

Impacts of Processing Trade on Productivity in Malaysia

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Processing trade refers to sectors located in free industrial zones (FIZs) that produces final goods using parts, components, accessories and packaging materials from abroad with free of duty. Although the contribution of processing trade sectors on domestic economy are well documented in the literature, studies on measuring the impacts of these sectors on productivity are limited. This paper aims to measure the extent to which processing trade sectors affect productivity by taking Malaysia as a case study. Malaysia is considered as an interesting case because it is recognized as one of the Asian countries actively participate in processing trade activities with strong support from the government. For empirical analysis, we utilise the extended input-output table for Malaysia that separates sectors into the processing trade and normal trade. Database from national economic census, trade statistics and companies registrar are used to split the sectors into processing and normal trade sectors. To enable for the productivity assessment, additional information for employment and wages by sectors are included in the dataset. This work is not only contributing to the current literatures on productivity analysis within the input-output analysis sphere, but the present results also able to determine the capability of processing trade sectors to exhibit high productivity level. Additionally, it will become a significant policy input for the Malaysian government to initiate targeted interventions to generate sustainable growth.