

DETERMINANTS OF EXPORT COMPETITIVENESS OF AGRICULTURAL PRODUCTS IN MALAYSIA

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ABSTRACT

This study intends to evaluate the export competitiveness of agricultural products using the data of 186 agricultural commodities in Malaysia for the period ranging from 1988 to 2014. Besides, this study engages in the total export of the world with Standard International Trade Classification Revision Three-SITC Revision 3 (5-digits code) to analyse the index of comparative advantage of agricultural commodities in Malaysia. In addition, the study employs Balassa (1965) index of Revealed Comparative Advantage (RCA) to measure competitiveness. The findings show that 56 commodities have comparative advantage. Apart from that, this study also empirically examines the determinants of competitiveness which are commodities price, GDP per capita, labour participation and capital formation. The results of cointegration tests estimation indicates that there is a long-run relationship between the variables under study. The outcomes denote that price of commodities, GDP per capita and crises in 2008 have negative association while labour participation and capital formation are positively relatedly to competitiveness. The results also specify that there is a short-run dynamic impact on competitiveness with the variables. This study suggests that the government should consider intensifying the current economic policy through focusing on downstream products by taking the benefit of its comparative advantage in upstream industries to increase competitiveness.

Keywords: Revealed Comparative advantage (RCA), Competitiveness, Export.

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1. INTRODUCTION

The world population has seen doubled from 2.9 billion in 1960 to more than 6.7 billion in 2008. Fortunately, this trend has been countered by the stable growth of the output of agricultural coupled with a continuing drop in the prices of real commodity (Wik et al., 2008). However, in 2050 the world population is expected to grow to almost 10 billion. Despite of the promising demand for food in the both upstream and upstream industrial activities, agriculture sector has

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shown a very slow pace of growth rate as compared to other economic sectors. This is especially true in many developing countries, notwithstanding the fact that agriculture sector is contributing to the majority of job opportunity. The reason being is the backwardness of agricultural activities. At the same time, the role of agricultural sector for food supply has been trembled by demand for biofuel.

Against this background, therefore it is vital to identify the productivity of agricultural subsector so as to make sure corrective measures can be implemented at the optimal cost. However, measuring productivity of various crops production can be very tedious since productivity requires assessment at micro level. From the macro perspective, productivity can be associated with the concepts of comparative advantage. Generally, comparative advantage is an economic theory which is based on the concepts of opportunity costs as well as relative efficiency in regards to resource use. For instance, the theory of comparative advantage by Ricardo indicated that lower opportunity costs for the production of a certain good relative to other goods will lead to competitiveness. Therefore, a country will concentrate in producing goods with comparative advantage, whilst on the other hand, it will trade with other countries for goods in which it has a comparative disadvantage for the benefit of each other. Other than that, competitiveness is known as the capability and achievement of a firm, sub-sector or country to market and source goods and services. The relative prices amongst competitors have impact towards the exportation and market share's level. This determines if the products are inexpensive in that particular country as compared to others, giving the exporting country added competitiveness. Schwab and Sala-i-Martin (2014, p.4) defined competitiveness as "the set of institutions, policies, and issues that define the productivity level of a nation". They initiated that the productivity level determines the wealth as well as the profit gained through investments of an economy that result in economic growth.

1.1 Agriculture Background in Malaysia

In Malaysia, the agriculture sector makes up the largest share of national output other than the manufacturing sector, creating job opportunities for labourers (Diao et al., 2007). The agriculture sector has several sub-sectors including; palm oil, rubber, livestock, forestry and logging, fisheries, aquaculture as well as other agriculture such as paddy, fruits, vegetables, coconut, and more. According to Malaysia Productivity Corporation (MPC, 2015), Malaysia's agriculture sector contributes to national income and has the potential to support the Ringgit's foreign exchange valuation. This occurs during this time of huge world demand for agricultural products owing to a rising population in the world as well as strong economic fundamentals.

According to the World Economic Forum Competitiveness Report (WEF, 2015), Malaysia was rated as the 18th most competitive economy in the world, additionally Malaysia remains the highest ranked among the developing Asian economies. Therefore, Malaysia has to remain competitive in this era of globalisation as competitiveness is essential to many countries in order to be assured of growing living standards and economic growth (Ariff, 2005). However, the increasing level of international trade, especially in the manufacturing sector, has reduced the importance of the agriculture sector among policy makers, academics and policy analysts. This is partly caused by the low prices of agricultural commodities in world markets as well as the low level of technology being used in the agricultural sector. According to Adelman (2001), economic development as a growth process requires an organised restructuring of the factors of