

The Changing Structure of Malaysia's Exports

INTRODUCTION

Malaysia's export sector has evolved significantly over the five recent decades. In line with the nation's economic industrialisation, the composition of exports had gradually shifted from comprising mainly of agricultural and mining products in the 1960s to manufactured goods in the 1980s. The development and growth of the manufacturing sector was so rapid that by the late 1990s, the sector accounted for more than 80% of total exports. Today, manufactured goods remain the largest component of total exports (Chart 1).

Since 2000, two notable trends have emerged in Malaysia's export structure. First, the gradual move away from a heavy concentration in electrical and electronics (E&E) exports, towards non-E&E manufactured products and commodities. The second key trend is the diversification of Malaysia's export markets. This box article examines Malaysia's changing export structure since 2000, identifies the reasons underpinning this trend and broadly outlines key challenges facing the export sector going forward.

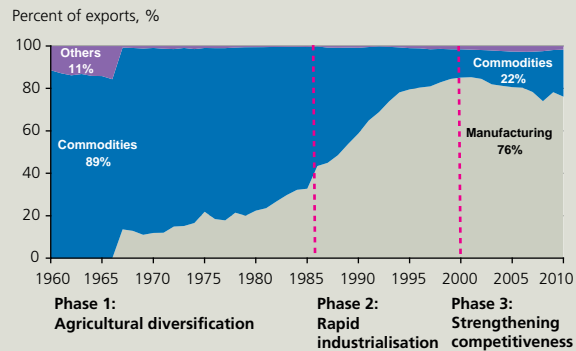
CHANGING STRUCTURE OF MALAYSIA'S EXPORT SECTOR SINCE 2000

Greater diversification in the composition of export products

While E&E products continue to account for a significant proportion of Malaysia's total exports (42.4% in 2010), this most recent decade has seen a steady rise in the share of non-E&E manufactured exports from 23.4% to 33.8%. During the same period, the share of commodities in total exports has also increased, from 13.3% to 22.2% (Chart 2).

Chart 1

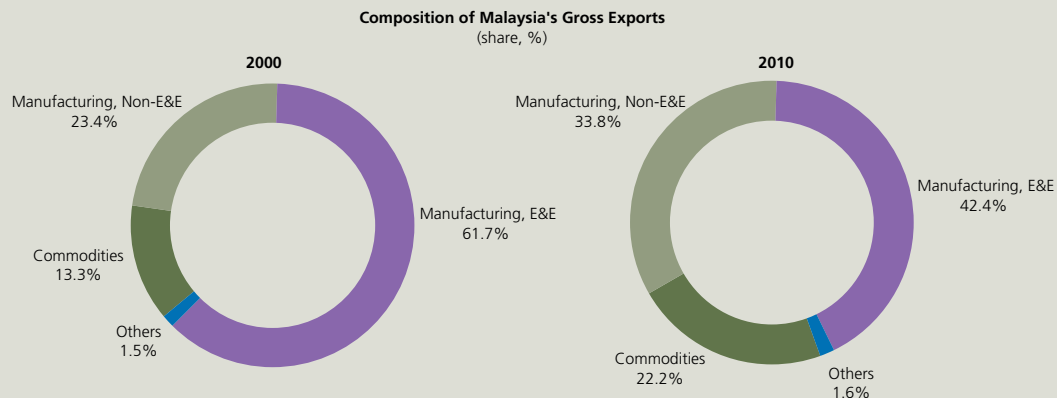
Malaysia has evolved from being a major commodities exporter to being primarily an exporter of manufactured goods



Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Chart 2

The share of non-E&E manufactures and commodities have been increasing over this recent decade



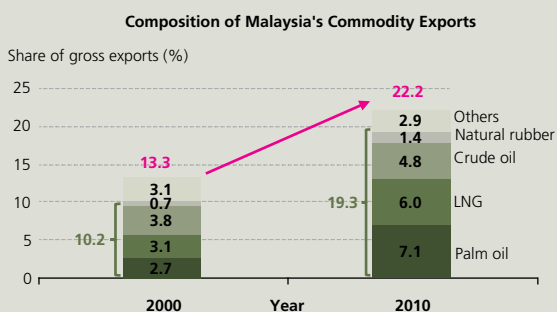
Note: Numbers may not necessarily add up due to rounding

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

This compositional shift in exports reflects several factors. First is the **rising world demand for raw materials**. Given the country's wealth of natural resources in areas such as agriculture and mining, Malaysia is well positioned to benefit from the growing global demand for raw materials, particularly from the fast growing economies of Asia. This has contributed to the rising share of Malaysia's commodity exports over this recent decade, with four major commodities – palm oil, liquefied natural gas (LNG), crude oil and natural rubber – accounting for most of the increase in the share of commodities in gross exports during the period (Chart 3).

Chart 3

Increased share of commodities in Malaysia's gross exports driven mainly by four major commodities



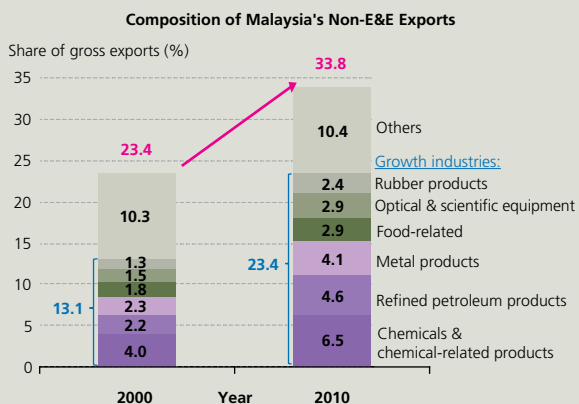
Note: Numbers may not necessarily add up due to rounding
 Source: Department of Statistics, Malaysia and Bank Negara Malaysia

The second factor contributing to the compositional shift in exports is the greater focus on **higher value-added downstream manufacturing activities**. This is reflected in the increasingly capital-intensive investment pattern in the manufacturing sector, with capital investment per employee in approved manufacturing projects rising from RM381,450 in 2000 to RM557,894 in 2011. Supported by the domestic availability of raw materials and continued efforts to move the non-E&E sector up the value chain, Malaysia has, during this recent decade, emerged as a major exporter in key non-E&E industries such as chemicals and chemical-related products, refined petroleum products and rubber products. Growth experienced in these industries has been so rapid that it has contributed to most of the increase in the share

of non-E&E manufactured products in Malaysia's gross exports (Chart 4). The increasing importance of the non-E&E sector is also reflected in the changing investment patterns within Malaysia's manufacturing sector. Relative to the E&E sector, foreign direct investment in the non-E&E sector has also become more important over the years (Chart 5).

Chart 4

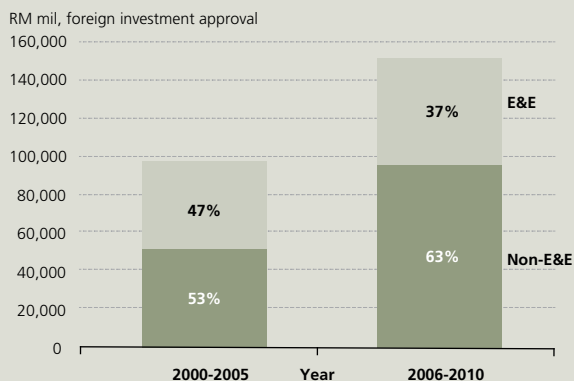
Increased share of non-E&E in Malaysia's gross exports driven mainly by six growth industries



Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Chart 5

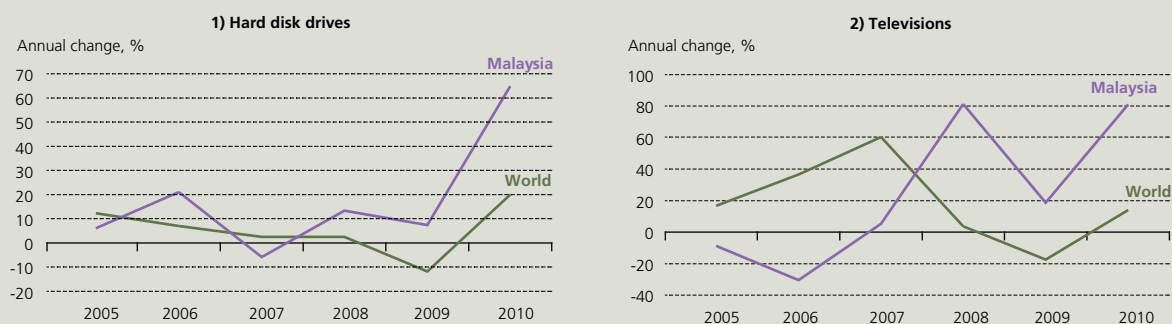
The share of non-E&E in total foreign investment approved has been increasing over this recent decade



Source: Malaysian Investment Development Authority

Chart 6

Fast growing E&E segments providing support to Malaysia's E&E export performance



Source: World Trade Atlas, UN Comtrade, Bank Negara Malaysia calculations

The compositional shift in exports also reflects the **reduced reliance on E&E products** due to the changing trend away from personal computers to newer mobile electronic devices such as tablets and smart phones – new growth segments in which Malaysia is not heavily involved in. The E&E sector, however, continues to be an important contributor to Malaysia's export growth, with strong performance in segments such as hard disk drives and consumer electrical products such as televisions (Chart 6). The E&E sector's performance is also further supported by its ability to continually evolve into new areas of comparative advantage such as the solar and light-emitting diode (LED) industries.

Greater diversification in the destination of Malaysia's export markets

Another key emerging trend is the **greater diversification in the destination of Malaysia's exports**. While the share of Malaysia's exports to traditional markets such as the US, Japan and the European Union (EU) remains high, demand from the regional economies, particularly East Asia, has risen substantially since 2000 (Chart 7). ASEAN¹ remains a key export market, accounting for about 25% of Malaysia's total exports. Of significance is also the deepening of trade linkages with other Asian economies, particularly the PR China and India. The share of Malaysia's exports to PR China has quadrupled from 3.1% in 2000 to 12.5% in 2010. There has also been an accompanying rise in Malaysia's imports from PR China, thus resulting in PR China as Malaysia's largest trading partner. The rise in bilateral trade relations with PR China has made Malaysia the largest trading partner in South East Asia of PR China. Beyond Asia, Malaysia has also experienced growth in trade with Australia and New Zealand, as well as new markets such as those in the Middle East and Latin America.

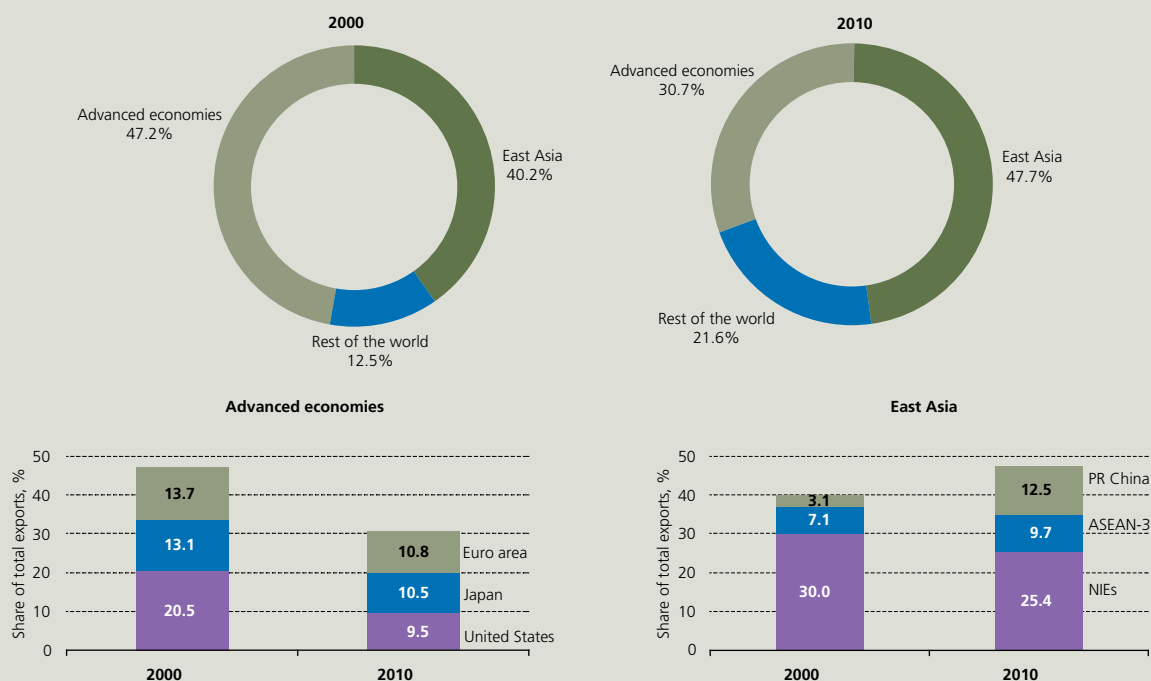
The changing structure of Malaysia's exports over the past decade can also be seen in the context of the **concurrent rise of the emerging economies**. It is projected that the emerging economies will grow twice as fast as the advanced economies and account for more than half of all global growth by 2025². In parallel with this development, a new global middle class is emerging in these countries, resulting in changes in the pattern of global consumption with the growing significance of consumption expenditure in emerging economies. This shift in global consumers is also transforming

¹ ASEAN refers to Singapore, Thailand, Indonesia, Vietnam, Philippines, Brunei Darussalam, Myanmar, Cambodia and Laos.

² World Bank 2011, *Global Development Horizons 2011: Multipolarity: The new global economy*, Washington DC.

Chart 7

East Asia has become an increasingly important export destination for Malaysia



* ASEAN-3 refers to Thailand, Indonesia and Philippines
 * NIEs refer to Singapore, Hong Kong SAR, Chinese Taipei and Korea

Note: Numbers may not necessarily add up due to rounding

Source: Department of Statistics, Malaysia

the patterns of global trade, with trade not only flowing from the advanced economies into emerging economies, but also increasingly among emerging economies. In response to these developments, the product composition and destination of Malaysia’s exports has also been shifting, with a greater focus on the emerging economies. These changes reduce the nation’s vulnerability as exports become less dependent on any specific product or economy.

KEY CHALLENGES AHEAD

While Malaysia has made notable progress in diversifying its export composition and markets over this recent decade, two key challenges remain in the continuing efforts to ensure sustained export performance going forward. Firstly, in the immediate future, with increased uncertainty on the global growth outlook, export demand, particularly from the advanced economies, is expected to be less buoyant. The risk of slower external demand could affect the overall performance of the Malaysian export sector, particularly in industries that are more dependent on the advanced economies, for example, the E&E sector. Secondly, the rise of several large emerging economies, particularly in Asia, will intensify competition in global markets for manufactures, particularly in the export of low-cost, labour-intensive manufactured products. This trend is expected to challenge the competitiveness of the Malaysian export sector, thus intensifying the need for firms in Malaysia to move up to higher value-added activities.