

COMPETITIVENESS OF MALAYSIA: A COMPARATIVE STUDY

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Abstract

The objective of this paper was to study the competitiveness of Malaysia in comparison with some countries like Indonesia, the Philippines, Singapore, Thailand, and Vietnam. The study analysed the competitiveness of Malaysia in terms of four parameters viz. Global competitive index ranking; Total, labour and capital productivity; Foreign direct investment inflows, and Trade competitiveness in terms of the cost of production. It is found that the domestic cost of production of exports of Malaysia has become competitive in 2007 and 2009. The study shows that Malaysia's competitiveness has improved especially in the later part of 2000. There is a need to improve the competitiveness of Malaysia by focusing on research and innovation which can be achieved through collaboration of research institutions and industry.

Keywords: *Malaysia, competitiveness, productivity, mergers and acquisition, price index.*

JEL classifications: F10, F13

Introduction

Malaysia is a growing economy with a gross domestic product (GDP) of US \$ 222 billion and per capita GDP of US\$ 8140 in 2008¹. It has a population of 27 million people with a growth rate of 1.7% per annum in 2008². It follows free-market forces to drive its economy with exports as the prime growth engine. The five-year plans framework remains the basis of formulation and implementation of the economic programmes to achieve short-term and long-term growth. The New Economic Policy (NEP) of 1970 was targeted to eradicate poverty and to improve the distribution of wealth among the country's population. Later the government of Malaysia adopted the National Development Policy (NDP) to take the economy to a higher level in 1991. The main thrust of the policy was to promote the private sector and to develop

human resource capacity. Privatisation of inefficient state-owned enterprises and creation of an entrepreneurial environment has led the economy to achieve a high GDP growth rate of 8.5% in the 1990s³. During this period, the economy had become a hub for high technology manufacturing exports. When the economy was opened in 1991, foreign funds were attracted to the country which created an opportunity for local businesses to raise capital in the capital market. The foreign direct investment together with the growth of local businesses led to the development of infrastructure like highways, power generation, telecommunications, etc. in the country. Malaysia has become a vibrant manufacture-based economy with the industry sector contributing 47.6% in GDP with a growth of 11.5% in 2008⁴. Malaysia has successfully transformed its manufacturing sector from state controlled to market-oriented through price deregulation, ownership reform of state-owned enterprises, private sector development of foreign direct inflow (FDI) and trade liberalization. The government of Malaysia's attitude towards the private sector and FDI helped the country to enter the second stage of development. In 2005, the fixed exchange-rate regime was abandoned and a floating regime was announced to reduce vulnerability of the currency and to expose the export sector to greater competition and enhance productivity in the capital-intensive industry.

Malaysia's average annual GDP growth rate was 4.6% against Indonesia's 6.1%, the Philippine's 3.8%, Singapore's 1.1%, Thailand's 2.5%, and Vietnam's 6.2 % in 2008⁵. The annual GDP of Malaysia has fallen from 5.3% in 2005 to 4.6% in 2008⁶. The moderate growth achieved by Malaysia was because of the government policy towards private enterprises and foreign direct investment. The government of Malaysia has adopted entrepreneur-friendly policies which helped private entrepreneurs to invest heavily to take advantage of the opportunity available in the economy. The GDP per capita for Malaysia was US\$ 8140 against US\$ 2246 for Indonesia, and US\$ 38972 for Singapore⁷. The per capita growth of Malaysia has fallen from 4.8% in 2004 to 2.8% in 2008 mainly due to world recession and increase in competition from China and South Korea⁸. Malaysia had improved its exports growth from 12% in 2005 to 19.1% in 2008 and imports growth from 8.7% to 12% during the same period⁹. Malaysia considered exports as the engine of growth of the economy. The major exports of Malaysia are electronic equipment, petroleum and liquefied natural gas, wood and wood products, palm oil, rubber, textiles and chemicals. The major imports are electronics, machinery, petroleum products, plastics, vehicles, iron & steel products and chemicals. In the share of exports in the world's exports, Malaysia stood second (1.4%) behind Singapore (2.2%) in 2005¹⁰. The share of exports of Malaysia in its GDP was 121% compared to Singapore's 234% and

imports 95.6% as compared to Singapore's 215% in 2008¹¹. Imports of Malaysia played a significant role to boost exports and investment.

In Malaysia, the industry sector dominated with 47.6% of the GDP followed by the service sector (42.3%) and the agriculture sector (10.1%) in 2008¹². The industry sector in Malaysia grew 7% whereas the service sector grew only 5% and the agriculture sector 6% in 2003¹³. The high industry-sector growth resulted in high overall growth of the economy. The high industry growth also resulted in high FDI inflow as FDI is normally attracted to the industry sector (Bhatt 2008a). Manufacturing is the engine of growth as industrial goods have a higher-income elasticity of demand (Kaldor, 1967). The growth of the manufacturing sector resulted in faster growth of the GDP of Malaysia. It pursued a dynamic industrial policy to encourage industries through trade and investment. It invested heavily on infrastructure. It is important to see that in Malaysia the service sector also grew in tandem with the industry sector because any significant imbalance between the two affect consumption and investment efficiency.

The objective of this paper is to study the competitiveness of Malaysia in comparison with its neighbours and to know where Malaysia stands among them.

The paper is organized as follows. Following this introduction Section 2 surveys the literature on competitiveness. Section 3 analyses the parameters of competitiveness. Section 4 concludes the discussion.

Survey of Literature on Competitiveness

Competitiveness is the ability of an economy's GNP and the GNP per capita to grow as fast as another major economy (Jones and Teece, 1988). National competitiveness is the ability to produce and distribute products and/or services that can compete in international markets and simultaneously increase the real incomes and living standards of the nation's citizens (Blaine, 1993). Adam Smith (1776) states in his theory of absolute advantage that the one who is able to produce with the lowest cost in the world has the absolute advantage and thereby it determines the basis of competitiveness. Ricardo (1817) proposed a comparative advantage trade model. According to him international trade is created by the difference of labour productivity in countries. Heckscher-Ohlin (1919, 1933) propounded differences in factor endowments to explain trade flows between countries. It means that a region should specialise in products, the production costs of which are relatively low because the factors of production are

abundant. Vernon (1966), Krugman (1983,1986), Porter (1990) argued that deployment of factors rather than factors themselves explained competitiveness of a country. Porter (1990) explained competitiveness in terms of the quality of demand conditions, nature of competition, quality of factors of production and the extent of supporting industries. Bartlett and Ghoshal (1989), Prahalad and Doz (1987) and Prahalad and Hamel (1990) explained competitiveness in terms of strategies for global operations. Porter (1990) explained competitiveness in terms of productivity. "A nation's standard of living is determined by the productivity of its economy, which is measured by the values of goods and services produced per unit of the nation's human, capital, and natural resources" (Porter & Ketels, 2003). Long-run productivity growth, higher savings and investment rates, government's emphasis on quantity and quality of education and investment in infrastructure were responsible for the high rate of growth in Japan (Baumol & McLennan, 1985). Choudhri and Schembri (2002) found a robust positive link between productivity performance and international competitiveness in the US and the Canadian industries. Caves (1974), Globerman (1979), Blomstrom and Persson (1983) found technological spillovers in the host country's sector through FDI. Aitken and Harrison (1999) using a panel data from Venezuela covering the period between 1976-89 and more than 3000 firms found a "negative spillover effect" on domestic firms which tends to be bigger for smaller firms. Djankov and Hoekman (1999) also found a negative spillover effect of FDI on purely domestic firms in the Czech industry. Chung et al. (1998) found no positive impact on the Japanese FDI in the automotive sector on the American components-suppliers. Girma and Wakelin (2001) found for the electronics sector in the UK, a positive impact of FDI investments on domestic firms located in the same region. Javorcik and Spatarareanu (2003) found that MNCs were likely to transfer more technology to their wholly-owned subsidiaries than to partially-owned ones because of fears of technology leakages. Driffield and Love (2005) found that the UK gains substantially only from inward FDI motivated by a strong technology-based ownership advantage. They also found that inward FDI motivated by technology-sourcing consideration leads to no productivity spillovers and the same is true of 'efficiency-seeking' inward FDI. Price has an important influence on competitiveness. The usual approach to the subject of price competitiveness is by the "relative" method; that is analysing the changes in comparative export prices, relative to the changes in the supplier's export performance (McGeehan, 1968). Junz and Rhomberg (1964) found that 43% of the variation in export shares can be attributed to relative export prices. Parkinson (1966) found a positive association between price and export performance. Growth in relative unit labour cost is the most popular measure of international competitiveness. Fagerberg (1988) found that the main

factors influencing differences in international competitiveness and growth across countries are technological competitiveness and the ability to compete on delivery. Cost competitiveness does affect competitiveness and growth to some extent, but less so than many seem to believe (Fagerberg, 1988). Lamfalussy (1963) found that unit labour costs rose more rapidly in the U K over the period 1953-60 than elsewhere because of the growth of productivity (output per man-hour).

Competitiveness of Malaysia

In this paper an attempt has been made to measure competitiveness of Malaysia in terms of four parameters. They are:

1. Global competitive index ranking.
2. Total, labour and capital productivity.
3. Foreign direct investment inflows.
4. Trade competitiveness in terms of cost of production.

Global Competitive Index Ranking

World Economic Forum's (2008) global competitive index was constructed by taking into account the many parameters such as institutions, infrastructure, macroeconomic stability, health and primary education, higher education and training, goods-market efficiency, labour-market efficiency, financial-market sophistication, technological readiness, market size, business sophistication and innovation. Based on the global competitive index, Malaysia was ranked 24 which was second among its neighbouring countries. Singapore was the first whose rank was 3, Thailand 36, Indonesia 54, Vietnam 75 and the Philippines 87 among the 133 countries in 2009-10 (Table 1 & Exhibit 1). Malaysia remained second in all pillars of competition among its neighbouring countries; the first being Singapore except in market size (Table 1). Malaysia's competitiveness was affected by institutional deficiency (43rd rank), macroeconomic stability (42nd rank) and inadequacy of higher education and training (41st rank). It has to improve infrastructure and technology in order to compete with global players. Singapore was globally competitive in building institutions (1st rank), market and labour efficiency (1st rank) and financial-market efficiency (2nd rank). Singapore has faced the problems of market economic stability and market size. Inefficient government bureaucracy and corruption are the main problematic factors responsible for doing business in Malaysia. Business sophistication and innovation are the other areas to be strengthened to climb up the ladder of the competitive index further.

Table 1

Global Competitive Index-2009-10

	Indonesia	Malaysia	The Philippines	Singapore	Thailand	Vietnam
GCI 2009-10 133 countries	54	24	87	3	36	75
GCI 2008-09 134 countries	55	21	71	5	34	70
Basic requirements	70	33	95	2	43	92
1 st pillar: institutions	58	43	113	1	60	63
2 nd pillar: infrastructure	84	26	98	4	40	94
3 rd pillar: macroeconomic stability	52	42	76	35	22	112
4 th pillar: health and primary education	82	34	93	13	61	76
Efficiency enhancers	50	25	78	2	40	61
5 th pillar: higher education and training	69	41	68	5	54	92
6 th pillar: good market efficiency	41	30	95	1	44	67
7 th pillar: labour-market efficiency	75	31	113	1	25	38
8 th pillar: financial market sophistication	61	6	93	2	49	82
9 th pillar: technological readiness	88	37	84	6	63	73
10 th pillar: market size	16	28	35	39	21	38
Innovation and sophistication factors	40	24	74	10	47	55
11 th pillar: business sophistication	40	24	65	14	43	70
12 th pillar: innovation	39	24	99	8	57	44

Source: World Economic Forum, Report of Global Competitiveness, 2009.



Total, Labour and Capital Productivity

Productivity is one of the measures of competitiveness. “A nation’s standard of living is determined by the productivity of its economy, which is measured by the values of goods and services produced per unit of the nation’s human, capital, and natural resources (Porter & Ketels, 2003). Over the long period of 1960-2002, the average output growth rate per worker for Malaysia was 0.09% which was very low compared to its neighbouring countries. The improvement of labour productivity has an impact on the performance of the economy. The average capital growth rate per worker was also as low as 0.04%. Malaysia adopted capital-intensive techniques and tried to improve capital productivity in the 2000s. The average human capital was 2.1% which was comparable to its neighbours (Table 2). The total factor productivity growth for Malaysia during the same period was only 0.31%. But it increased to 1.5% during 2000-2009¹⁴. The total productivity growth rate of Malaysia increased from 2.98% in 2005 to 4.17% in 2007 but fell to -1.84% in 2009 (Table 3 & Exhibit 2). The fall in total productivity-growth was due to the fall in the productivity-growth rate in manufacturing from 2.01% to -8.58% during the same period. In 2009, only Indonesia (2.6%) was above Malaysia (-1.84) in the total productivity-growth rate among its neighbours¹⁵. The productivity-growth rate for the other countries are

the Philippines -2%, Thailand -3.7% and Singapore -4.1% in 2009¹⁶. Labour productivity in Malaysia also fell from 1.68% during 2000-04 to 1.47% during 2000-09 and capital productivity fell from 2.14% to 1.76% during the same period (Table 4 & Exhibit 3).

Table 2

Average Growth of Output and Input

Country	Growth rate per worker				TFP	TFP relative to output
	First year	Output	Capital	Human Capital		
Indonesia	1951	0.31	-0.1	1.72	0.78	-0.44
Malaysia	1960	0.09	0.04	2.1	0.31	-0.1
The Philippines	1939	0.53	0.11	1.95	0.09	0.04
Singapore	1963	0.38	0.15	2.67	0.53	0.11
Thailand	1937	-1.8	-1.17	1.32	0.38	0.15
Vietnam	1980	0.28	0.21	2.75	-1.8	-1.17

Note. The end year is 2000.

Source. Scott L, Baier, Gerald P. Dwyer Jr., and Robert Tamura (2002). How important are capital and total factor productivity for economic growth? Federal Reserve Bank of Atlanta, Working Paper 2002-2.

Table 3

Productivity Growth (%) in Malaysia: 2005-09

	2005	2006	2007	2008	2009
Agriculture	2.58	3.41	2.8	3.01	0.36
Manufacturing	3.76	4.42	2.65	2.01	-8.59
Service	2.9	3.12	5.08	3.2	1.65
Overall	2.98	3.68	4.17	2.89	-1.84

Source. Malaysia Productivity Corporation, Productivity Performance of Malaysia, Key Productivity Statistics.

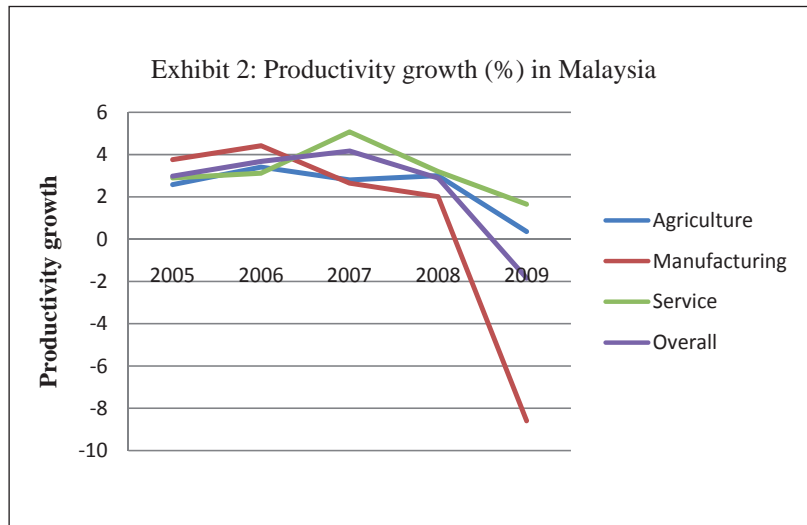
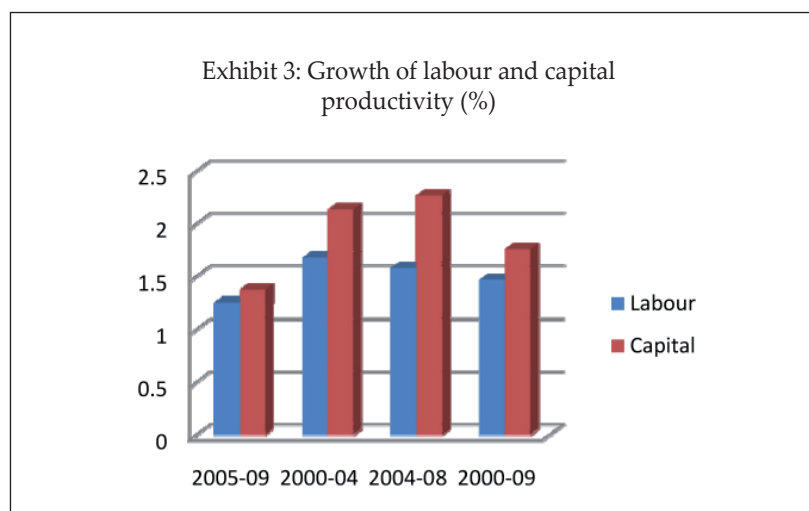


Table 4

Growth of Labour and Capital Productivity (%)

	2005-09	2000-04	2004-08	2000-09
Labour	1.26	1.68	1.58	1.47
Capital	1.38	2.14	2.27	1.76

Source. Malaysia Productivity Corporation, Productivity Performance of Malaysia, Key Productivity Statistics.



Foreign Direct Investment (FDI) Inflows

FDI inflows can be considered as another measure of competitiveness of a nation. High FDI inflows would contribute a high level of investments and employment generation, raising productivity and skill development and sharply improving competitiveness (Bhatt, 2008b). Malaysia is an open economy with low barriers for trade and foreign direct investment. FDI in Malaysia was both efficiency-seeking and market-seeking which helped the expansion of manufacturing and trade in Malaysia. The main challenge for Malaysia is to make connections with international production systems by attracting sufficient FDI inflows. FDI inflows for Malaysia were US\$ 1.4 billion in 2009. Singapore attracted the highest FDI inflows to the tune of US\$ 16.8 billion in 2009 (Table 5). FDI inward stock was US\$ 75 billion where it was US\$ 344 billion for Singapore in 2009 (Table 6). Malaysia was third in FDI inward stock among its neighbours in 2009. FDI inflows have contributed immensely in its industrial structure. Malaysia has adopted an investment-led industrial policy which helped foreign investors to invest in Malaysia in a big way. FDI inflows as a percentage of the gross fixed capital formation was 3.5% for Malaysia and 32.9% for Singapore (Table 7) in 2009. The ratio of FDI inflows gross fixed capital formation was 21.2% in 2007¹⁷. Even though Malaysia has encouraged FDI inflows, it made sufficient surplus internally to finance its manufacturing sector. The stock of FDI inflows as a percentage of the Gross Domestic Product was 39% for Malaysia and was the highest at 194% for Singapore in 2009 (Table 8). Malaysia increased the percentage from 32.2% in 2005 to 39% in 2009 which was very significant. Sales of mergers and acquisitions for Malaysia were US\$ 354 million in 2009 whereas for Singapore it was US\$ 9.7 billion, and for Indonesia US\$ 6.1 billion (Table 9). Sales of mergers and acquisitions were US\$ 2.8 billion in 2008¹⁸. In 2000 many multinational companies entered the country through M & As to take advantage of the existing opportunities. The purchase of cross-border mergers and acquisitions was US\$ 3.3 billion for Malaysia and Singapore in 2009 (Table 10). Malaysia's capability to pull global resources in the form of physical capital and know-how has indicated its advantage of production conditions.

Table 5

FDI Inflows (Millions of \$)

Year	Indonesia	Malaysia	The Philippines	Singapore	Thailand	Vietnam
1990	1092	2611	550	5575	2575	180
1995	4419	5815	1459	11535	2070	1780
2000	-4495	3788	2240	16484	3410	1289
2005	8337	4064	1854	15460	8967	2021
2009	4877	1381	1948	16809	5949	4500

Source. UNCTAD: World Investment Report, 2009.

Table 6

Stock of FDI Inflows (Billions of \$)

Year	Indonesia	Malaysia	The Philippines	Singapore	Thailand	Vietnam
1990	8.7	10.3	4.5	30.5	8.2	1.7
1995	20.6	28.7	10.1	65.6	17.7	7.2
2000	25.1	52.7	18.2	110.6	29.9	20.6
2005	41.2	44.5	15.0	194.6	60.4	31.1
2009	72.8	74.6	23.6	343.6	99.0	52.8

Source. UNCTAD: World Investment Report, 2009.

Table 7

FDI Inflows as a Percentage of Gross Fixed Capital Formation

Year	Indonesia	Malaysia	The Philippines	Singapore	Thailand	Vietnam
1990	3.4	17.9	5.4	46.8	7.5	21.2
1995	7.7	15.0	8.9	41.1	3.0	33.8
2000	-13.7	16.0	13.9	58.1	12.6	15.0
2005	12.3	14.4	13.0	60.0	15.8	11.6
2009	2.9	3.5	8.2	32.9	9.2	12.8

Source. UNCTAD: World Investment Report, 2009.

Table 8

Inward FDI Stock as a Percentage of Gross Domestic Product

	Indonesia	Malaysia	The Philippines	Singapore	Thailand	Vietnam
1990	6.9	23.4	10.2	82.6	9.7	25.5
1995	9.3	32.3	13.7	78.2	10.5	34.5
2000	15.2	56.2	24.2	119.3	24.4	66.1
2005	14.4	32.2	15.2	160.5	34.2	58.8
2009	13.5	39.0	14.6	194.0	37.5	51.9

Source. UNCTAD: World Investment Report, 2009.

Table 9

Value of Cross-border M&A Sales (Millions of dollars)

	Indonesia	Malaysia	The Philippines	Singapore	Thailand	Vietnam
1990	0	-186	15	461	-1	0
1995	227	-129	285	-5	183	0
2000	96	976	-958	1309	2104	10
2005	6171	1141	-5180	3933	-632	10
2009	1332	354	1291	9693	346	230

Source. UNCTAD: World Investment Report, 2009.

Table 10

Value of Cross-border M&A Purchases (Millions of dollars)

	Indonesia	Malaysia	The Philippines	Singapore	Thailand	Vietnam
1990	194	58	0	88	38	0
1995	97	968	85	-366	181	0
2000	131	236	73	8013	21	0
2005	290	1946	1829	5706	-203	0
2009	-2590	3277	-7	3332	872	0

Source. UNCTAD: World Investment Report, 2009.

Trade Competitiveness in Terms of Cost of Production

Wholesale price index can be considered as a proxy for the cost of production (Doggett & Cresswell, 1979). Competitiveness in terms of the cost of production can be assessed by the relative wholesale prices index (RWPI) (Doggett & Cresswell, 1979). The relative wholesale-price index is a country's wholesale-price index divided by a simple average of the wholesale-price indices of its competitors. The relative wholesale-price index is worked out for Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

Malaysia's major export destination is given in Table 11. China was the top destination of Malaysia's exports in 2010 followed by Japan, the USA, the Republic of Korea, Australia and Netherland. During 2005-2008, the USA was the top export destination followed by Japan. However, China replaced the top position during 2009-10. The export destinations of Indonesia, the Philippines, Singapore and Thailand are given in Table 12. Japan was the top destination of exports for Indonesia whereas the USA was the top destination of exports for the Philippines and Thailand. In the case of Singapore, Hong Kong remained the top destination of exports.

The data used for the study were taken from IMF, *International Financial Statistics*, and Annual. The relative wholesale-price indices of the five countries are presented in Table 13 and Exhibit 1. The relative wholesale-price index of a country (RWPI) is computed as the wholesale-price index of the country divided by a simple average of the wholesale-price index of the other four countries. If the RWPI is below 100 it means more competitiveness in the domestic cost of production and above 100 indicates less competitiveness. Here we have taken the wholesale-price index as a proxy for the domestic cost of production. Malaysia remained competitive in terms of the domestic cost of production only in 2007 and 2009 (Table 12 and Exhibit 4). Indonesia and the Philippines were competitive during 1994-2003 and Indonesia lost its competitiveness since then whereas the Philippines returned to competitiveness since 2008. Singapore and Thailand enjoyed competitiveness during 2006-2010.

Table 11

Malaysia's Top Destination of Exports in Percentage

Destination	2010	2009	2008	2007	2006	2005
Total Exports (RM in billions)	639.4	553.3	663.5	605.1	559.0	533.8
Singapore	13.4	14.0	14.7	14.6	15.4	15.6
China	12.6	12.2	9.5	8.8	7.2	6.6
Japan	10.4	9.8	10.8	9.1	8.9	9.4
The USA	9.5	10.5	12.5	15.6	18.8	19.7
Thailand	5.3	5.4	4.8	5.0	5.3	5.4
Hong Kong	5.1	5.2	4.3	4.6	4.9	5.8
The Rep. of Korea	3.8	3.8	3.9	3.8	3.6	3.4
Australia	3.8	3.5	3.7	3.4	2.8	3.4
Netherlands	3.2	3.3	3.5	3.9	3.6	3.3

Source. Ministry of International Trade and Industry, Malaysia.

Table 12

Top Destination of Exports of ASEAN Countries in Percentage-2009

Destination	Indonesia	The Philippines	Singapore	Thailand	Malaysia
Total Exports (US\$ in billions)	119.5	37.6	268.9	151.9	163.2
Singapore	11.3	6.2	-	NA	13.4
China	7.6	7.7	9.7	10.6	12.6
Japan	17.3	16.2	4.6	10.3	10.4
The USA	10.8	17.6	11.2	10.9	9.5
Hong Kong	5.5	8.6	11.6	6.2	5.1

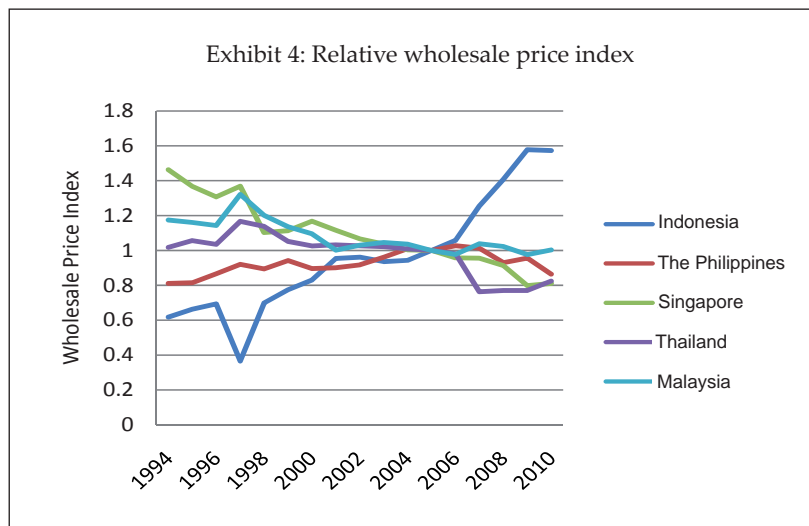
Source. Central Intelligence Agency: World Fact Book.

Table 13

Relative Wholesale Price Index (RWPI) of Major ASEAN Countries

	Indonesia	The Philippines	Singapore	Thailand	Malaysia
1994	61.82	81.09	146.27	101.76	117.48
1995	66.32	81.47	136.80	105.62	116.02
1996	69.35	86.67	130.72	103.49	114.34
1997	36.58	92.04	136.87	116.72	132.15
1998	69.88	89.40	110.29	113.79	120.16
1999	77.46	94.22	111.30	105.20	113.63
2000	83.06	89.60	106.71	102.55	109.55
2001	95.41	90.08	111.59	103.23	100.21
2002	96.12	91.72	106.71	102.68	103.07
2003	93.56	96.18	103.58	102.23	104.64
2004	94.32	100.99	100.30	100.85	103.63
2005	100.00	100.00	100.00	100.00	100.00
2006	105.79	102.75	95.76	98.14	97.69
2007	125.44	101.33	95.53	76.03	103.87
2008	140.73	93.01	91.33	77.08	102.27
2009	157.79	95.64	79.82	77.09	97.64
2010	157.29	86.44	81.13	82.47	100.31

Source. Computed-based data from IMF: International Financial Statistics.



Conclusion

The Malaysian economy was open and grew at a rate of 4.6% in 2008. Its per capita income was US\$ 8140 which grew at 2.8% in 2008. The annual growth rate of exports and imports of goods and services were 19.1% and 12% respectively in 2008. The share of exports in the world exports was 1.4% whereas it was less than 1 % for India. Exports play an important role to boost the economy. Exports and imports as a percentage of GDP was 121% and 96% respectively in 2008 which was very significant. The manufacturing sector contributed 48.5% in its GDP whereas the service sector contributed 41.8% and the agricultural sector 9.7% in 2003. Agriculture grew at a rate of 5.7%, manufacturing at 7.2% and service at 3.5%. In the global competitive index, Malaysia was ranked 24 out of 133 countries in 2009-10. The overall productivity-growth rate increased from 3% in 2005 to 4.2% in 2007 but fell to -1.8% in 2009. The fall in the overall growth of productivity was due to the fall in the productivity growth in manufacturing from 2% to -8.6%. FDI inflows for Malaysia were US\$ 8.5 billion in 2007 but fell to US\$ 1.4 billion in 2009. FDI inflows as a percentage of the gross fixed capital formation were 3.5% and the stock of FDI inflows as a percentage of the Gross Domestic Product was 13.5% in 2009. The domestic cost of production of the exports of Malaysia became competitive in 2007 and 2009. The study shows that Malaysia's competitiveness improved especially in the later part of 2000. There is a need to improve the competitiveness of Malaysia by focusing on research and innovation which can be achieved through the collaboration of the research institutions and the industry.

End Notes

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