

CHAPTER 2

Economic Growth Contributed by Distributive Trade Sector

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2.1 INTRODUCTION

Economic growth is the expansion of a country's economy over time. The total production of goods and services in the economy, known as gross domestic product (GDP), is commonly used to measure the economy. It is critical to understand current economic growth in order for the Malaysian government to plan and set policy direction for economic growth, as well as identify strategies, programmes, and projects to improve the economy.

There are probably several ways to determine economic growth, including a mathematical approach, specifically statistical methods. The statistical analysis of Malaysia's sales trends has helped the country's business services industry increase its economic growth, lower its unemployment rate, and improve the standard living of Malaysians.

2.2 MATHEMATICAL MODEL

One of the major contributors to Malaysia economic growth is the Distributive Trade Sector (DTS). It establishes a connection between producers and consumers and also as those who are exporters and importers on international markets. In the following, some basic terms need to be understood related to DTS are presented, followed by the mathematical concepts.

2.2.1 Gross Domestic Product

Gross domestic product (GDP) is the standard measure of the value added created through the production of goods and services in a country during a certain period. GDP describes the country's economic growth or economic shrinkage, aggregate output (Slesnick, 2020) and is important since it provides a bird's-eye view of the economic situations. Three methods can be used to measure GDP: the output approach, the expenditure approach, and the income approach. The calculation of GDP contributed by distributive trade sector is included in the expenditure approach that is also known as spending approach. This method calculates the money spent by the different groups that participate in the economy such as consumers, government, and net export.

2.2.2 Distributive Trade Sector

Distributive trade sector comprises of wholesale, retail trade and motor vehicles trade sector. Services in distributive trade sector provide services to other businesses and final consumers. It may involve the transport, wholesaling, retailing, as well as distribution and sale of goods from producer to a consumer. This includes wholesale trade services, retailing services, motor vehicles trade services, the commission agents' services, and franchising. Reports from The Department of Statistics Malaysia for third quarter of 2017 on 17 November 2017 stated that services sectors have contributed the highest percentage share to GDP which was 54.45 per cent and the performance of this sector was induced by Wholesale & retail trade (<https://www.dosm.gov.my>). Therefore, the services sector has emerged as the dominant sector in the economy, both in terms of contribution to GDP and employment.

2.2.2.1 Wholesale Trade Sector

Wholesale trade consists of purchasing and selling goods, generally to retailers, professional (industrial or commercial) users or authorities, or to other wholesalers or intermediaries, regardless of the quantities sold. The sector composes of businesses engaged in wholesaling produce for resale (without modification) such as goods sold to other wholesalers or retailers, capital or durable non-consumer goods, and raw and intermediate materials and supplies used in production.

The wholesale subsector, in which many small and medium-sized enterprises (SME)s operate, for example, has contributed to the Malaysian GDP at an outstanding sales value of RM442.2 billion while employing about 442,795 people in 2013 (<https://www.dosm.gov.my>) signify the importance of this subsector.

2.2.2.2 Retail Trade Sector

Organizations that are engaged in retailing merchandise, generally without transformation, and providing services incidental to the sale of merchandise are known as the retail trade sector. It is the final step in the distribution of products where organized retailers sold product in small quantities to the public. In Malaysia the industry has experienced tremendous growth since 1990 (Chamhuri & Batt, 2013). As an example, in 2016 retail trade sub-sector recorded an increase in sales value of RM7.9 billion or 8.7 per cent compared to the corresponding quarter of the previous year (<https://www.dosm.gov.my>).