



NEWSLETTER

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WHAT IS GLOBAL VALUE CHAIN (GVC)?

Global Value Chain (GVC) is the series of stages in the production of a product or service for sale to consumers. Each stage adds value, and at least two stages are in different countries. For example, a bike assembled in Finland with parts from Italy, Japan, and Malaysia and exported to the Arab Republic of Egypt is a GVC. By this definition, a country, sector, or firm participates in a GVC if it engages in (at least) one stage in a GVC.



Source: <https://www.worldbank.org/en/publication/wdr2020>

“GVCs can continue to boost growth, create better jobs, and reduce poverty - provided that developing countries undertake deeper reforms and industrial countries pursue open, predictable policies” – **World Bank**

“Malaysia operates at the heart of GVCs in key sectors such as electronic and electrical products, trading well over 100% of its GDP” – **Firas Raad, Country Manager for Malaysia, East Asia and Pacific**

Indicators of GVC

Data used to measure countries' participation in international production networks or global GVCs are derived from two main sources; namely the international trade statistics and the input output tables. Each source has its own strengths and weaknesses. However, both sources remain important and relevant for policy making.

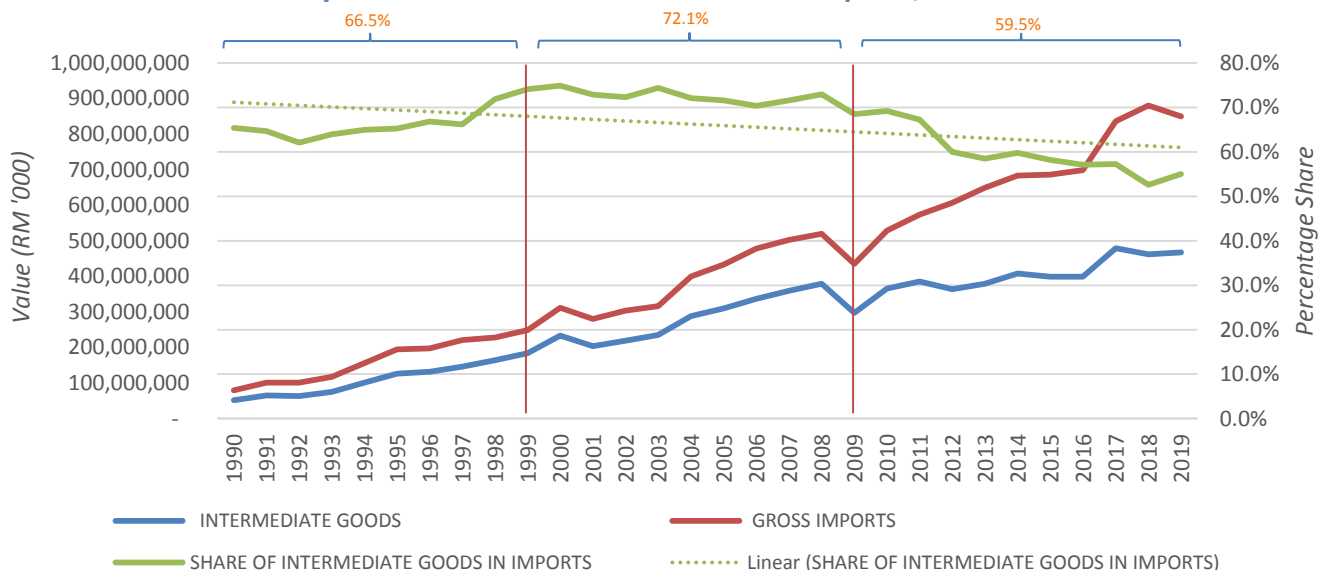
Indicators of GVC based on international trade statistics	Share of intermediate goods in exports and imports
	Share of intermediate goods in total trade
	Relative importance of trade in intermediates
	Ratio of intermediate imports to exports
	Grubel-Lloyd index
Indicators of GVC based on input-output tables	Revealed comparative advantages and product sophistication
	Trade in value added
	Input-output analysis
	TIVA database

Source: https://www.oecd-ilibrary.org/economics/indicators-on-global-value-chains_8502992f-en

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Malaysia: Share of Intermediate Goods in Imports, 1990-2019



Source: Department of Statistics Malaysia (DOSM)

Key Facts

- Malaysia imports of intermediate goods recorded a double-digit average growth between the period of 1990-1999 as technology advanced in the area of transportation, information, and communications. Within this period the average share of intermediate goods imports to total imports was at the rate of 66.5%.
- For the period of 2000-2009 the average share of imports of intermediate goods continued to increase to 72.1% in line with the increase in the yearly average growth of total imports of intermediate goods.
- For the period of 2010-2019 the share of intermediate goods imports shrink to 59.5%..
- The share of intermediate goods imports to total imports within the span of 30 years shows a downward trendline.
- It is predicted that the share of intermediate goods will spiral down due to a global lockdown. This will eventually affect the total trade of intermediate goods in 2020.

Malaysia Imports By End Use & BEC – Intermediate Goods, 2015-2019

INTERMEDIATE GOODS (RM'000)	2015	2016	2017	2018	2019
FOOD AND BEVERAGES, PRIMARY, MAINLY FOR INDUSTRY	6,082,756	5,945,998	6,420,748	6,401,462	7,190,052
FOOD AND BEVERAGES, PROCESSED, MAINLY FOR INDUSTRY	13,612,812	11,560,320	12,720,305	11,375,434	10,858,550
INDUSTRIAL SUPPLIES, N.E.S, PRIMARY	17,826,336	16,120,171	20,804,718	24,311,021	30,041,475
INDUSTRIAL SUPPLIES, N.E.S, PROCESSED	149,345,053	156,185,049	179,105,589	190,812,042	190,880,619
FUEL AND LUBRICANTS, PRIMARY	17,802,833	17,711,795	27,209,971	34,351,269	38,316,272
FUEL AND LUBRICANTS, PROCESSED, OTHERS	22,473,917	13,381,472	20,710,568	21,780,547	18,776,839
PARTS AND ACCESSORIES OF CAPITAL GOODS (EXCEPT TRANSPORT EQUIPMENT)	147,335,087	151,461,478	183,230,876	143,120,594	138,672,090
PARTS AND ACCESSORIES OF TRANSPORT EQUIPMENT	25,046,869	26,666,299	28,729,784	30,059,508	32,510,696
TOTAL INTERMEDIATE GOODS	399,525,661	399,032,581	478,932,559	462,211,878	467,246,593
GROSS IMPORTS	685,778,437	698,818,668	836,422,182	879,804,016	849,067,297
PERCENTAGE SHARE	2015	2016	2017	2018	2019
FOOD AND BEVERAGES, PRIMARY, MAINLY FOR INDUSTRY	1.5%	1.5%	1.3%	1.4%	1.5%
FOOD AND BEVERAGES, PROCESSED, MAINLY FOR INDUSTRY	3.4%	2.9%	2.7%	2.5%	2.3%
INDUSTRIAL SUPPLIES, N.E.S, PRIMARY	4.5%	4.0%	4.3%	5.3%	6.4%
INDUSTRIAL SUPPLIES, N.E.S, PROCESSED	37.4%	39.1%	37.4%	41.3%	40.9%
FUEL AND LUBRICANTS, PRIMARY	4.5%	4.4%	5.7%	7.4%	8.2%
FUEL AND LUBRICANTS, PROCESSED, OTHERS	5.6%	3.4%	4.3%	4.7%	4.0%
PARTS AND ACCESSORIES OF CAPITAL GOODS (EXCEPT TRANSPORT EQUIPMENT)	36.9%	38.0%	38.3%	31.0%	29.7%
PARTS AND ACCESSORIES OF TRANSPORT EQUIPMENT	6.3%	6.7%	6.0%	6.5%	7.0%
TOTAL INTERMEDIATE GOODS	100.0%	100.0%	100.0%	100.0%	100.0%
SHARE OF INTERMEDIATE GOODS IN IMPORTS	58.3%	57.1%	57.3%	52.5%	55.0%

Source: Department of Statistics Malaysia (DOSM)

Key Facts

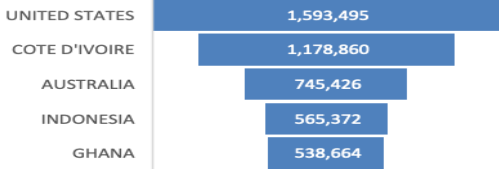
- Overall, within the last 5 years, the share of intermediate goods imports shrunk to 55.0% compared to 58.3% in 2015 despite recording an increase in the overall total value of imports.
- In 2019, the overall imports of intermediate goods increased by 1.1% although the total of overall imports recorded a negative growth at 3.5%.
- Industrial supplies, N.E.S processed and parts and accessories of capital Goods (except transport equipment's) contributed 70.9% to the total imports of intermediate goods in 2019.
- The highest increase in total imports of intermediate goods for the last 5 years was in 2017 after recording a negative growth in the previous year.

Malaysia Top 5 Exporters of Intermediate Goods 2019

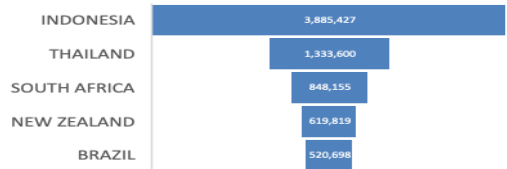


By BEC (RM'000)

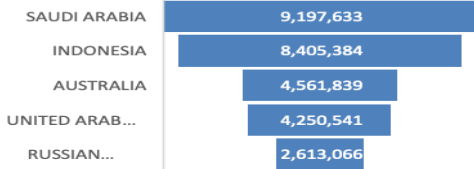
Food & Beverages, Primary, Mainly For Industries



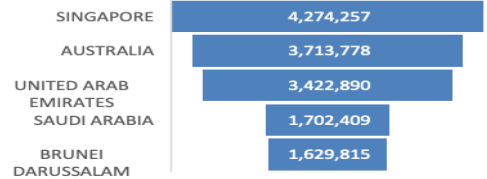
Food & Beverages, Processed, Mainly For Industries



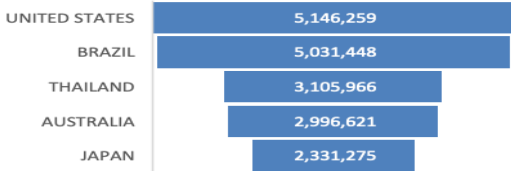
Fuel & Lubricants, Primary



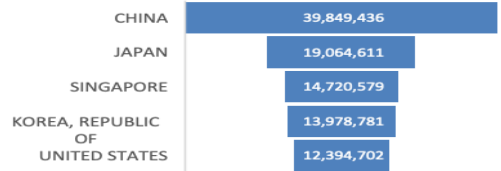
Fuel & Lubricants, Processed, Other



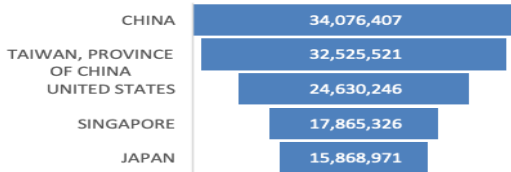
Industrial Supplies, N.E.S. Primary



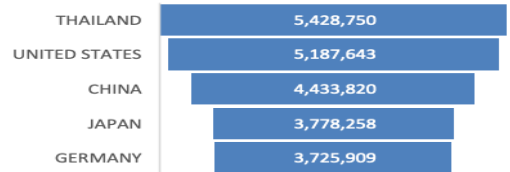
Industrial Supplies, N.E.S. Processed



Parts And Accessories Of Capital Goods (Except Transport Equipment)



Parts And Accessories Of Transport Equipment



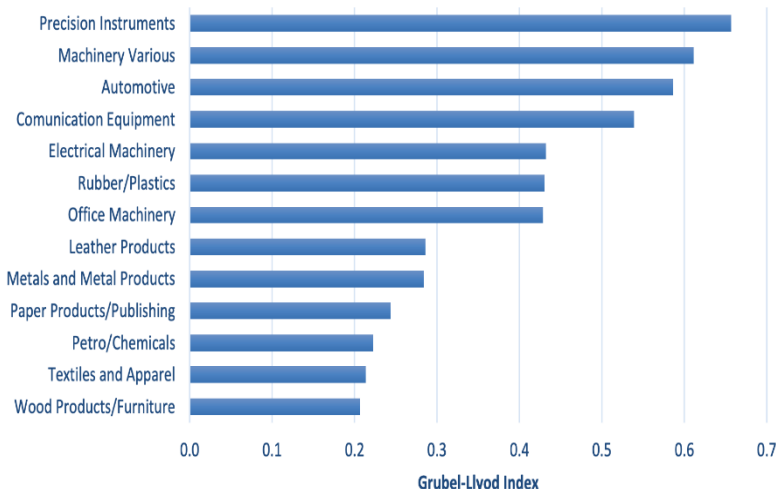
Source: Department of Statistics Malaysia (DOSM)

Key Facts

- The five (5) main sources of Malaysia's intermediate goods imports in 2019 were China, United States, Taiwan, Japan and Singapore. All of 5 countries contributed to 52.7% of total intermediate goods imports.
- China is the major source for industrial supplies, n.e.s. processed and parts and accessories of capital goods (except transport equipment). Both accounted for about 70.9% to the total imports of intermediate goods in 2019.
- Imported intermediate goods for food & beverage, both primary and processed are mainly imported from Indonesia and the United States.
- Saudi Arabia and Indonesia are the main export partners for fuel & lubricants, primary.
- Thailand, United States and China are the main import partners for parts and accessories of transport equipment.
- All the top main sources for Malaysia imports especially for intermediate goods were effected by COVID-19. Some of the countries are still under lockdown.

“It is unavoidable that the novel coronavirus epidemic will have a considerable impact on the economy and society” - **China’s president Xi Jinping, televised address, February 23, 2020.**

China Integration in Global Value Chains, by Sector



Source: <https://unctad.org/en/PublicationsLibrary/ditcinf2020d1.pdf>

The **Grubel-Lloyd Index (GLI)** measures intra-industry trade of a particular product. It was introduced by Herb Grubel and Peter Lloyd in 1971.

Key Facts

- The graph reflects China’s current integration in global value chains across sectors, measured by the GLI.
- Many global value chains, especially those related to precision instruments, machinery, automotive and communication equipment, rely on Chinese manufacturing.
- Other producers around the world will be substantially affected if there is any significant disruption of China’s supply in these sectors.
- As of today percent of global trade in manufacturing intermediate products originates in China (up from 4 percent in 2002).

“The spread of the new coronavirus is a public health crisis that could pose a serious risk to the macro economy through the halt in production activities, interruptions of people’s movement and cut-off of supply chains” – **Japanese Finance Minister Taro Aso. G20 gathering in Riyadh, Saudi Arabia, February 24, 2020.**

Key Facts

- China contributes almost 20% to world GDP, with much of the growth coming from foreign investment.
- China is also a major market for goods and services. Local economies around the world that depend on China as a customer are feeling the effects, as consumers in China limit their travel and consumption, and as manufacturers in China slow down or suspend their production.
- Impact can be seen on the supply of inputs for many manufacturers and retailers all over the world as China is a huge source of components and finished goods.
- On 8th April port of Wuhan, an important gate in China’s heavy industry supply chains, reopened for business after more than two months of being locked-down. In the same week, Ethiopia closed its land borders, Myanmar cancelled all commercial flights and South Africa restricted cargo movements to non-essential goods, joining the United States, Canada, Mexico and most of Europe in deploying draconian containment strategies aimed at stopping the virus’ spread. Meanwhile the Philippines continued its lockdown until end of April and Malaysia is still having its movement restriction measure. Japan has just declared state of emergency in 7 regions in its bid to contain the spread of COVID-19.
- Air freight prices have spiked on routes out of China, by more than 200 per cent to destinations in Southeast Asia.
- The winding down of international connectivity since January 2020 at such large scale is set to paralyse the global trade.
- Measures taken to contain COVID-19 (such as restrictions to economic activities and movement of people) may not be well received by companies due to the possible difficulties in getting supply of critical parts from China and consequently affecting their own output.

The World Trade Organization (WTO) forecast that goods trade would shrink more steeply this year than during the global financial crisis a decade ago, and then rebound in 2021. Global trade would fall this year by 13 percent to 32 percent – **Al Jazeera , April 8, 2020).**

DISCLAIMER: The article in this newsletter is the initiative of DOSM officers based on ad-hoc observation and collection of brief information in the field during the Movement Control Order. It does not meet the country’s official statistics released standards. Therefore, the content of this newsletter cannot be interpreted as DOSM’s official statistics.