DEVELOPMENT CHALLENGES FOR MALAYSIA AT MIDDLE INCOME
The Role of Future Human Capital Development
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01 Background
Economic landscape – middle income
Malaysia’s journey from upper middle income country to high income

Due to the moderation in the economic activity, there’ll be a delay in transition from middle to high income nation.

From middle to high income economy

- Based on the minimum threshold of a high-income economy set by the World Bank at US$12,056 for 2017, there was a gap of 21% before Malaysia would graduate from its upper middle-income nation status.
- Based on this growth target, per capita income is expected to reach RM47,720 or US$11,700 in 2020, below the estimated minimum income threshold of a high-income nation.

Timeline

- Given the current pace of growth parameters, the target of a high-income economy is expected to be achieved post-2020. Malaysia is anticipated to breach the threshold by 2024.

The new dimension

- However, the goal to become a developed and inclusive nation goes beyond attaining a high-income level as it must also be accompanied by higher purchasing power.
- At the same time, the aspiration of becoming a developed nation requires Malaysia to progress in many other dimensions, such as economics, politics, culture, psychology, spiritual and social.

Source: World Bank Indicator

Notes: * excluding high income countries

Source: Mid Term Review – 11th Malaysia Plan
The Malaysia economic performance and transformation...past achievements

Sustainable real GDP growth with moderate inflation and full employment

Transformed from an agro-based to manufacturing and services-based economy

Diversification of export products from agricultural to manufactured goods

Average 1971-2015 (% per annum)

6.2% Real GDP Growth

3.7% CPI

Full employment
Unemployment below 4% since 1992

Real GDP (% p.a)
CPI (% p.a)
Unemployment rate (%)

GDP (RM) 1970 and 2015

1970
RM 71.1 billion

2015
RM 1.1 Trillion

US$23.1bn

US$272.1bn

( In 2010 prices)

Diversification of export products

38% of GDP (1970)

53% agri & mining commodities

68% of GDP (2015)

36% high technology manufactures

( In current prices)
The sources of GDP growth for the next two years (2018-2020)

**Demand component**

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<thead>
<tr>
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<tbody>
<tr>
<td>Real GDP</td>
<td>5.0-6.0</td>
<td>5.1</td>
<td>4.5-5.5</td>
<td>5.0</td>
<td></td>
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<tr>
<td>Consumption</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private</td>
<td>6.4</td>
<td>6.5</td>
<td>7.0</td>
<td>6.8</td>
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<tr>
<td>Public</td>
<td>3.7</td>
<td>3.2</td>
<td>0.3</td>
<td>1.4</td>
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<tr>
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<td>4.4</td>
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<td>Private</td>
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<td>6.8</td>
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</tr>
<tr>
<td>Public</td>
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<td>-0.2</td>
<td>-0.8</td>
<td>-0.6</td>
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<td>Net Export</td>
<td>0.4</td>
<td>-0.1</td>
<td>1.7</td>
<td>1.0</td>
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<tr>
<td>Export</td>
<td>2.1</td>
<td>5.3</td>
<td>2.2</td>
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<tr>
<td>Import</td>
<td>2.3</td>
<td>6.0</td>
<td>2.3</td>
<td>3.7</td>
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</tr>
<tr>
<td>Inflation</td>
<td>2.8</td>
<td>2.9</td>
<td>2.0-3.0</td>
<td>2.0-3.0</td>
<td></td>
</tr>
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</table>

... driven by domestic demand, particularly private demand...

... growth led by manufacturing and services sector ...

<table>
<thead>
<tr>
<th>Sector</th>
<th>Changes (2010 price), % per annum</th>
</tr>
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<tbody>
<tr>
<td>Agriculture</td>
<td>2.0</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>1.5</td>
</tr>
<tr>
<td>Construction</td>
<td>7.1</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>4.5</td>
</tr>
<tr>
<td>Services</td>
<td>5.9</td>
</tr>
<tr>
<td>GDP</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Source: Economic Planning Unit, MEA
In retrospect

Malaysia has recorded rapid socio-economic development ...

**AMONG THE BEST**

- Economic growth record in Asia: **6.2%**
- Real GDP growth per annum: __25X__
- Increase in per capita income: __25X__

- Absolute poverty rate, 2014: **0.6%**
- Average household income 2014: **RM6,141**
- Home ownership 2014: **76.1%**

- **95.1%** have access to potable water
- **97.6%** have access to electricity
- **76.1%** have home ownership

...But many challenges remain

**External**

- Low world price of commodities
- Depreciating value of Ringgit
- China –US trade war

**Internal**

- Low *productivity* level
- Slow *economic structural transformation*
- Lack of high-income *job* and skilled workers
- Declining *comparative advantage* in export
- Limited *fiscal* space
- Half of the household remain in the *lower middle income* group

*Source: 11MP, EPU*
Potential growth sectors outlined in various national policy documents

Critical needs to strategically integrate the industrial policy with the human capital and skills development strategies for future development.

ELEVENTH MALAYSIA PLAN, 2015-2020
- Mismatch in the labour market due to lack of skilled job creation

MALAYSIA EDUCATION BLUEPRINT (HIGHER EDUCATION) 2015-2025
- Developing industry led curriculum to solve skills mismatch

MALAYSIA EDUCATION BLUEPRINT, 2013-2025
- Employability remains a challenge due to skills mismatch

TALENT ROADMAP, 2020
- Mismatch of competencies between skills of local graduates and industry needs
**Human Capital Development as one of the pillar**

Quality supply of human capital, efficient labour market that is linked to the industry

**Supply of human capital (quality & quantity)**

- Strong pipeline of relevant workforce into the labour market
- High proportion of skilled workers through up-skilling existing workforce

**Labour market efficiency**

- Labour market that able to match demand and supply
- Effective management of alternative sources of labour (i.e., expats, foreign labour, women)
- Effective of current wage system

**Good support system**

**Sector-driven demand**

- Key growth sectors for Malaysia either through up-grading within existing sectors or promoting new sources of growth
- Drive further investments in key growth sectors identified

**Education and training institutions**:

- Schools; university; ILKA/ILKS

**To improve workforce quality, the Human Capital Initiative will tackle supply-side as well as labour market efficiency issues**

**Sector-driven demand will be aligned with this Initiative**

- States
- Regional corridors
- Industries

**Industries role in development**
The ecosystem of HCD

The ecosystem of HCD that integrates demand & supply addressing issues on labour market imbalances

Greater participation and collaboration with the private sector in policy matters needed.
Several issues impact supply-side of human capital

Pipeline of human capital supply

- **University**: 54%
- **TVET**: 36%
- **NOSS**: 10%
- **Direct entry**: School leavers (population 17+)
- **Workforce**
  - Skilled
  - Semi-skilled
  - Low-skilled

**Issues**
- Skills and qualification mismatches
- Employability
- Skills shortages
- Youth unemployment
- Job competition
- Low wage premium
- Skills recognition
- Public perception

**Total Fertility Rate**
- 2000: 3.0
- 2010: 2.1
- 2020: 2.0

School aged children is expected to register marginal growth (0.5% p.a. 2000-2020)

Total Fertility Rate – reached replacement level, contribute to slower population growth

Source:
- 11th MP (EPU, MEA) estimation on percentage of school leavers entering labour market and further education (2013)
- DOSM – Total Fertility Rate
The supply side is characterised by improvement in the profile of education among the workforce
Low unemployment over the years even during recessions - robust labour market at aggregate economy seems to be able matching the labour supply-demand.
However, the labour market mismatches seems on the rise

- Graduate labour force and employment growing rapidly keeping the graduate unemployment relatively low
- However, evidence of trend among graduates employed in semi-skilled/low-skilled jobs – growing faster over the years (double digit growth)
Declining trend of productivity growth –
As compared to various labour market strategies improvements in productivity growth benefits both employers and workers simultaneously

• Productivity trend is falling globally.

• Malaysia's gap between labour productivity growth and GDP growth has been widening – slowing compared to other Asian countries – risk to further slowdown.

• The economy is made up of sectors with low productivity.

• Benchmarks against best-in-class countries suggest we are lagging behind in most sectors

Source: Finding of Malaysia Productivity Blueprint and 11th Malaysia Plan (EPU, MEA)
Coupled with the structural issues on the low wage scenario

Median monthly wage, 2013-2017

- Average annual Increase

- RM 610
- RM 115
- RM 2,160

2013 2014 2015 2016 2017

Median monthly wage & wage recipients by industry, 2017

- Agriculture...
- Mining and quarrying
- Manufacturing
- Electricity...
- Water supply...
- Construction
- Wholesale and retail trade...
- Transportation and storage
- Accommodation and F&B service
- ICT
- Financial ...
- Real estate activities
- Professional services
- Administrative service
- Public administration
- Education
- Health & social work
- Arts, entertainment and recreation
- Other service activities

- Private sector
- Sector with high concentration of public employees
- Sector above national median age

- RM1,700
- RM1,800
- RM1,942
- RM2,000
- RM1,700
- RM1,800
- RM1,942
- RM2,000
- RM1,700
- RM1,800
- RM1,942
- RM2,000

RM610 6.2%
03 Future skills
Future Outlook of the Job Market
Five megatrends disrupting the way people work

1. Rapid Urbanisation
2. Demographic Shifts
3. Shifts in Global Economic Power
4. Resource Scarcity & Climate Change
5. Technological Breakthroughs

- People & the Internet
- Computing, communications & storage everywhere
- The Internet of Things
- Artificial Intelligence (AI) and big data
- The sharing economy & distributed trust
- The digitisation of matter e.g. 3D printing

Comparing Skills Demand: 2018 vs 2022

Today, 2018
- Analytical thinking and innovation
- Complex problem-solving
- Critical thinking and analysis
- Active learning and strategies
- Creativity and initiative
- Attention to detail, trustworthiness
- Emotional intelligence
- Leadership and social influence

Trending, 2022
- Analytical thinking and innovation
- Creativity, originality and initiative
- Emotional Intelligence
- Reasoning, problem-solving and ideation
- System analysis and evaluation
- Leadership and Social Influence
- Technology design and programming

Declining, 2022
- Memory, verbal, auditory and spatial abilities
- Management of financial and material resources
- Technology installation and maintenance
- Reading, writing, math and active listening
- Management of personnel
- Quality control and safety awareness
- Coordination and time management
- Visual, auditory and speech abilities

Adapted from: TalentCorp
### Occupations on the Rise

- **Data Analysts and Scientists**
- **Software and Applications Developers**
- **Ecommerce and Social Media Specialists**
- **Customer Service Workers**
- **Sales and Marketing Professionals**
- **Training and Development**
- **People and Culture**
- **Organizational Development Specialists**

### Innovation Managers
- AI and Machine Learning Specialists
- Big Data Specialists
- Process Automation Experts
- Information Security Analysts
- User Experience and Human-Machine Interaction Designers
- Robotics Engineers
- Blockchain Specialists

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- Among the range of roles that are set to experience increasing demand in the period up to 2022 are **established roles** such as:
  - Data Analysts and Scientists
  - Software and Applications Developers

- Also expected to grow are roles that **leverage distinctively ‘human’ skills** such as Customer Service Workers and Sales and Marketing Professionals

- **Accelerating demand** for a variety of wholly **new specialist roles** related to understanding and leveraging the latest emerging technologies such as AI and Machine Learning Specialists.
Malaysian Jobs at Risk of Automation

4 out of 5 jobs at high risk of displacement by technology are semi-skilled

More than 70% of semi-skilled and 80% of low-skilled jobs – including clerical support workers, sales worker, and many semi-skilled and elementary occupations in manufacturing, construction and agriculture

High-skill to low-skill occupations – including technicians and associate professionals, personal service workers, E&E and ICT mechanics and repairers, and cleaners and helpers

Source: The Times They Are A-Changin': Technology, Employment, and the Malaysian Economy; Khazanah Research Institute, Apr 2017

Adapted from:
04 Human resources Policy Reforms
Strategic Areas
• Currently 1.8 mil foreign workers or 12% of Malaysia’s workforce

• Reduce reliance on foreign workers

• Multi-tier levi system

• Social Security for foreign workers

• Reviewing / amending policies and acts related
• Implementation of Productivity Linked Wage System (PLWS)

• Implementation of RM1,050 as minimum wage beginning 1st Jan 2019

• Standardising minimum wage across Peninsular Malaysia with Sabah and Sarawak – inline with Pakatan Harapan’s 100 day promise

• Gradual increase of minimum wage to RM1,500 in 5 years time – inline with Pakatan Harapan’s manifesto
• HRDF fund for workers

• Reskilling & Upskilling – improve employability and marketability of workers

• Decreasing low skilled workers and increasing semi skilled & high skilled workers

• Encouraging senior citizens to continue participating in the workforce
PUBLIC EMPLOYMENT SERVICES

• Assist Malaysians to find relevant jobs – decrease job mismatch ie: JobsMalaysia Portal

• A new portal www.specialjobs.com.my will be launched today by YB Minister of Human Resources. It’s a joint venture between MoHR and Brickfields Asia Collage

• Employee Insurance Scheme (EIS)

• Adherence to International Labour Organization (ILO)
• Career Comeback Programme (CCP)

• Increasing female participation in *Skim Bantuan Latihan* – HRDF

• Support for Housewives Programme (S4HW)

• Work-Life practices – flexi hours, work from home, longer maternity leaves, etc.
• Encouraging vocational skills to meet industry demands
• Harmonizing education pathway for TVET stream and academic stream
• Facing the challenge of IR4.0
• Upgrading current syllabus and accreditations
• Employability and marketability
THANK YOU