

Drivers of the Malaysian economy under dualistic trade structures

Topic: 814Z International Trade (3)

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Exports of the manufactured products, in particular electric and electronic products are found to be major contributor to the total exports of goods in Malaysia. Production of exports for the electric and electronic products in Malaysia is mainly involved processing trade activities. These economic activities commonly take place in Free Industrial Zones. With the growth of 101% between 2000 and 2014, the processing trade activities making Malaysia is one of the countries that actively participating in the Asian region. Empirical evidences from other countries clearly indicate the unfavorable effects of these trade activities on domestic economies with lower contribution to value added and employment. Nevertheless, empirical works to quantify the economic impacts of processing trade activities in Malaysia are clearly lagged behind. Thus, this paper aims to extensively evaluate the impacts of processing trade activities on the Malaysian economy by paying specific attention on value added, employment and productivity. An extended input output table will be developed to segregate processing trade from normal trade with help from trade statistics for goods and services, and economic census. Results from this paper would not only add into the current literature but also would provide significant policy responses to the government in particular with respect to the effectiveness of Free Industrial Zones in promoting economic growth and societal welfare in Malaysia.