

Export Diversification and Economic Growth in Malaysia

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Abstract

This paper examines the relationship between export diversification and economic growth in Malaysia. We use annual data from 1980-2007 and time-series techniques of cointegration and Granger causality tests to examine the long-run relationship and dynamic interactions among the variables. The results show the presence of a unique cointegrating vector among the four variables. Consistent with previous studies, we found that export diversification plays significant roles to economic growth in Malaysia. This finding suggests that, in order to sustain future economic growth under the static effect of multilateral and regional trade liberalization, Malaysia should diversify its export commodities and develop greater social and economic cooperation with the rest of the world. As an export-oriented economy, in the long run, export diversification strategy could help stabilizing Malaysia's export earnings.

Keywords: export diversification, economic growth, revealed comparative advantage

JEL Classification: C10, F10, F14

1 INTRODUCTION

The increasing complexity of international trade pattern suggests that the product of one country is no more depending on factor endowment and perfect competition. The modern trade theory contends that international trade has been accommodated with the modern industrial development characteristics. According to Helpman & Krugman (1985, p. 227), the legitimate features of this are: increasing to return scale (IRS); and imperfect competitions. In the past, this subject is often overlooked because the conventional trade theory suggests that in order to benefit from trade activities a country should specialize in its production activities, in which it has a comparative advantage. However, given a different set of international economic characteristics, specialization in economic activities needs greater consideration. In modern international competition, a country cannot solely depend on particular industrial activities and should be more proactive to offset national factor disadvantages in sustaining national competitive advantage. The critical impacts of diversity on economic performance was confirmed by Malizia and Ke (1993), Wagner and Deller (1998), Trendle and Shorney (2004) and Woerter (2007) in their empirical analyses. In addition, the impact of export diversification on economic growth has shown mix results. For instance, Al-Marhubi (2000) and De Ferranti et al. (2002) find

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