

**THE IMPORTANCE OF MANUFACTURING SECTOR TO THE
ECONOMIC GROWTH OF MALAYSIA:
AN INPUT-OUTPUT APPROACH**

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**MASTER OF ECONOMICS
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Othman Yeop Abdullah
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ABSTRACT

The main purpose of the study is to examine the importance of manufacturing sector to Malaysia economic growth by using input-output analysis. A comprehensive comparative study is performed by using three years Malaysia Input-Output Tables of 1991, 2000 and 2005. The manufacturing sector is assumed as an exogenous variable in examining the inter-industry relationship and also the impact of it on Gross Domestic Product (GDP) and import. In the study, backward and forward linkages and impact analysis are used as primary analytical tool in achieving the objective of the study. Based on the findings, the manufacturing sector is a key driver for economic growth with the strong backward and forward linkages throughout the period under study. In addition, the expansion of manufacturing sector would give a significance impact on output and there is highest proportion of import commodities use in the production for manufacturing sector.

Key Words: Manufacturing sector, economic growth, input-output analysis, backward and forward linkages, impact analysis.

ABSTRAK

Tujuan utama kertas kerja ini adalah untuk mengkaji kepentingan sektor perindustrian terhadap pertumbuhan ekonomi dalam Malaysia dengan menggunakan kaedah analisis input-output. Data Jadual Input Output bagi tahun 1991, 2000 dan 2005 telah digunakan untuk tujuan perbandingan keputusan bagi tiga tahun. Persalingan antara industry dianalisis bagi mengesan sektor utama dalam membangun ekonomi negara. Di samping itu, sektor perindustrian diandaikan sebagai pemboleh ubah dalam menganalisis hubungan antara sektor perindustrian terhadap Keluaran Dalam Negara Kasar (KDNK) dan import. Hasil keputusan telah menunjukkan bahawa sektor perindustrian merupakan sektor utama dalam membangun ekonomi Malaysia. Oleh itu, pembangunan dalam sektor perindustrian akan membangun ekonomi Malaysia dengan menjana pembangunan industri yang lain. Seterusnya, permintaan terhadap barang import untuk digunakan dalam aktiviti pengeluaran dalam secktor perindustrian adalah tinggi.

Kata Kunci: Sektor perindustrian, Pembangunan ekonomi dalam Malaysia, Input-output, Pengganda dan Kesalingan antara industri.

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LIST OF ABBREVIATION

ARDL	Autoregressive Distributed Lag
EPU	Economic Planning Unit
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
KDNK	Keluaran Dalam Negara Kasar
MCPA	Malaysian Classification of Products by Activities, 2009
NEP	New Economic Model, 2010
NEP	New Economic Policy, 1970
NDP	National Development Policy, 1990
OECD	Organization for Economic Co-operation and Development
SAM	Social Accounting Matrix

CHAPTER 1

OVERVIEW OF THE STUDY

1.1 INTRODUCTION

In Malaysia, the development of manufacturing sector in 1990s has transformed our economy from primary-sector dependency into manufactured-sector dependency in respective to the imposition of National Policy Development (NPD). Manufacturers use raw materials from suppliers to produce finished commodities, which in turn may be demand directly by consumers or use as input production in other sectors. Thus, when there is an expansion of manufactured production, it would results an increase of production for whole economic system.

First of all, background of research is presented to make more understanding about the importance of manufacturing sector statistically. Manufacturing sector contributes highest proportions of domestic production among good sectors. In addition, large scale of production for manufacturing sector could generate large amount of labors from the workplace. This is because there is lots of labor-intensive products rather than capital-intensive products produce by manufacturing sector in Malaysia. Thus, the development of manufacturing

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