Is Malaysia Really Out of Middle Income Trap?

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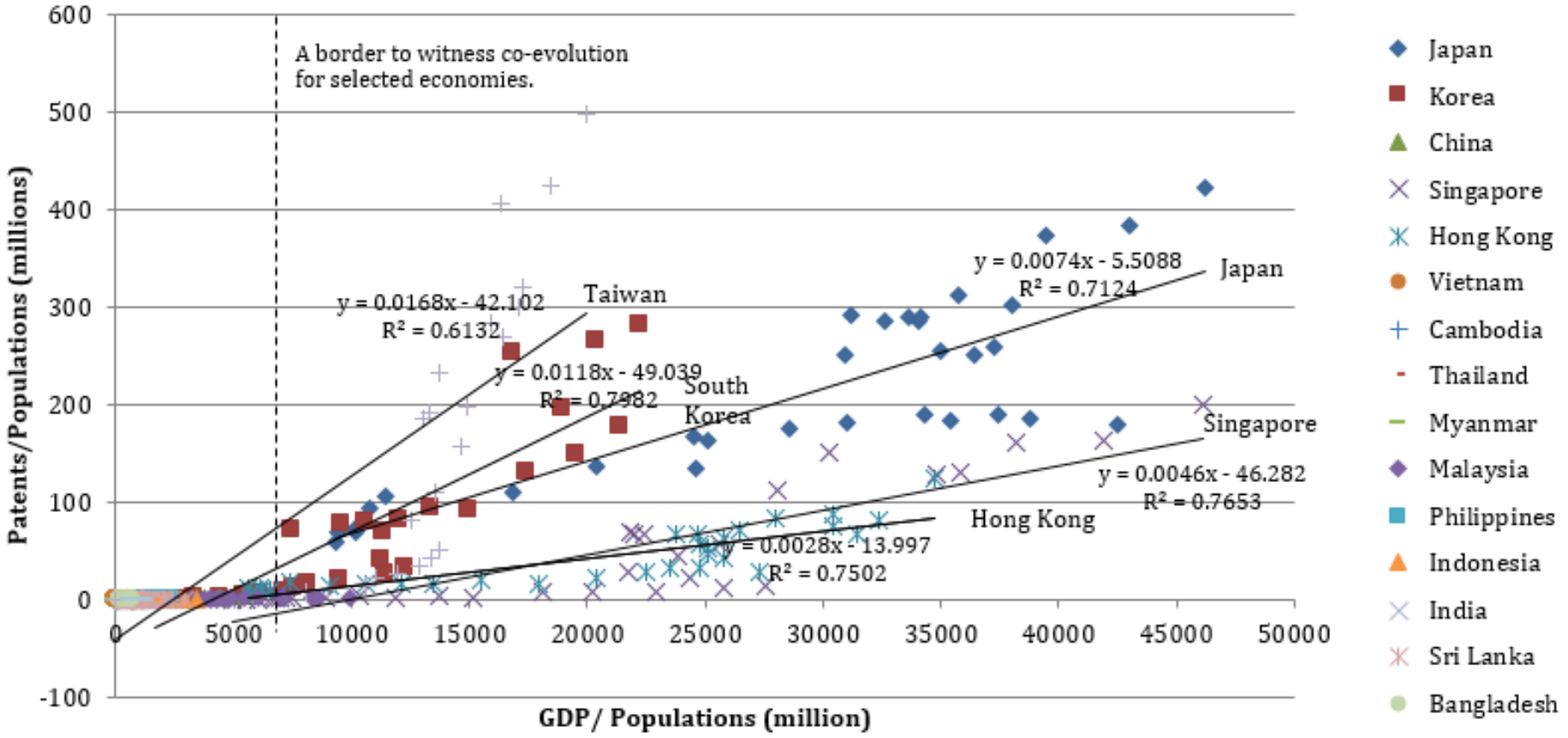
Aspects

- Income
- Economic structure (productive sector)
- Upgrading
- Institution (social capital)
- Education

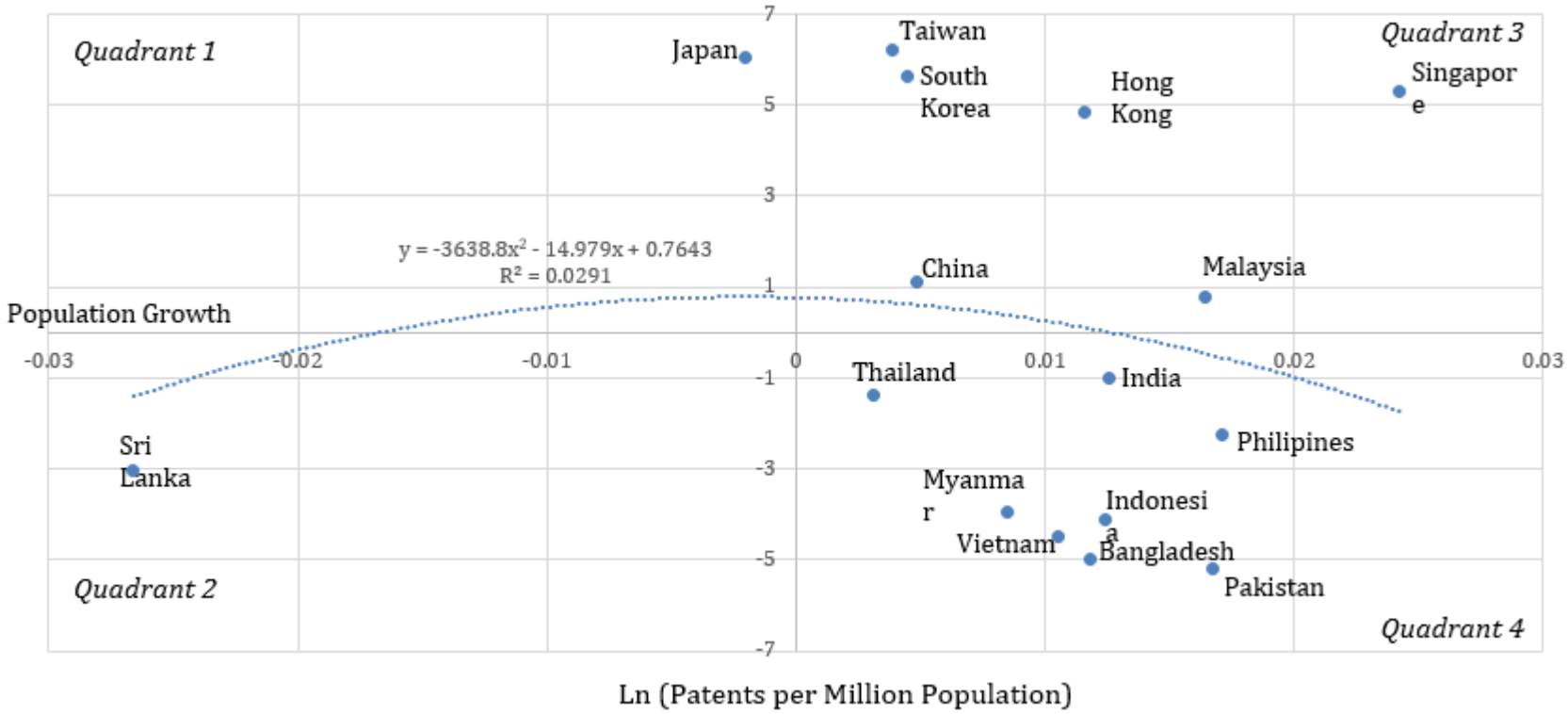
Introduction- context of MIT

- High share of informal economies
- Unable to compete with low-wages economies in manufactured exports while has yet to develop (innovative) capability to compete with that of advanced economies
- Lacks of complexities/sophistication institutional arrangement/ routine
- That too led to insufficient social capital to proliferate skills and niches in global technological value chain
- Irregularities/ scandals/ misconducts/ cases in developing economies
- High income inequality
- Weak (virtually non-existed) upgrading process (R&D investment, upskilling etc.)
- Political will: elected politicians in many developing economies are largely populist/redistributive and rarely face strong upgrading pressure (Doner and Schneider, 2016)



Relationship between Patents per Million Population and GDP per Million Population of East and South Asian Economies, (1980–2012)

Source: Wong, C-Y. , Ng B-K., Shazana, A. and Cheong, K-C., Talent and Technological Innovation in Malaysia, with Lessons from China, In Tyson A. (Ed), The Political Economy of Brain Drain and Talent Capture: Evidence from Malaysia and Singapore, Routledge (forthcoming).



Relationship between Patents per Million Population and Population Growth of East and South Asian Economies (2012)

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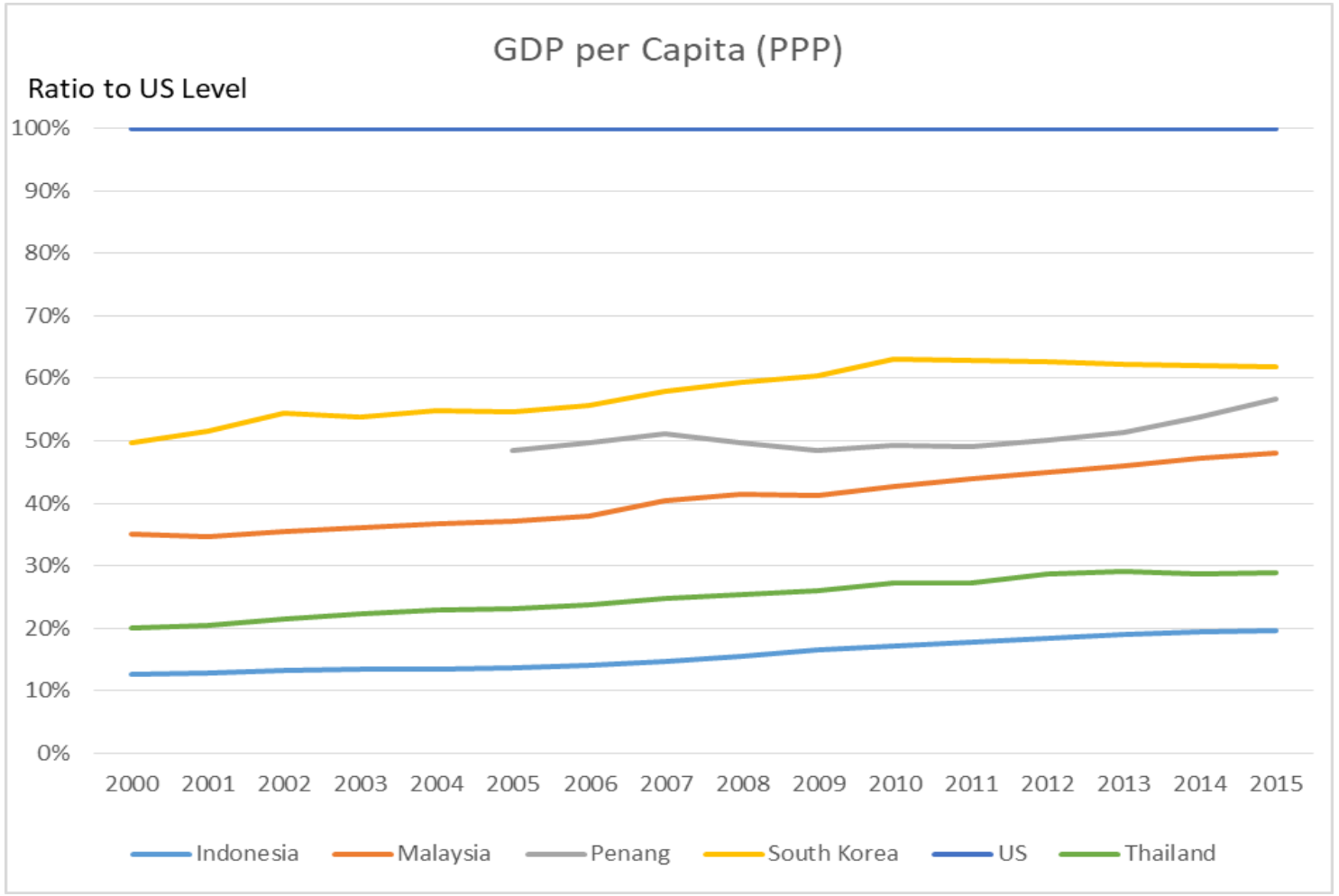
Views on Prospect (Before May 09, 2018)

- Achieved low share of informal economic activities (11.4 share of informal employment in 2016) (MIER, 2016)
- Agencies and programs (some are seen duplicative) to improve competitiveness and social capital
  - Pemandu, ETP – targeting potential sectors to create economic multipliers
  - Pemandu GTP – reducing crime, fighting corruption, quality education, living standards, etc.
  - MaGIC- programs to advance entrepreneurship
  - TalentCorp- brain gain program, skill matching etc.
- Consistent effort to lower fiscal deficit and (official) figure implying efforts to lower debt ratio (about 54.5 in 2015 to 50.8% over GDP in 2017)
- Influx of FDI into Malaysia (particularly from China) for high-cost infra. projects
- Gross national income USD 10,010 in 2017 from USD 8230 in 2010
- Some economists are optimistic towards Malaysia becoming high income economy, as Malaysia achieved it by reducing subsidies, introducing the GST and enabling a business friendly environment for expansion (BERNAMA, 2017).

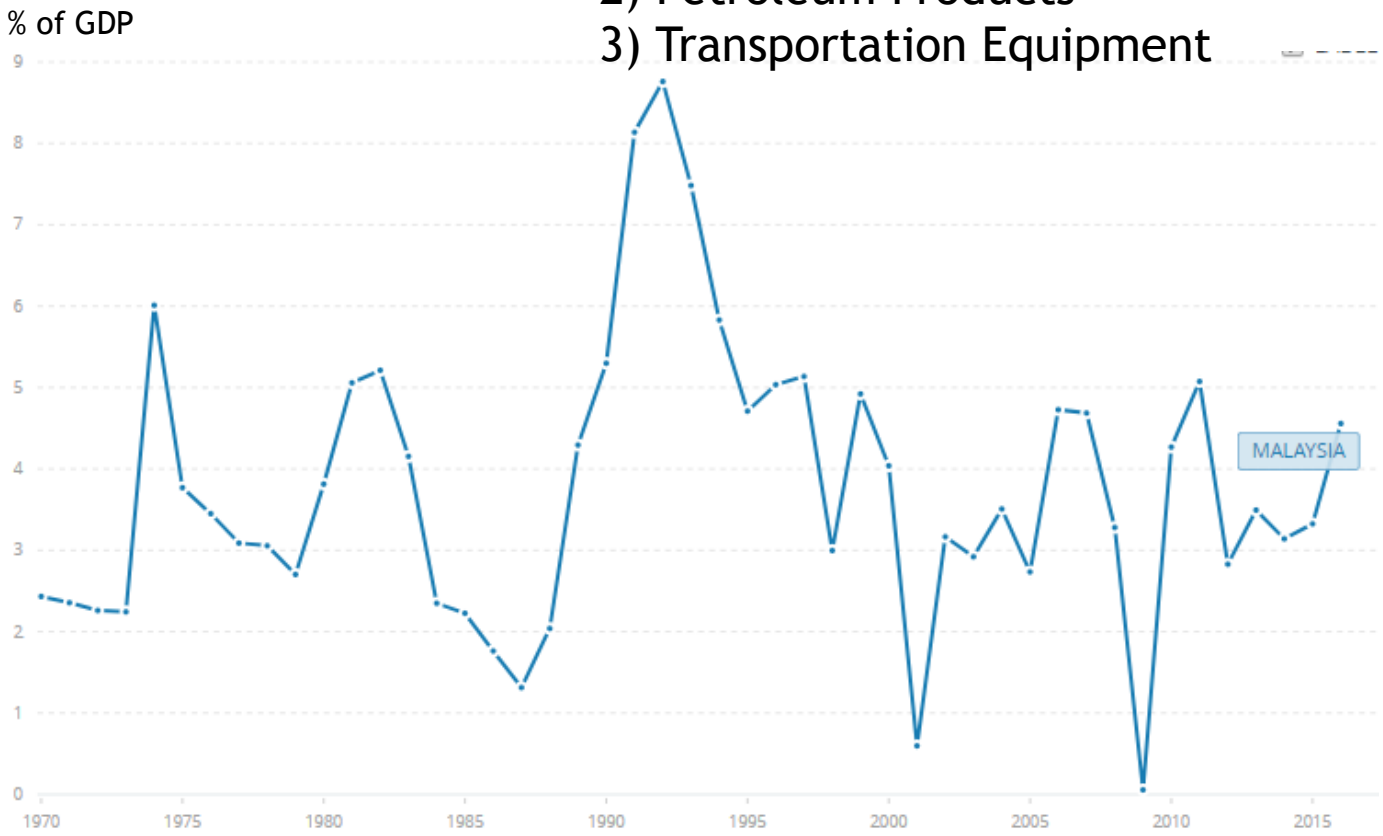


The Per capital GDP as % of the US (PPP) of selected economies, 2000-2015

FDI

Share of FDI in Manuf- 25.8%
Major Manufacturing Industries
(Approved investment >USD1B)
1) Chemical and Chemical Products
2) Petroleum Products
3) Transportation Equipment

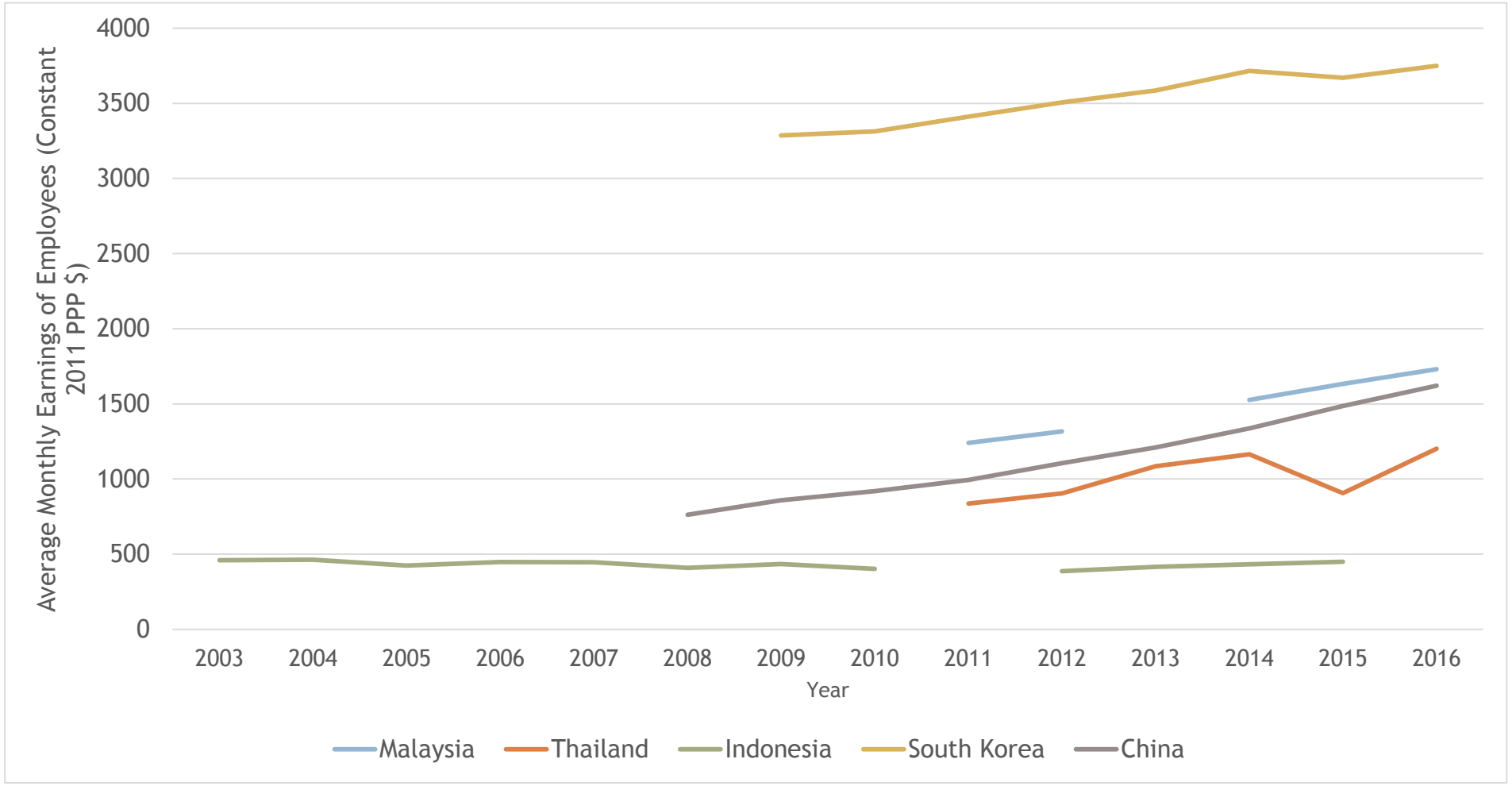
Share of FDI in Services- 50.9%
Major Servicing Industries
(Approved investment >USD1B)
1) Global Establishment (3B)
2) Distributive Trade (1.5B)



Major Countries
China
Singapore
Hong Kong
Japan
US

FDI flows by Equity & investment fund- 90.6%, by debt instrument- 9.4%

Source: World Bank, MIDA, DOS



Wage Rate in Developing Countries and South Korea
(estimated figure for Taiwan in 2017 is $3192)

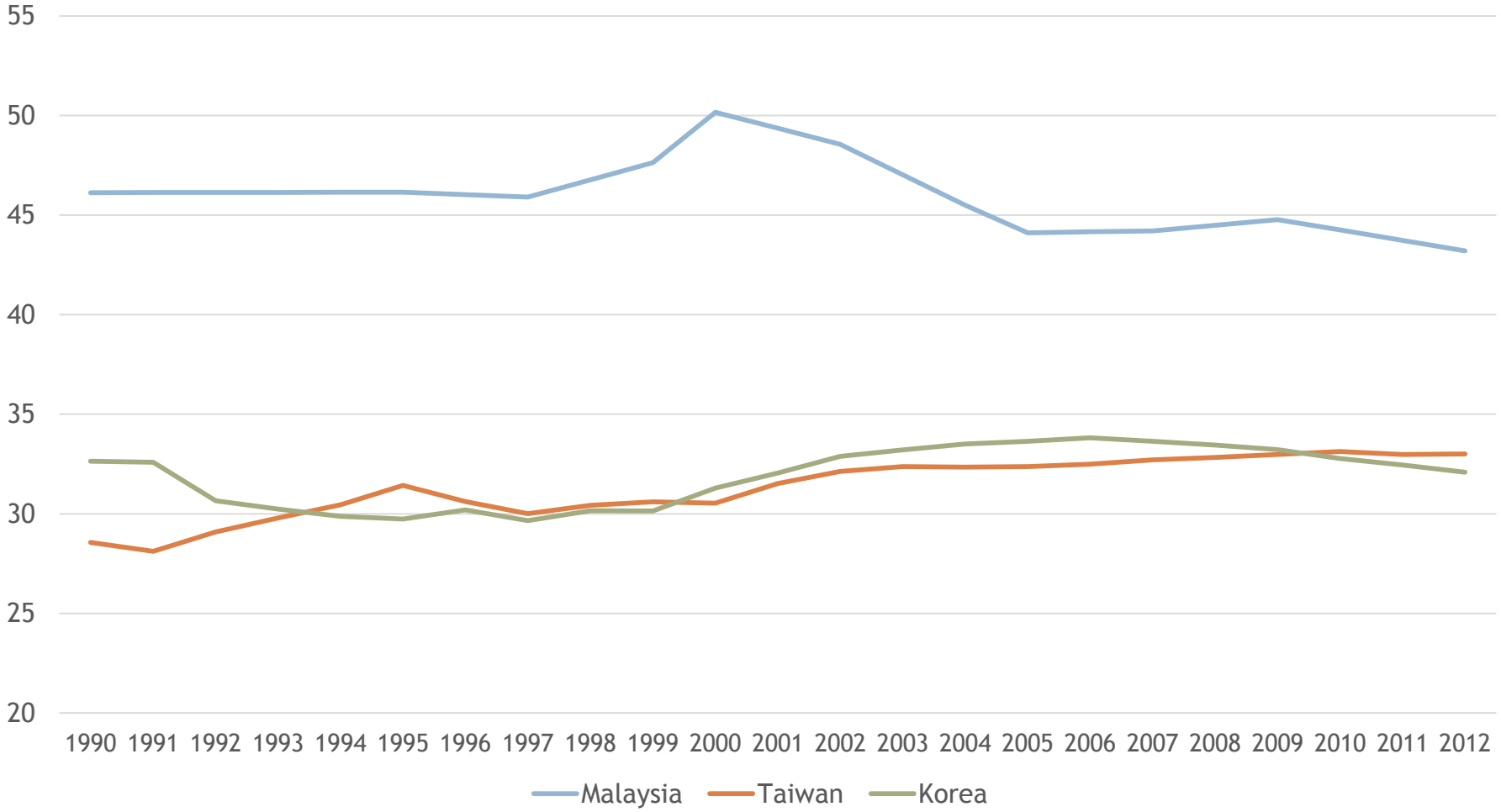
Source: ILO

Growth (%)	Productivity	Labour Cost per Employee	Unit Labour Cost
E&E	9.6	4.7	-2.4
Wood & Wood Products	5.3	3.2	-1.9
Textiles	5.1	2.3	-2.6
Wearing Apparel	3.4	7.8	4.3
Transport Equipment	3.2	-5.4	-8.3
Machinery and Equipment	3.0	2.6	-0.2
Chemicals & Chemical Products	2.8	2.5	-0.2
Other Non-metallic Mineral Products	1.7	6.4	4.8
Basic Pharmaceutical	1.7	-0.7	-2.3
Paper & Paper Products	1.5	-1.0	-2.6
Refined Petroleum	1.5	16.8	10.9
Manufacturing	**1.4**	**5.0**	**3.1**
Beverages	0.7	7.5	6.8
Rubber & Plastic Products	0.6	6.4	5.8
Fabricated Metal Products	0.5	6.9	6.4
Basic Metals	-1.1	4.7	5.8
Food Products	-3.5	9.1	14.3

Labour Cost Competitiveness of Selected Manufacturing Sub-sectors, 2016

Source: NPC, 2017

Income Inequality

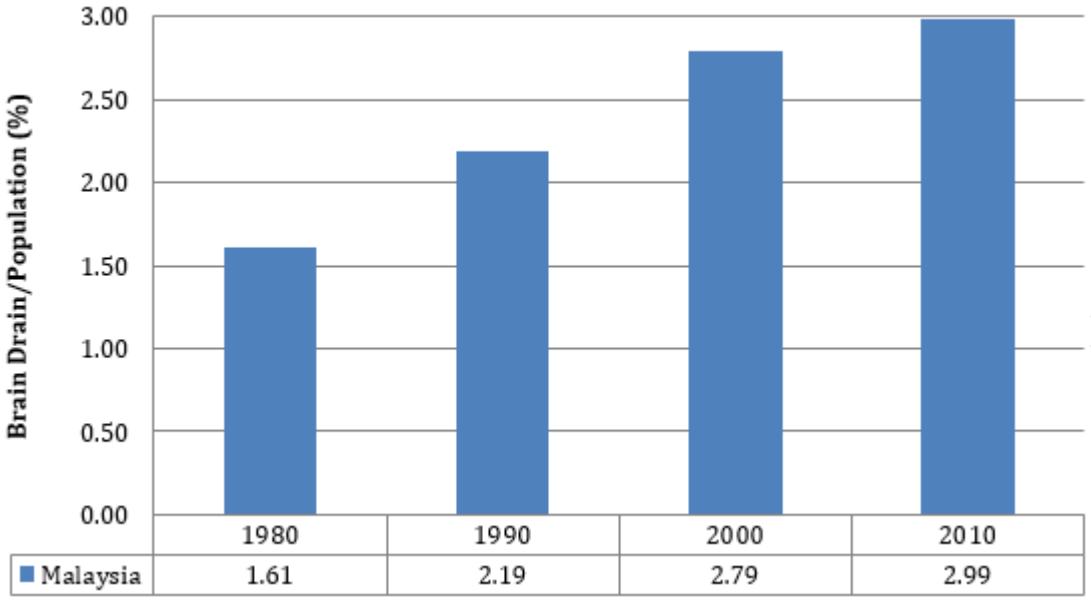


Source: SWIID

Gini Index of Market Income

Labor Force

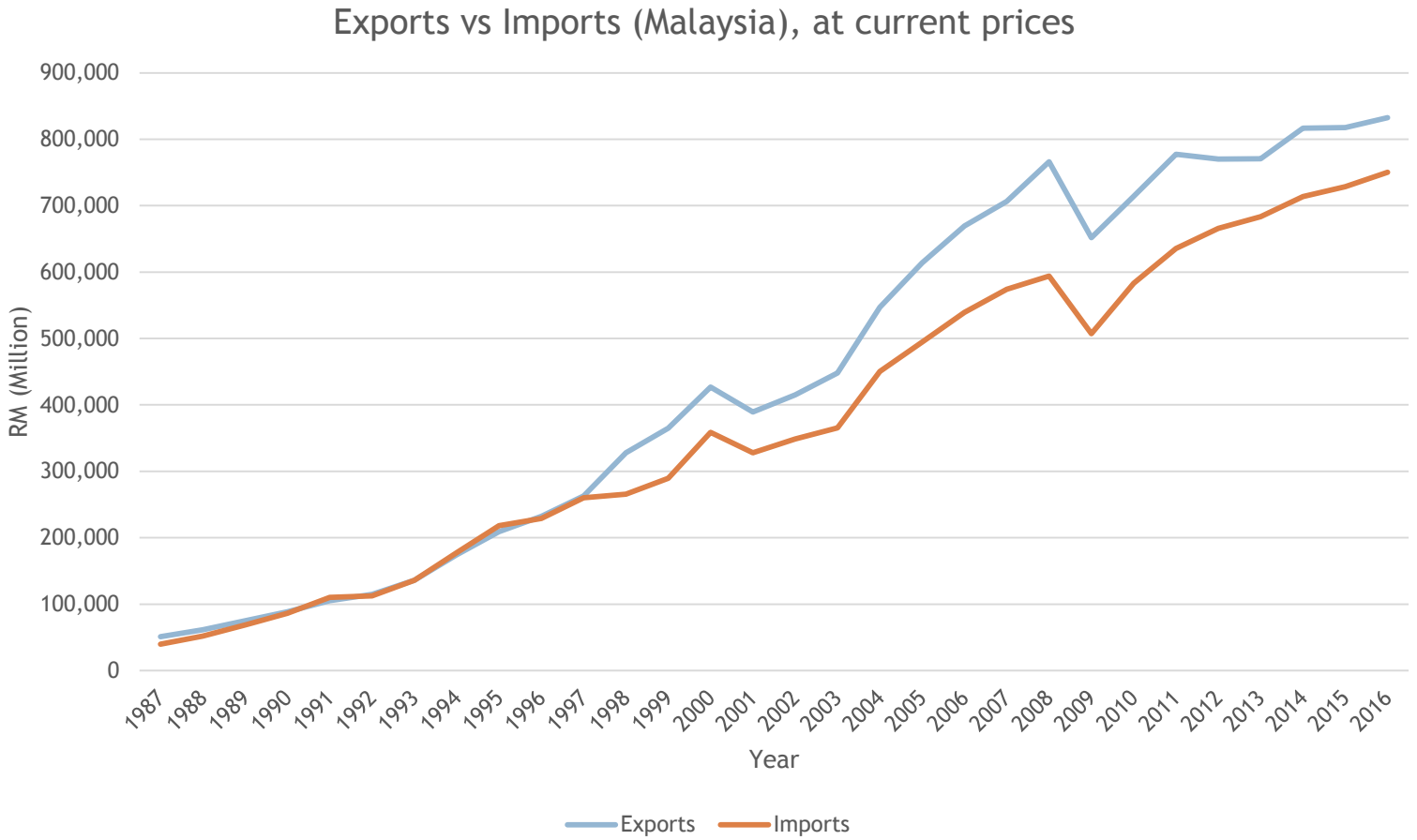
- 14.7 million people in 2016
- High skilled labor- 27%, semi skilled- 59.7% and low skilled- 13%
- Unemployment rate- 3.4%, Youth unemployment rate- 10.5%



Estimated Figures for Migration Outflow of Malaysia

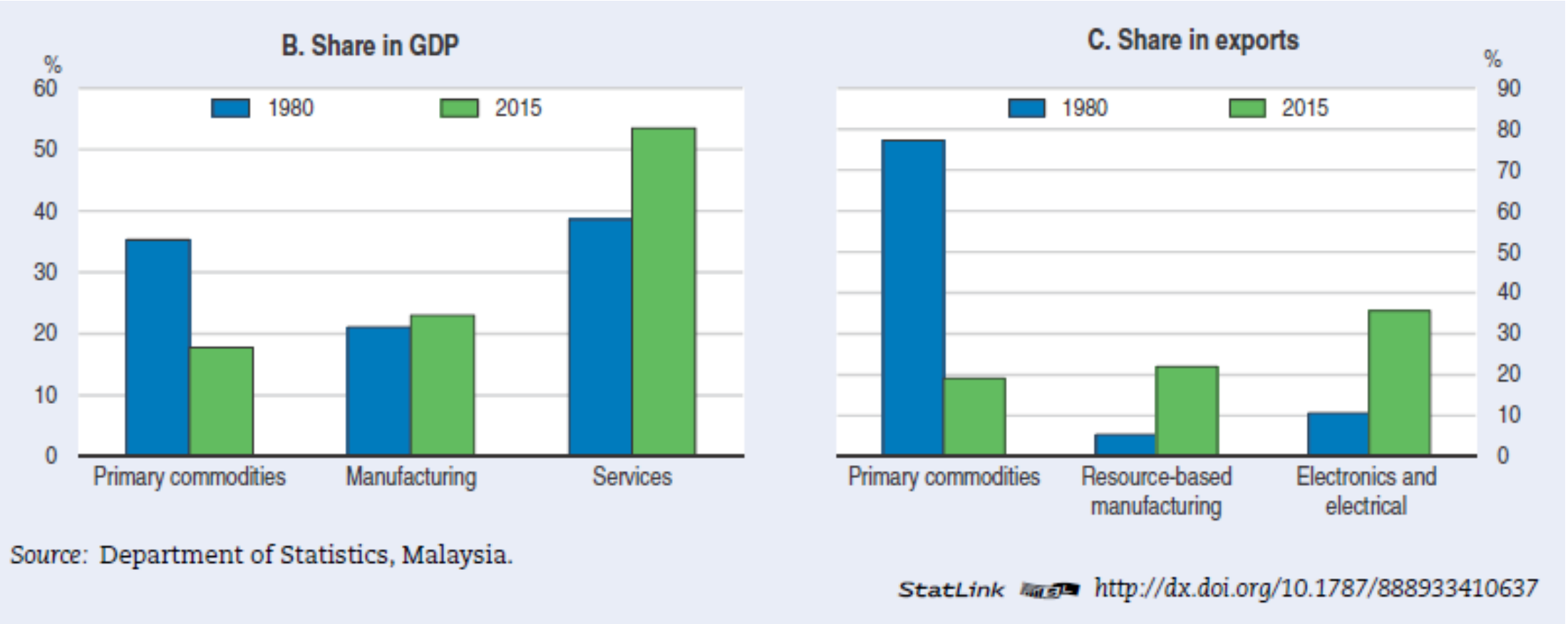
Source: Foo, Gregory. 2011

Exports vs Imports



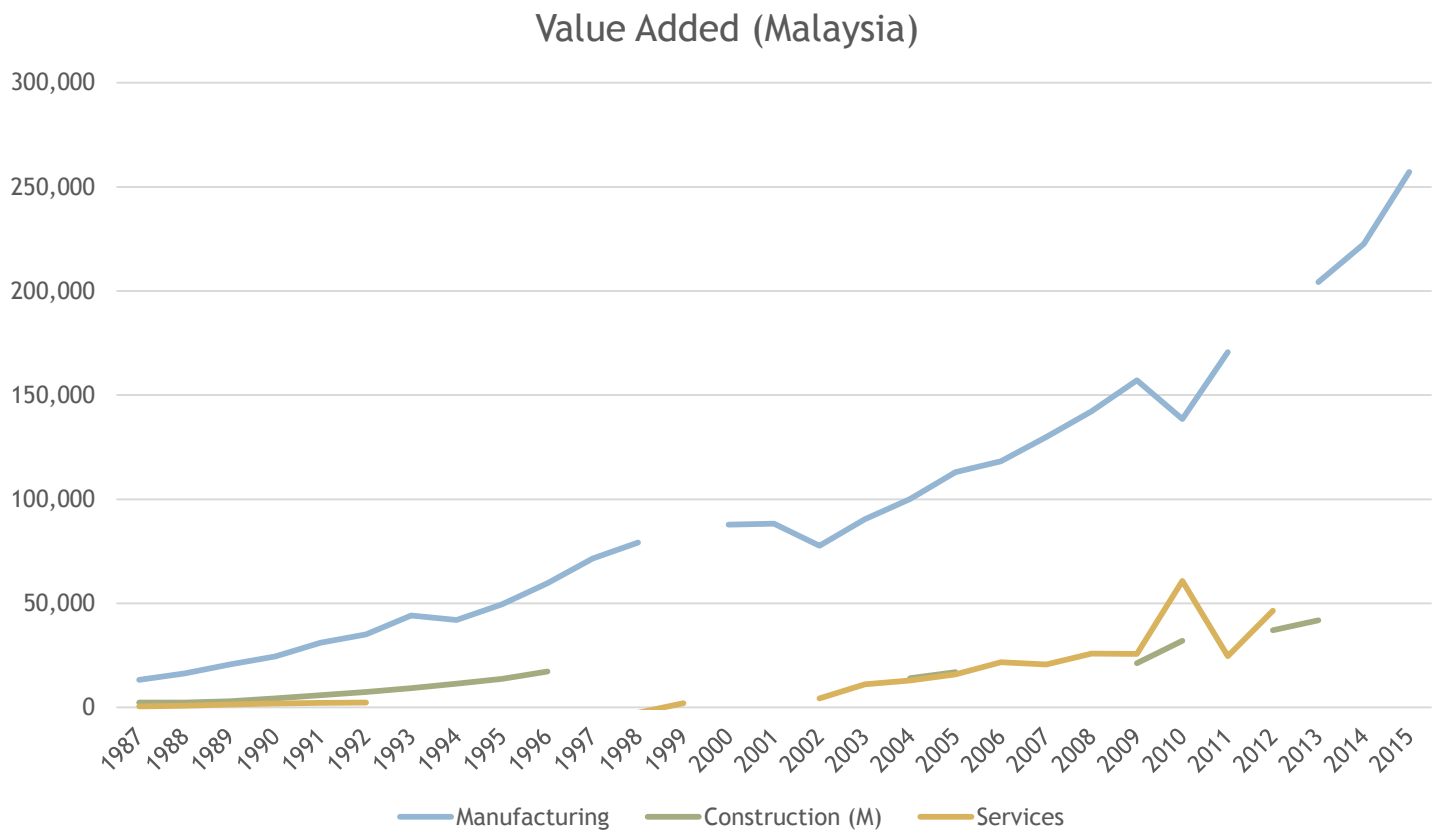
Source: DOSM

Share of Exports (Malaysia)

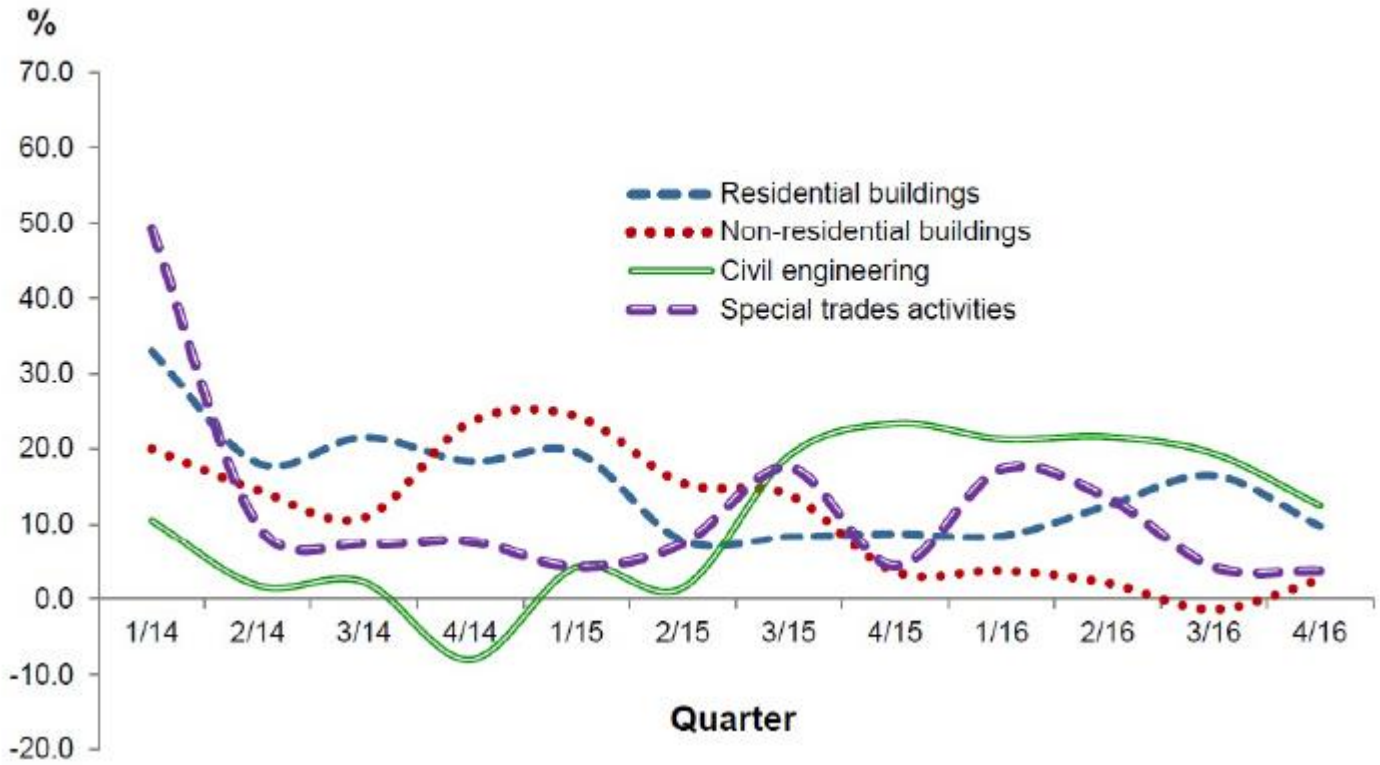


Source: OECD

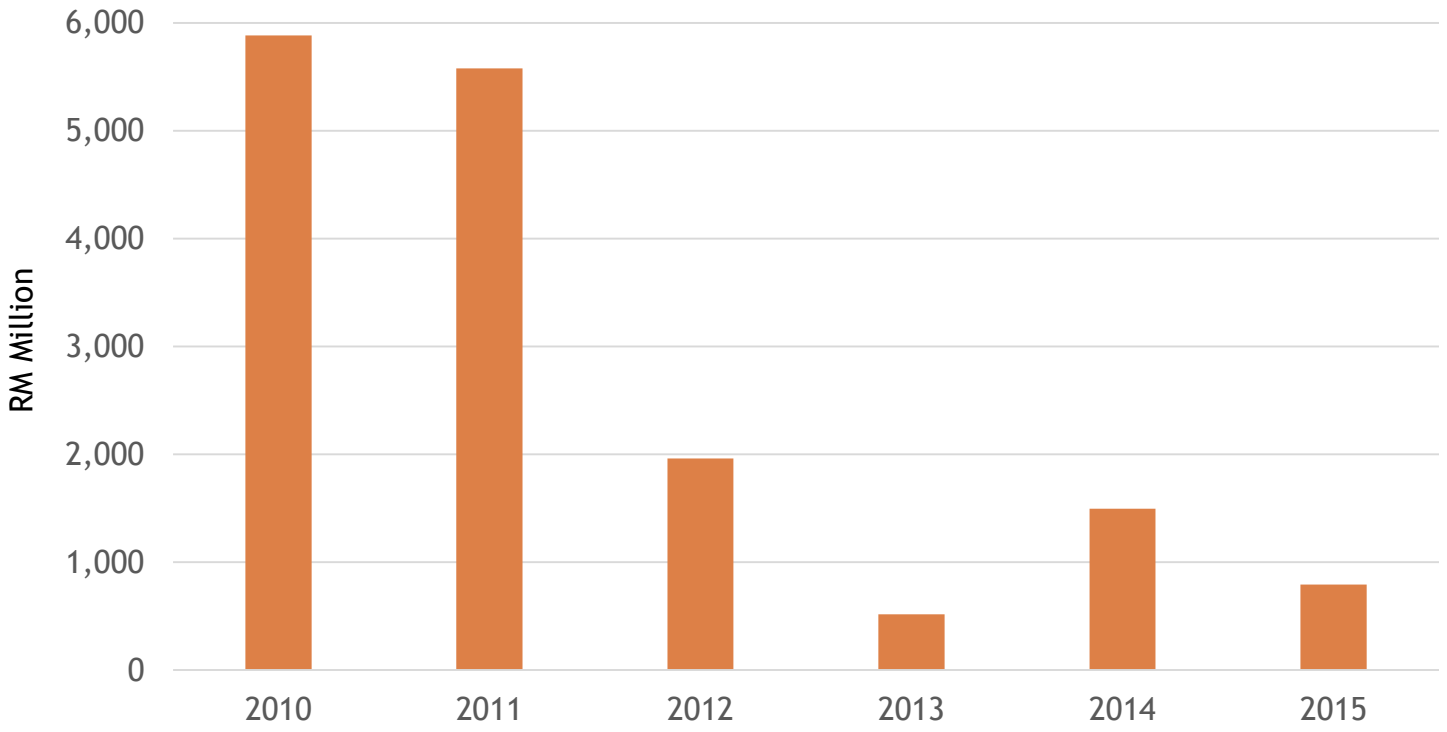
Value Added (Malaysia)



Source: DOSM



Annual percentage change by type of activity in Malaysia's Construction Sector, Q1 2014 - Q4 2016



Number and Value of Projects Undertaken by Malaysian Contractors in Global Market by Year of Project Awarded

(Selected values for high cost projects include RM1500 from China in 2010, RM1087 from Australia in 2010, RM2760 from Brazil in 2011, RM2360 and RM2061 from Indonesia in 2010 and 2011 respectively, RM1213 from Bahrain in 2013 and RM1229 from Qatar in 2015).

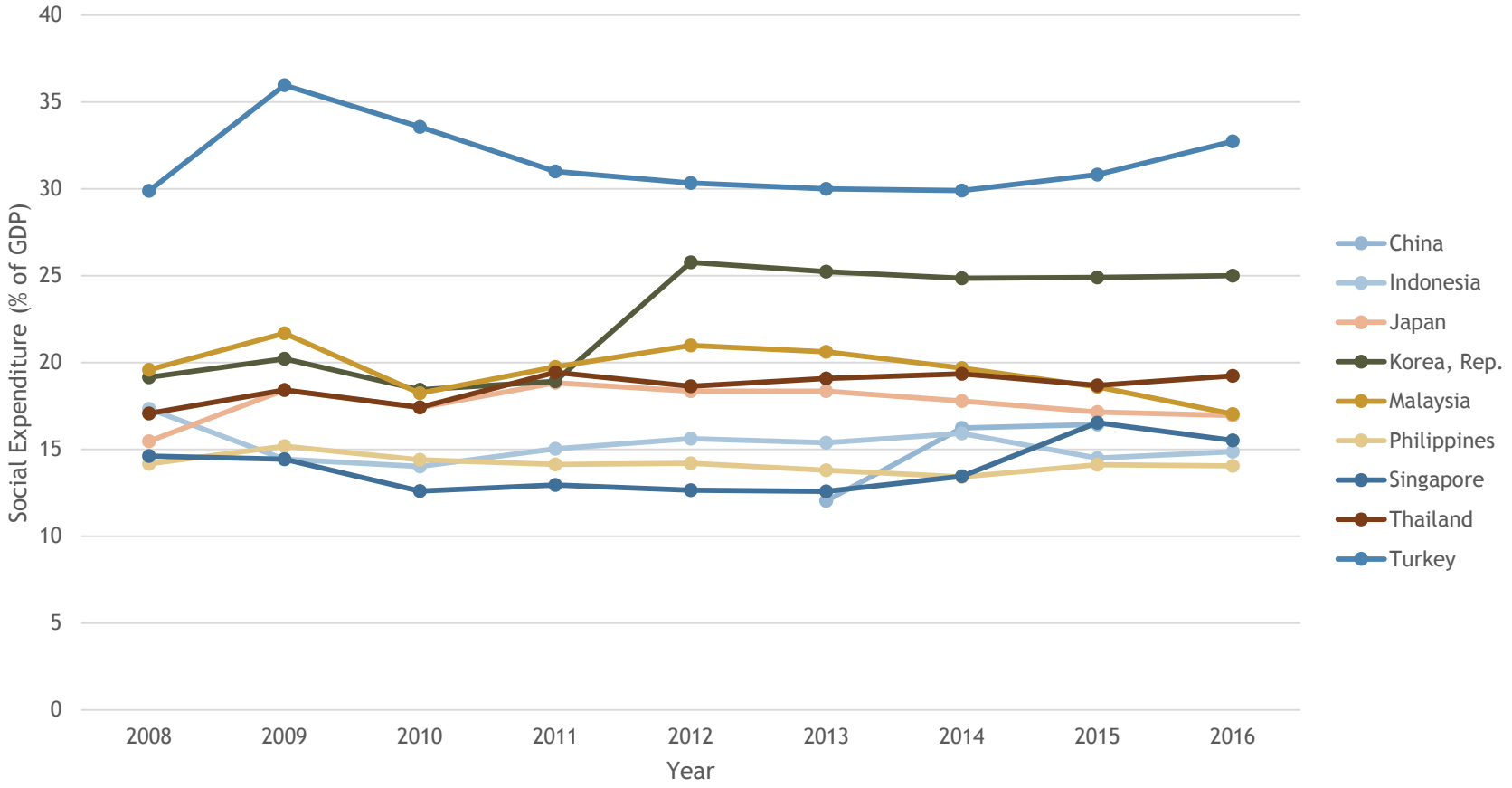
Source: CIDB 2017

Quality of Education (PISA, 2012)

Jurisdiction	Average score (Standard Error in parantheses)		
	Mathematics	Reading	Science
Japan	536 (3.6)	538 (3.7)	547 (3.6)
South Korea	554 (4.6)	536 (3.9)	538 (3.7)
Turkey	448 (4.8)	475 (4.2)	463 (3.9)
Taiwan	560 (3.3)	523 (3.0)	523 (2.3)
Hong Kong	561 (3.2)	545 (2.8)	555 (2.6)
Indonesia	375 (4.0)	396 (4.2)	382 (3.8)
Malaysia	421 (3.2)	398 (3.3)	420 (3.0)
Singapore	573 (1.3)	542 (1.4)	551 (1.5)
Thailand	427 (3.4)	441 (3.1)	444 (2.9)

Source: PISA

Social Expenditure



Source: World Bank

- Concentration: “Corporate wealth is ..controlled through block shareholdings by a mere seven GLICs under the jurisdiction of the Minister of Finance” (Gomez, et al. 2017).
- High education-related expenditure but low performance in PISA score
- Institution (networks, productive routine, social capital): far from that of the industrialized economies
- Progressive R&D expenditure ratio (1.3%) but many SMEs and indigenous firms remain unable to compete and develop niches
- Increasing share of servicing sector in GDP while witnessing stagnated/stalled growth in manufacturing activities (20-25% since 2010)- worries that Malaysia may be deindustrializing prematurely
- “Malaysia throws cash into middle-income trap”- $1.5 billion of handouts to enrich the poors but in terms of upgrading competitiveness, “it falls woefully short” (Reuter, 2017)
- Increased living cost
- Brain drain

After May, 09

- Revised debt ratio- 65% over GDP (to guarantees for entities that are unable to service their debts), 80% (to include contingent liabilities)
- Probing irregularities/ possible misconducts
- 0% GST, expecting low government revenue, thus may lead to low development expenditure forward
- Many high cost projects to be reviewed/ shelves (e.g. ECRL, HSR, MRT3, etc.)
- Dissolved/merged deems redundant programs/ agencies (Pemandu, Magic, etc.)
- Revising the classification of FDI- expecting (more) measures to favor those that would create (high valuable) jobs and transfer technology

Way Forwards

Horizontal measures

- Education- giving priorities to improves S&T knowledge
- Institution- developing routine to institute an inclusive measures in upgrading process

Vertical measures

- Manufacturing sector: Elevate the performing (organic) clusters (Penang for E&E and semiconductor, Muar for furniture, Sekinchan for rice). Measures to upgrade the less performing ones.
- Servicing (plantation) sector: Capitalize on the productive knowledge of the few (indigenous) firms (e.g. IJM, MRCB, SMIE, UEM) to create the multiplier effects (and upgrade the SMEs)