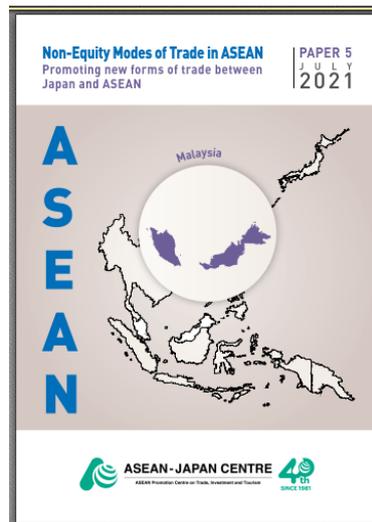


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Non-equity Modes (NEM) of Trade in Malaysia sees strong participation in exports and integration with global value chains of TNCs according to the study by ASEAN-Japan Centre



“Non-Equity Modes of Trade in ASEAN” in Malaysia is available for download on AJC website

ASEAN-Japan Centre (AJC) issued the paper 5 of the “Non-Equity Modes of Trade in ASEAN: Promoting New Forms of Trade between Japan and ASEAN” series focusing on Malaysia. The paper finds that Malaysia has strong participation in NEMs exports and connects strongly with the global value chains of transnational corporations (TNCs). According to the paper, NEM operates in the country through the following modalities and industries: subcontracting in electronics and textiles and apparels, contract farming in agriculture and food processing, franchising in hotels, fast-food chains and retail stores.

Out of the four leading export products from Malaysia—electric and electronics (EE) products, oil and gas, palm oil and textiles and apparel—the first and last were driven by foreign direct investments (FDI) or NEM or a combination of both. Since the 1970s, Malaysia has been a major exporter of electric-electronics products and still offers great growth potential for the country. The volume of direct and indirect electronic exports through NEMs is around 70% of total exports in 2018, showing an increase from 66% in 2015. Subcontracting in the electronics industry grew significantly beginning in the 1990s as competition drove TNCs to outsource components and parts to local firms to lower costs. During this period, major electronics companies dedicated themselves to peripheral aspects of research and development, product design and brand management. In time, Malaysia has evolved its own NEMs in the EE industry, such as Globetronics, Carsem, Unisem, who have become successful subcontract producers of electronic chips with original equipment manufacturer (OEM) and original design manufacturing capabilities.

Subcontracting has also expanded into low-value added industries such as apparel, footwear, and toy industries. Malaysian NEMs have grown to manufacture apparel and accessories with local brand names such as Padini and Allan

Dillion, with main export markets like the US, Japan, Turkey, Indonesia and China. In the agricultural industry, government promotion of contract farming has strengthened the export of farm products through the Federal Agricultural Marketing Authority (FAMA) as part of the Ninth Malaysia Plan of 2006-2010. In 2014, the government opened 7,500 hectares of land involving 4,500 farmers under contract farming. While NEM can help raise farmers' incomes and potentially expand export revenue, the growing deficit in agro-food trade suggests a serious need to raise productivity.

Franchising in the hotel and tourism industry in Malaysia has grown rapidly over the years, with the number of arrivals and receipts rising from US\$15.5 billion in 2007 to US\$20.8 billion in 2018. NEM operations through franchise agreements with foreign brand holders are extensive, and given that Malaysia is an upper middle-income country, locals run the top management of the hotels instead of foreign managers.

Despite becoming an upper middle-income country, its economic activities are largely confined to low and medium-value added activities and Malaysia has yet to transition to high value-added activities. The paper recommends the following NEM-related strategies to achieve this goal: (1) linking up with TNCs' global value chains as suppliers through the operations of local firms and training of national workers; (2) development of high-level capabilities in management, inventory and quality control and production technology to meet TNC standards and demands; (3) rapid technological upgrading of local firms; (4) provide initiative for local firms to upgrade beyond OEM to original design activities; and (5) local firms to launch new businesses to stimulate sales growth, job creation and exports. On the policy side, the government can strengthen the four pillars of the systemic squad—basic infrastructure, science, technology and innovation (STI) infrastructure, connectivity and coordination, and integration in global factor and final markets—to attract TNCs. Finally, a focus on sustainable development goals such as on energy, climate change and workers' human rights must be incorporated in the government initiatives to shape the conduct of NEM firms.

“Non-Equity Modes of Trade in ASEAN: Promoting new forms of trade between Japan and ASEAN: Paper 5 Malaysia” is available for download on AJC's website as below.

https://www.asean.or.jp/en/trade-info/nem_papers/

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