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THE Malaysian economy can sure use a boost to grow sustainably in the long term because the indicators for long-term growth do not look very good.

That boost should come from a focus on human capital. To put it simply, a better proportion of skilled workers is needed for the economy to move up the value chain and be globally competitive.

This year the economy is expected to grow just over 4% year-on-year, after growing 5% last year and 6% in 2014. The economy is expected to grow by 4% to 5% next year although the headwinds buffeting the Malaysian economy will make it challenging to hit the upper band of the target.

Moving up the chain will mean producing goods and services that have a higher value, meaning that productivity will rise. The rise in productivity will mean that workers will get better wages. This is the basic argument of policymakers when they speak of how human capital can help the economy.

However, the reality is different. According to data from the Malaysian Productivity Corp, the average annual labour productivity growth between 2011 and 2015 was 1.8% while the 11MP has a target of 3.7% annual growth. The doubling in labour productivity growth is needed to hit the high-income target of the New Economic Model.

Malaysian Employers Federation executive director Datuk Shamsuddin Bardan notes that the economy saw a labour productivity growth of 3.3% last year but believes that it will be challenging for labour productivity to grow in the years to come because of the lack of skilled workers.

The 11MP targets skilled workers, that is, those with diplomas and higher qualifications, to reach 35% or 5.35 million of total workforce by 2020. Currently 28% of the total workforce of 14.76 million are considered skilled workers.

Shamsuddin fears that without more skilled workers, the economy will find it more difficult to move up the value chain and will not be able to attract large capital investments.

He tells *StarBizWeek* that the 11MP target is well below the proportion for skilled workers compared to developed economies, where the proportion is at least half of the total workforce.

Shamsuddin says government plans to raise the skill levels of Malaysian workers have so far only shown mixed results, with a gap between the plans and the actual implementation.

Indeed, the Organisation for Economic Cooperation and Development, a grouping of rich economies, says in a 2013 report that the country needs to address long-standing economic weaknesses in the medium term in order to progress toward becoming an advanced economy within the next decade.

"Skill shortages and mismatches and the deficiencies in the education system that underlie them and the low participation of women in the workforce particularly need to be remedied," it says.

It adds that the talent base of the workforce lags behind the standards of high-income nations. "The country suffers from a shortage of skilled workers, weak productivity growth stemming from a lack of creativity and innovation in the workforce, and an over-reliance on unskilled and low-wage migrant workers," it adds.

Observers say cheap unskilled foreign labour is the bane of the Malaysian economy. According to the latest official estimates, there are 1.9 million documented foreign workers in the country with the Government having put a cap of the proportion of foreign workers to the total labour force at 15%.

Unofficial estimates of foreign workers, both legal and illegal, could be more than double that with the numbers having a negative effect on total wages.

Socio Economic Research Centre executive director Lee Heng Guie says in the long run, businesses will need to increase automation for the low-value processes in the manufacturing sector in order to reduce their reliance on foreign labour.

"We are not asking everything to be automated as some places you still need labour, but what you want is to gradually move up rather than continue to rely on cheap labour.

Malaysia's skilled labour shortage

More trained workers needed to attract new capital investments



"It is not a solution for industries to compete," he says. There is also a need to review policies in order to identify implementation flaws and weaknesses.

But the work cannot be all one-way. Lee points out that the private sector must come forward to work with the Government to create a sustainable ecosystem for innovation.

While businesses acknowledge the urgency of working efficiently and relying less on foreign workers, they point out that the supporting technology including for automation cannot be found in the country and must be sourced from abroad.

Asia Poly Industrial Sdn Bhd executive director Michael Yap says manufacturers have to source for high-quality technology from places such as Europe and Taiwan to upgrade their production processes. The company, a subsidiary of Bursa-listed Asia Poly Holdings Bhd, is a maker of cast acrylic sheets used to make corporate signages, lighting displays and sanitary ware, has a high proportion of foreign workers in its workforce.

Yap also finds it difficult to get skilled workers or even motivated ones compared to the 1980s and 1990s. He says engineers today are not willing to take up challenges and many graduates cannot solve problems.

His colleagues observe that Malaysians also do not want to work in the manufacturing sector, even if the workplace environment is conducive and they are given opportunities to give their inputs.

Given the increasing importance of the services sector to the economy, English-language skills are important but again, there is a gap between the plan and the implementation.

The Services Sector Blueprint launched last year targets the sector to make up 56.5% of gross domestic product by 2020.

Shamsuddin says it is critical for the education system to plan for the future requirements of the economy and the command of English is very important to the services sector.

"I doubt very much whether our policy emphasising English will be successful, as statistics indicate that if we ask teachers themselves to take SPM English exam, possibly half of them will fail," he adds.

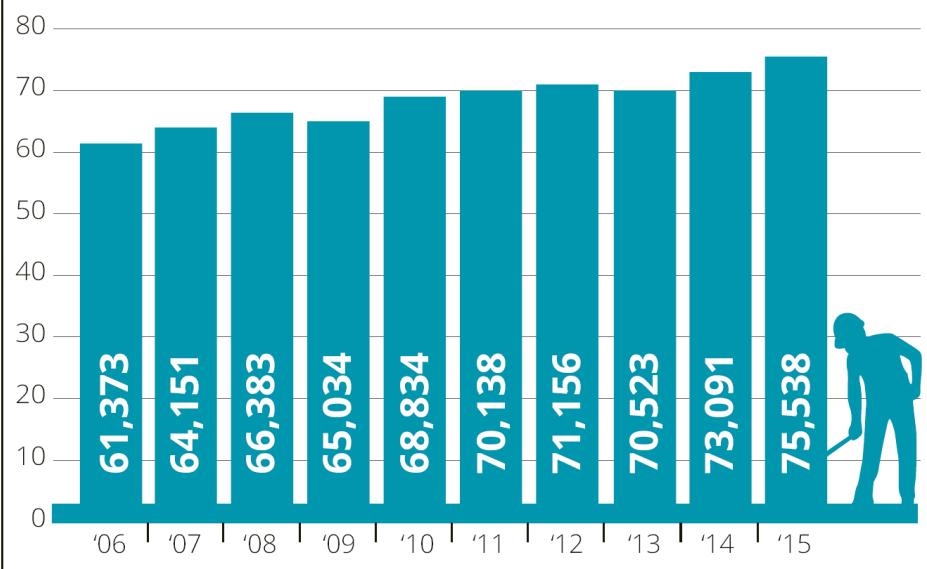
Lee feels that a more consistent policy towards English is important, referring to the abrupt change in the teaching of mathematics and science to Bahasa Malaysia after it was taught in English from 1996 to 2012, as a change that has failed Malaysian children.

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Labour productivity (RM)



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