Case Analysis

Premature Deindustrialisation and International Competitiveness: The Case of Malaysia

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**.

Source: https://voxeu.org/article/policy-driven-premature-deindustrialisation-malaysia

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- 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**.

Source: https://voxeu.org/article/policy-driven-premature-deindustrialisation-malaysia

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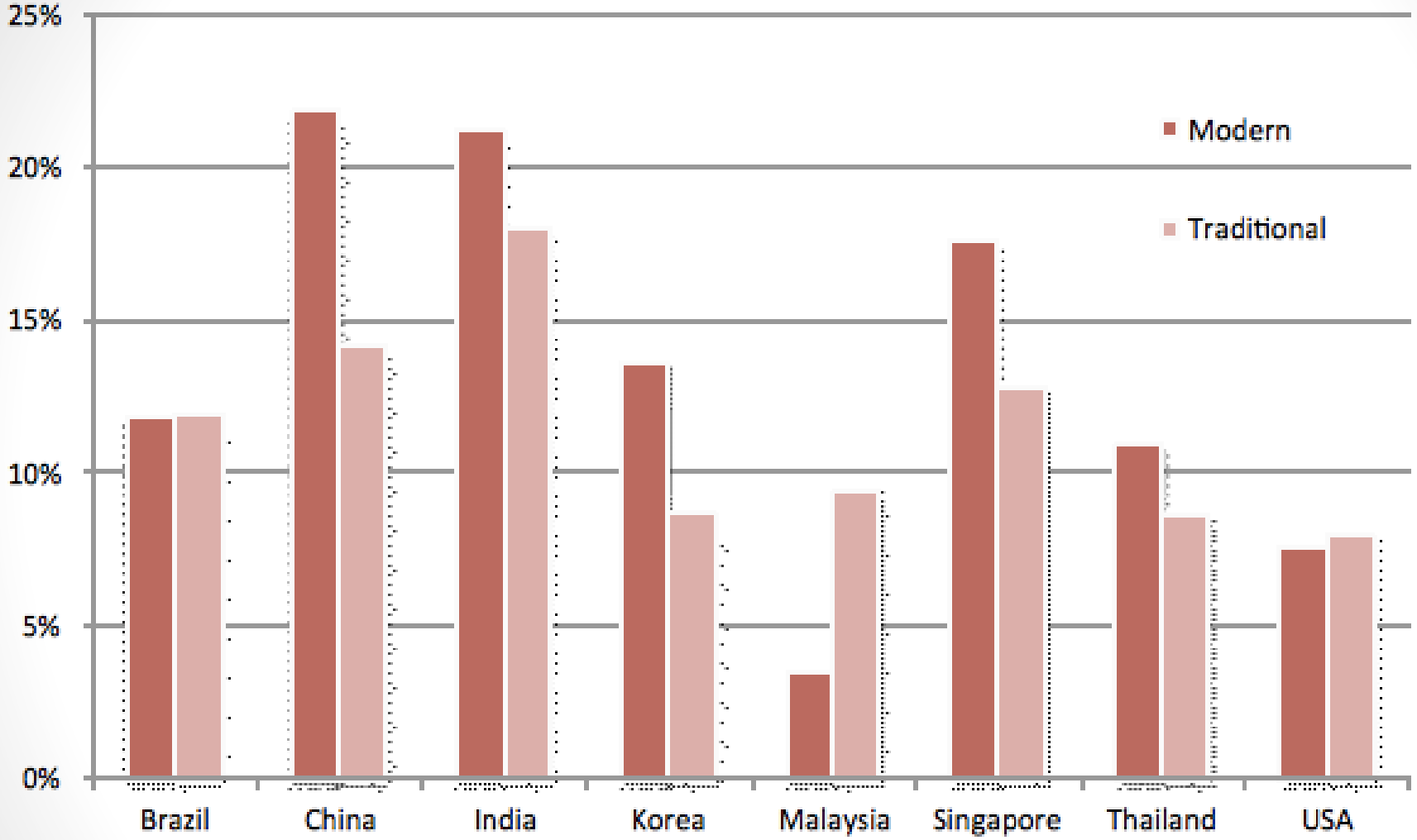
- The main concern about **petroleum refining** and **palm oil processing** is that they are **capital-intensive** and **generate few jobs**.
- Despite their importance in overall output, they account for only a **small share of employment**.
- Just **14,400 workers** are employed in manufacturing **refined 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: https://voxeu.org/article/policy-driven-premature-deindustrialisation-malaysia



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.

Use analytical techniques to examine Malaysia's competiveness of existing top-5 export sectors. These techniques include:

(1) Historical trends (flows of trade)

(2) Quadrant analysis from TradeMap

(3) Global Backward and Forward Multipliers (comparing across years)

(4) Local Backward and Forward Multipliers (comparing across years)

(5) Sectors' share on GDP (comparing across years)

(6) OECD's TiVA indicators

(7) Economic Complexity Index (comparing across years)

(8) Visualization obtained from Network Analysis and GePhi

(9) Centrality indices (PageRank and Eigenvector Centrality) obtained from Network Analysis and GePhi

(10) Other combinations of indicators or tools (e.g. quadrant analyses using combinations of other key variables