveness of existing top-6 export sectors**. These techniques include:

- (1) Historical trends (flows of trade)
- (2) Quadrant analysis from TradeMap
- (3) Global Backward and Forward Multipliers (comparing 2000 and 2011)
- (4) Local Backward and Forward Multipliers (comparing 2000 and 2011)
- (5) Sectors' share on Malaysia's GDP (comparing 2000 and 2011)
- (6) Visualization obtained from Network Analysis and GePhi
- (7) Centrality indices (PageRank and Eigenvector Centrality) obtained from Network Analysis and GePhi
- (8) Other combinations of indicators or tools (e.g. quadrant analyses using combinations of other key variables)

Task#2: Based on results obtained from Task #1, provide policy recommendations to the Malaysian government.

- Have the main export products changed during the period of 2000 – 2001?
- Which sectors are the exporting gainers?
- Which sectors are the exporting losers?
- Which sectors that the government should support? Why?
- Will this export structure allow Malaysia to achieve the high-income level as targeted in 2020?

Task#3: Comparing to results obtained in Task#2, please provide policy recommendations to Thai government.

- Have the main export products of Thailand changed during the period of 2000 – 2001?
- Which sectors are Thailand's exporting gainers?
- Which sectors are Thailand's exporting losers?
- Which sectors in Thailand that the government should support? Why?
- Will this export structure allow Thailand to achieve the high-income level as targeted in the next 20 years?

Suggestions on 1st Assignment

(Presentation Date: March 9, 2018)

- (1) Written report : the format of consulting company
(PowerPoint with texts and graphs/diagrams)
- (2) Submit the hardcopy at the box in the class and also email to PowerPoint file to nattapong@econ.tu.ac.th on March 8, 2018 (5.00pm)
- (3) Presentation session : 12 minutes
- (4) Q & A session : 10 minutes
- (5) Sequence of presentation : from draw
- (6) Matching commentator with presenting group : from draw

Suggestions on 1st Assignment

(7) Length of report : 12 – 15 pages

(8) Structure of report

Part 1 - Introduction and background

Part 2 - Sources of data

Part 3 - Analytical methodologies and results

- Historical trends (flows of trade)

- Quadrant analysis of key indicators

- Other related tools and data are welcome

Part 4 - Policy recommendations

Grading Criteria

- **Quality of report (60%)**
 - appropriate methodologies (20%)
 - critical reasoning in result analysis and policy recommendation (20%)
 - format of report (comprehensive graphical communication and concise text explanation) (10%)
 - on-time submission (10%)
- **Quality of presentation (40%)**
 - convincing verbal explanation (20%)
 - comprehensive Q&A (20%)