

MANUFACTURING SECTOR AND ITS IMPACT TOWARDS ECONOMIC GROWTH IN MALAYSIA

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Abstract

Every economy in the world will experience structural changes in the economy. The changes may have positive or negative impact on the economic development of a country. Proper insight is needed for policy maker and stakeholder to have a better understanding on the issue to create proper policies for the economy to adjust. Thus this study is conducted to examine the impact of manufacturing sector towards economic growth on selected states in Malaysia for the sample period of 2008 – 2018. The methodologies employed in this study is based on panel data analysis which includes Pooled OLS, Fixed Effects Model (FEM), Random Effects Model (REM), Breusch-Pagan Lagrange Multiplier (BP-LM) Test, Hausman Test, panel unit root tests, panel cointegration tests and granger causality test. The empirical result shows there are three unidirectional granger causality among GDP, manufacturing sector wages, manufacturing value added and GDP per capita.

Keywords: Structural Changes, Manufacturing Malaysia, Panel Cointegration

Introduction

Structural change can be defined as a situation in which an economic condition of a country changes how it operates or functions from an industry or market. Often, structural change begins to happen when employment, production and consumption of a country shift from conventional agricultural sectors in rural areas to modern non-agricultural sectors in urban areas such as manufacturing and construction as the economy of a country develops through time. Today, we can observe that most economy in the world are increasingly driven by services sector. Therefore, this study provides a spatial analysis on the impact of manufacturing sector on economic growth on selected states in Malaysia and to investigate on the significant impact it had over the past decade.

Since the formation of federation of Malaysia in 1963, Malaysia economy has undergone severally structural changes during the last 56 years. During its early formation, Malaysia economy were primarily focused on agricultural base economy before shifted to import-substitution during the early 1960s. Then, the economy once again shifted to export-orientation in 1968 onwards with the robust gain from the foreign direct investment (FDI). Today, Malaysia economy are focuses primarily on services sector mainly led by wholesale and retail trade and information and communication.

A summary of Malaysia GDP by kind of economic activity showed that in 2018, Malaysia registered a growth of 4.7% with solid macroeconomic performance for most of the states. A closer look on key sectors in Malaysia showed that there is an increase in services sector from 6.2% in 2017 to 6.8% in 2018. However, manufacturing sector registered a slight decrease in growth for 2018 with 5% from 6% as compared to previous year. As for agriculture sector, the sector have rebounded significantly with an increase of 7.2% in 2017 compared to 5.1% in previous year. In addition, an increase in exports and imports have positively impact manufacturing industry with all states improved their output in 2018.