

NEW DRIVERS OF GROWTH AND MIGRANT LABOUR

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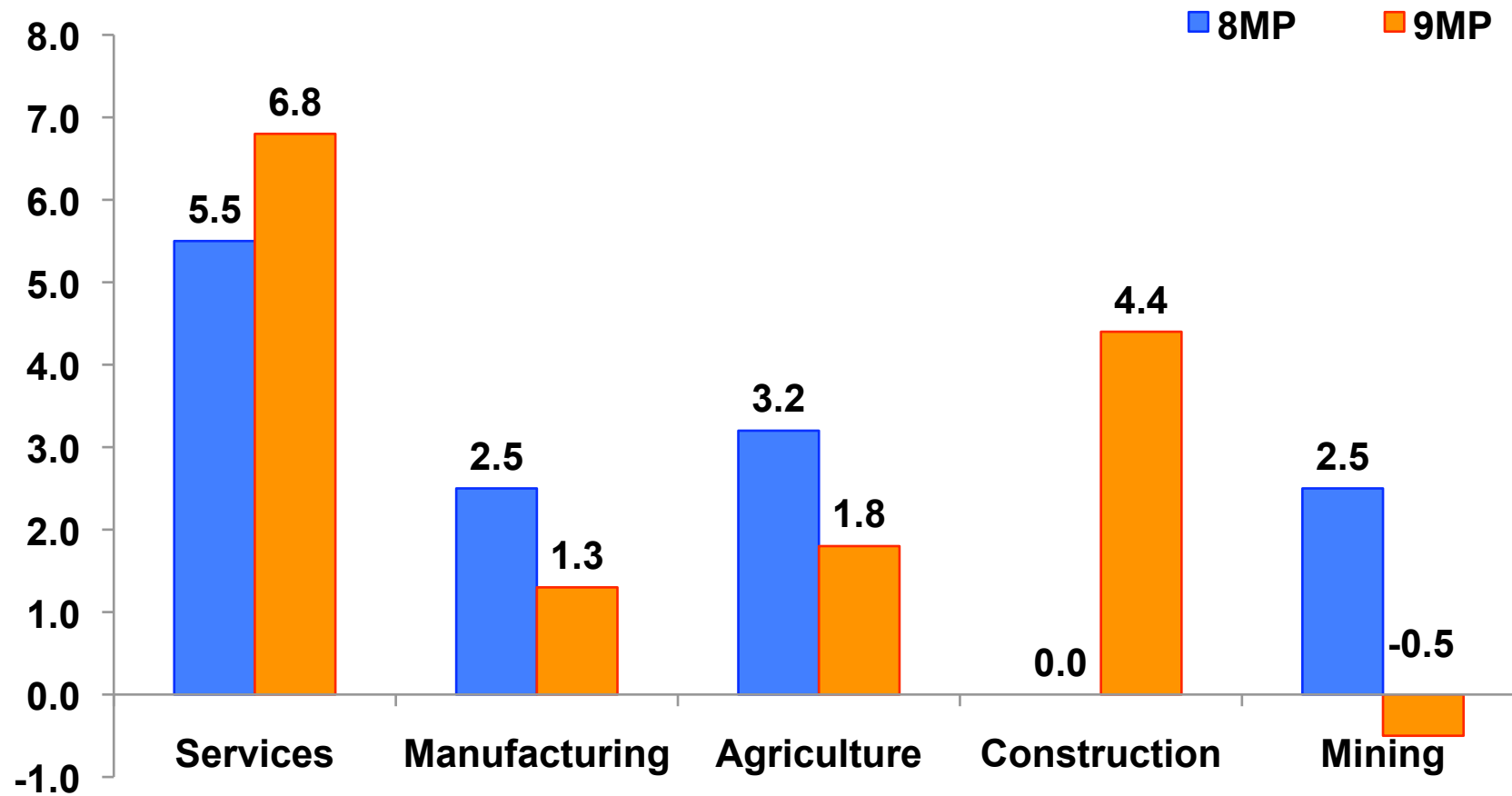


Malaysian Institute of Economic Research

OUTLINE

- **Malaysia's goals and strategies**
- **Existing migrant labour policy**
- **Current state of human capital**
- **Future directions for policy on migrant labour**

Sectoral Performance under 8MP and 9MP Annual Growth (%)



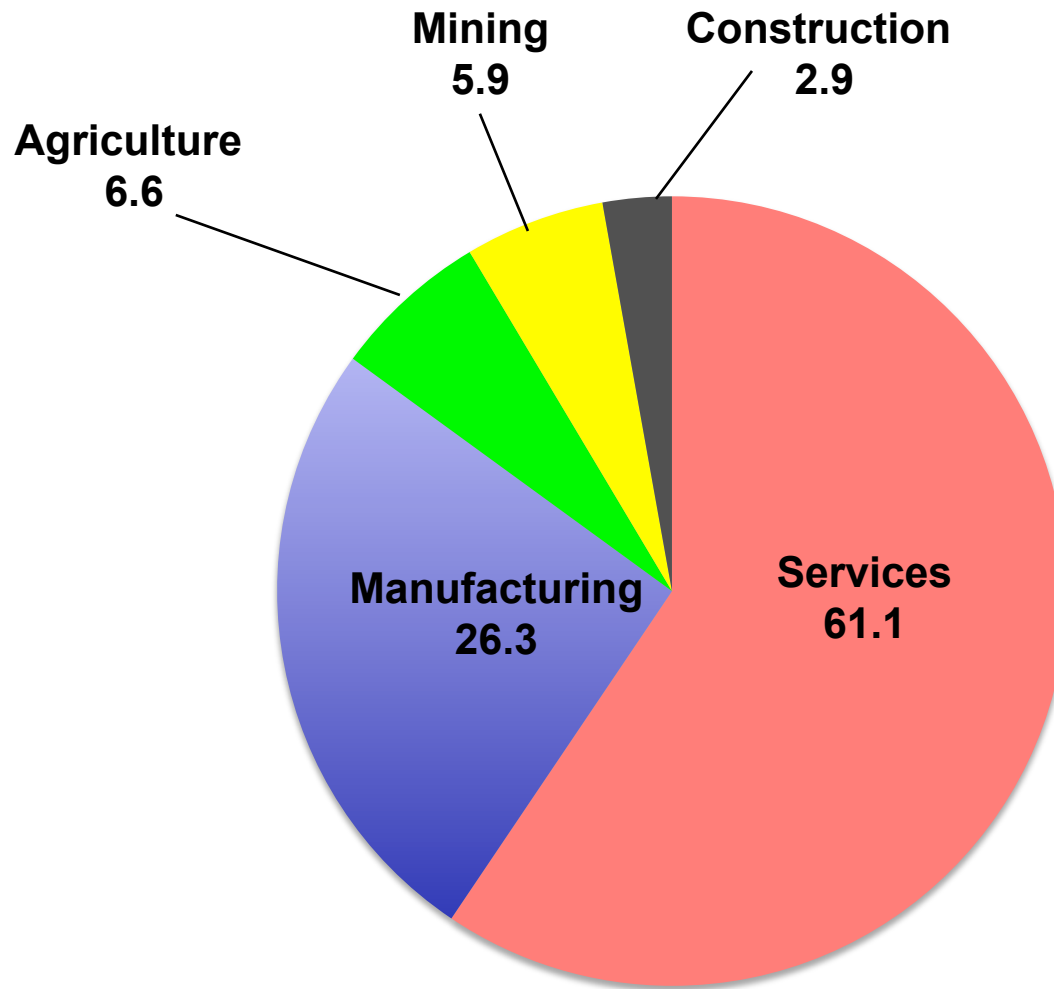
Source: 10 MP

10 MP Sectoral Growth Target



Source: 10 MP

Share of GDP, by Sector, in 2015



National Key Economics Areas (NKEAs)

- During 10MP (2011-2015), Malaysia's growth efforts will be focused on NKEAs
- The NKEA are as follows:
 - ◆ Oil and gas
 - ◆ Palm oil and related products
 - ◆ Financial services
 - ◆ Wholesale and retail
 - ◆ Tourism
 - ◆ ICT
 - ◆ Education
 - ◆ Electrical and electronics
 - ◆ Business services
 - ◆ Private healthcare
 - ◆ Agriculture, and
 - ◆ Greater Kuala Lumpur

NKEAs

- **NKEAs are selected to take Malaysia out of middle-income trap**
- **The success of the NKEAs would be ensured through economic reforms that would include:**
 - ◆ **Modernising business regulations**
 - ◆ **Human capital development**
 - ◆ **Increasing domestic competition**
 - ◆ **Removing market distortions**
 - ◆ **Improving infrastructure**

NKEAs

- **The 11 sectors are identified because:**
 - i. **currently they are key contributors to GDP**
 - ii. **essential for future development of economy and**
 - iii. **Development of KL chosen because it accounts for 30% of Malaysia's total GDP**

NKEAs

- **The potential of the 11 NKEAs will be developed through the following strategic initiatives**
- **Oil and gas**
 - ◆ **Further accessing international markets**
 - ◆ **Increasing skills**
 - ◆ **Extending linkages**
- **Palm oil and related products**
 - ◆ **Promoting Malaysia as a global hub**
 - ◆ **Developing downstream activities (eg. biofuel, olechemicals, biofertilisers, pharmaceuticals)**
 - ◆ **Promoting technology and good practices among small holders**

NKEAs

- **Financial services**
 - ◆ **Develop the financial sector to drive Malaysia's economic development -> new technology, innovation, new products, implementing safeguards**
 - ◆ **A capital market to support transition to a higher income economy**

NKEAs

- **Wholesale and retail**
 - ◆ Liberalising the distributive trade
 - ◆ Encouraging modern retail formats (eg. hypermarkets, supermarkets, etc)
- **Tourism**
 - ◆ Promoting different varieties of tourism (eg. nature, adventure, cultural diversity)
 - ◆ Tourism clusters

NKEAs

- **ICT**

- ◆ **Support for niche areas in software development**
- ◆ **Promoting the use of ICT in all industries**
- ◆ **Emphasis on creative multimedia**

- **Education**

- ◆ **New provisions of public higher learning institutions seats**
- ◆ **More fee-paying in public tertiary institutions**

NKEAs

- **E&E**
 - ◆ **Developing centres of excellence especially in R&D and training**
 - ◆ **Promoting state skills training centres**
 - ◆ **Moving up the value chains**
- **Business and professional services**
 - ◆ **Supporting market intelligence and networks to help firms export construction services**
 - ◆ **Encourage growth of environmental management**

NKEAs

- **Private healthcare**
 - ◆ **Encouraging private hospitals to be accredited**
 - ◆ **Promoting investment in high-end medical technology**
 - ◆ **Links among local and foreign healthcare providers, travel organisations and medical insurance groups**

NKEAs

- **Agriculture**
 - ◆ **Innovations and ICT – based agriculture**
 - ◆ **Intensifying R&D**
- **Greater KL**
 - ◆ **Establishing KL as a global financial centre**
 - ◆ **Tourist destination**
 - ◆ **Improving urban public transportation**

Key Ingredients to drive NKEAs

- **Emphasis on services**
- **Envisaged character of agriculture different**
- **Shift from labour-intensive to knowledge-intensive**
- **More emphasis on high-technology, R&D**

Existing Profile of Migrant Labour

- **Early 1980s about 136,000 foreign workers**
- **Prior to 1997 crisis almost 2 million foreign workers 800,000 of whom were undocumented**
- **Presently about 1.2 million foreign workers**

Existing Profile

Agriculture

- In 1990, foreign workers constituted about 48% of total labour in agriculture
- Presently, they account for roughly 25% of labour force in agriculture

Manufacturing

- In 1990, foreign workers constituted 10% of labour force in manufacturing
- Currently about 25%

Services

- Decline from 31% in 1990 to about 25% presently

Existing Profile

- **Countries of Origin**

	%
Indonesia	67
Nepal	9
Bangladesh	8
India	5
Myanmar	4

Existing Profile

- **Migrant workers are low-cost, unskilled workers engaged in labour-intensive operations**
- **Employed in:**
 - ◆ **i) construction,**
 - ◆ **ii) plantations,**
 - ◆ **iii) labour-intensive manufacturing,**
 - ◆ **iv) services, (eg. Domestic maids (50% of total foreign labour), and restaurants**

Innovation Capability Index 2001

Economy	ICI	Position
Malaysia	0.467	60
Indonesia	0.261	87
Japan	0.885	11
Korea	0.839	19
Singapore	0.748	26
Taiwan	0.865	15
Thailand	0.488	54
<i>Source: UNCTAD 2005: 114</i>		

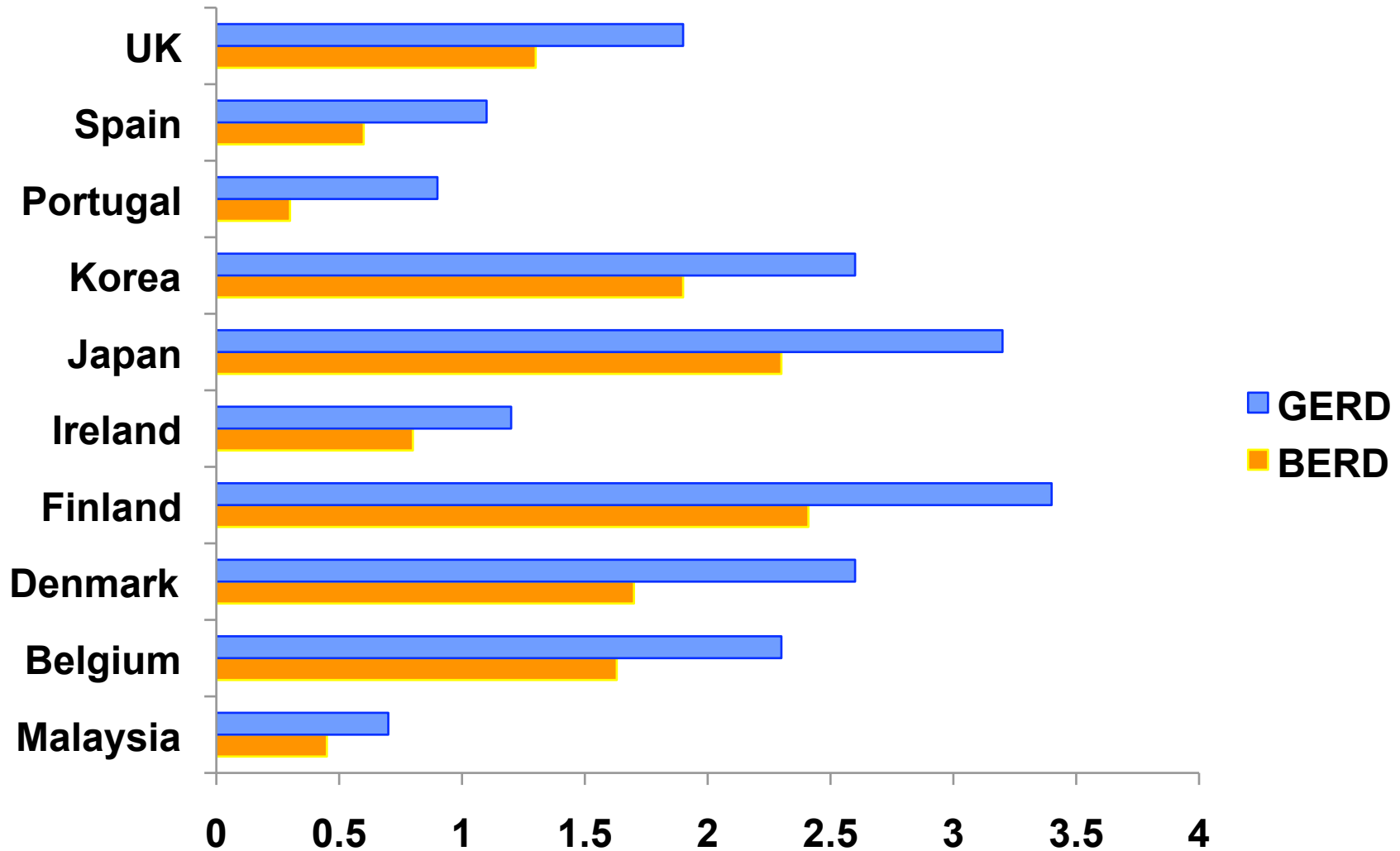
US Patents by Asian Economies 2001-2003

Economy	Domestic Firms	Foreign Affiliates	Public Institutions	Total
Malaysia	43	5	1	49
Indonesia	27	-	4	31
Korea	9,829	562	761	11,152
Singapore	610	41	144	795
Taiwan	11,621	118	947	12,686
Thailand	36	-	2	38

Researchers per Million People

	2000	2001	2002
Malaysia	276	na	294
Japan	5,104	5,320	5,085
Korea	2,305	2,880	2,979
Singapore	4,140	4,053	4,352
Taiwan	na	289	na
<i>Source: WDI online</i>			

Business and Gross Expenditure R&D as % of GDP



Getting Ahead: What Role for Migrant Labour

- **Shift to knowledge-economy to get out of middle-income trap**
- **NKEAs require labour that is:**
 - **Highly skilled**
 - **Technologically competent**
 - **High-cost**
- **NEM will demand 'new' migrant workers**

Getting Ahead

- **Current demand for highly skilled knowledge-intensive workers:**
 - ◆ **about 3% of migrant workers**
 - ◆ **employed in technical aspects of manufacturing, O&G industry, construction and services (ICT, health, education)**
 - ◆ **paid competitive salaries, receive employment benefits, don't depress wages**

Policy Options

- **Should a restrictive policy be practised?**
 - ◆ **Cost of doing business**
 - ◆ **Cost of implementation**
- **Can the government select the right categories of migrant workers?**
- **Can the government decide on the quality of capital?**

Policy Options

- **High quality migrant labour required**
 - ◆ **Firms best decision-makers**
 - ◆ **Government should remove barriers to inflow**
- **Restrictions on participation of migrant workers should be removed**
- **Government intervention in market for education should be minimised**
- **Government support for export-oriented manufacturing should be reconsidered**
- **Bundling of migrant labour type with FDI should be reviewed**

Thank you