



Overview of Malaysia' Economy

The manufacturing sector has played a key role in developing countries' efforts to grow and prosper. This has been the experience of Malaysian economy since the 1960s. However, since the late 1990s, the country's economy has become non-industrial. As most of Malaysia's production has been mainly export-oriented, the relative decline in the economy has also reduced its share in the global economy. Along with these developments, the service sector will increase. While the service sector has always been important to the manufacturing sector.¹

56.2 percent of Malaysia GDP comes through service, 36.8 percent (68% of this sector is manufacturing) of it comes through Industry and 7.0 percent of it comes through agriculture.

What is IPI? Why It is Important?

Understanding the real size of manufacturing is a key point for understanding the economic situation of that country. **Industrial Production Index (IPI) is a measure of the rate of change in the production of industrial commodities in real terms over time for manufacturing, mining and electricity sectors. It is measured based on volume changes in production.**

Malaysia's IPI Situation

Malaysia is one of the few developing countries in the Asia Pacific region which has used its abundant natural resources to grow sustainably. From being a major exporter of raw materials the country has diversified into other aspects of the economy. Taking a major share in the export market is the manufacturing sector with 25% of its total GDP and almost 60% of its total exports.² **Industrial Production Index in Malaysia grew 1.92 percent each year on average from 2007 to 2021. On a monthly basis, it reached an all-time high growth of 12.80 percent in March 2010 and a record low decline of -32 percent in April 2020.**

Based on Department of Statistics, Industrial Production Index in Malaysia grew by 1.2 percent year-on-year in January 2021. This was the second straight month of increase in industrial output (1.7 percent growth in December 2020). As the economy recovered further from the coronavirus pandemic, factories resumed their operations. Manufacturing activity continued to grow 3.5 percent in Jan. 2021 versus the 4.1 percent growth in Dec. 2020.

1 [https://www.iseas.edu.sg/images/pdf/ISEAS%20EWP%202019-2%20Lee%20\(003\).pdf](https://www.iseas.edu.sg/images/pdf/ISEAS%20EWP%202019-2%20Lee%20(003).pdf)

2 <https://www.mordorintelligence.com/industry-reports/analysis-of-key-sectors-of-malaysia>



IPI of Certain Malaysia's Sectors:

1-1 The Electrical & Electronic Products (E&E)

Televisions, mobile devices and printed circuit boards are categorized as the electrical and electronics (E&E) products. The other products in this category are telecommunications, electronic components, appliances, industrial electronics and consumer electronics. The E&E industry is the main category in Malaysian economy, and it plays a vital role in Malaysia's export sector.

The main buyers of Malaysia's E&E industry are China, the US, Singapore, Hong Kong and Japan. The most significant products in this sector are semiconductors, which are popular all over the globe.

The growth of electrical & electronic products reached the highest point in January 2021, and it has grown 7.9 percent in comparison with the growth recorded in December 2020.

1-2 The Petroleum, Chemical, Rubber & Plastic Products

The chemical & petrochemical sector is the second largest contributor to Malaysia's total exports of manufactured goods. The industry is linked to almost every other sector of the economy such as automotive, electrical and electronics, pharmaceutical and construction. The industry is divided into three sub-sectors:

- Chemicals and chemical products;
- Petroleum products; and
- Plastic products.

Petroleum, chemical, rubber & plastic products grew 4.5 percent in January 2021 in comparison with December 2020.

1-3 The Wood Products, Furniture, Paper Products & Printing

Malaysia is an important player in the international market for tropical wood and wood products, and is also the leading exporter of wooden furniture globally. For the past 20 years, Malaysia's wood-based industry has become one of the major revenue contributors to the country's economic growth, encompassing the production of sawn timber, veneer, panel products (plywood, particleboard, chipboard, and fibreboard), mouldings, and builder joinery and carpentry (BJC), as well as furniture and furniture components. The wood products, furniture, paper products & printing IPI grew 2.4 percent in January 2021 in comparison with December 2020.

1-4 Non-metallic Mineral Products, Basic Metal & Fabricated Metal Products

In this sector, **all industrial product like fasteners are included. This sector dropped by 3.9 percent in January 2021 in comparison with December 2020.** However, COVID has effected this sector hard, but the problem of this sector is not a short-term one.

Risk-averseness is one of the main issues manufacturers in Malaysia have. The attitude and mind-set of manufacturers who are risk averse further impede innovation initiatives. Generally, manufacturers are reluctant to change their current operations due to fear of disruption on production and are comfortable with their current business operations. In addition, product innovation usually involves high risk, high cost and long duration, thus making it unaffordable and less attractive.

1-5 Other Items

In addition, production of mining shrank by 4.5 percent in Jan. 2021, which is less than the decline of 5.4 percent in Dec. 2020, due to falls in crude oil & condensate index (-9.4%) and natural gas index (-0.5%). Meanwhile, electricity output contracted by 4.6 percent, after a 0.2 percent drop in December 2020.

According to the prediction of Trading Economics organization, the Industrial Production Index in Malaysia is expected to grow 5.20 percent in the 1st quarter of 2021 compared to the last quarter of 2020. Looking forward, they estimate that the growth of Industrial Production in Malaysia (compared to 2020) will stand at 5.00 percent in the whole year of 2021. In the long-term, the Malaysian Industrial Production Index is projected to trend around a 5.00 percent growth in 2022 (compared to 2021) and a 4.80 percent growth in 2023 (compared to 2022).

Last Words

If Malaysia wants to see the stability in its economy, then the manufacturing sector should be expanded and needs a spur. The key point of manufacturing is innovation but the current market for innovative products in Malaysia is zero. Malaysian managers must have the courage to enter the markets with a demand of 0 and of course must have the skills to build and grow this market.

According to the growth trend of Industry Production Index, it can be predicted that the domestic and foreign demand for Malaysian goods will grow in the coming years. In addition, with the growth in demand, the investment in production sector will increase and then by improving Malaysia's production capacity, they can respond to foreign demand with better conditions. Its consequence will be the boom in Malaysia's manufacturing sector and more stability in their economy after 2023.

