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DIN SUMAR:
TOTAL FACTOR PRODUCTIVITY AND OUTPUT GROWTH
IN MALAYSIAN SERVICE SECTOR

IDRIS JAJRI
Faculty of Economics and Administration
University of Malaya
Kuala Lumpur, Malaysia
e-mail: ibjajri@um.edu.my

Abstract
Service sector has played an important role in the growth and development process of the Malaysian economy. The greater presence of the service sector in the Malaysian economy is indeed in line with the growth transformation that has taken place in many of the developed economies in which the service sector forms a major structural component of the economy compared to that of the manufacturing or primary sector. Economic growth is powered by both the manufacturing and service sectors. Thus, given the increasing role of the service sector in Malaysia, this paper seeks to examine to what extent TFP growth contributes to output growth in particular growth of service industry.

This paper aims to study this issue using two steps procedures. Firstly, the analysis will look at the TFP growth of the service sector sub-industries and secondly, examines to what extent TFP growth influence industries’ output growth. In achieving the first objective, Data Envelopment Analysis (DEA) approach is used to estimate the Malmquist productivity index. The TFP growth from the index is then used as independent variable in the output growth function. The analysis is based on the Manufacturing Survey data collected by the Department of Statistics Malaysia, which cover five sub industries at three digits MSIC, from 1986 to 2007. The result shows that on average, TFP growth in service sector is positive, was mainly due to the improvement in technical efficiency of about 5.4 percent. In contrast, technological change (-3.4 percent) dampened the TFP growth of the service industries. Four of the sub industries experience positive TFP growth. The contribution of technical change is greater than the technological change in all sub industries. This implies that the development of service sector in Malaysia is very much efficiency-oriented and not technology-oriented. The result from the second estimation of output function shows that capital and labour growth as well technological change contribute positively to service sector output growth. However, in three of the industry subgroups the results show that the TFP growth do not significantly determines the output growth.

Key words: Data Envelopment Analysis, Total Factor Productivity, Service Industry, Growth

1. Introduction

The Tenth Malaysia Plan (10MP), which covers the period 2011-2015, represents the first five-year blueprint of the country’s ambition to transform itself into a high income nation by 2020. The focus of the 10MP will be on shifting the economy to a high value-added and high income economy, via an increase in productivity. As a result, total factor productivity (TFP) is projected to contribute 38.5% or 2.3% of the target real GDP growth in the 10MP,