

RESTRUCTURING THE MALAYSIAN ECONOMY

Restructuring the Malaysian Economy

Development and Human Resources

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Foreword by Gus Edgren





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To
Leslie Verry
and to
Hayley and Kylie Lucas

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Foreword

Ten years ago, the Malaysian Government launched its Industrial Master Plan, which was designed to transform this agricultural and mineral exporting country into an industrialized economy within little more than a generation. It was clear to all that this could not happen without massive and very quality-conscious investment in human resources development. For the preparation of the Sixth Malaysia Plan, the Economic Planning Unit (EPU) of the Prime Minister's Office initiated a major project to examine the requirements in terms of education, training and employment restructuring which would have to be met in order to bring this transformation about and to prepare a Human Resources Development Plan (HRDP) as an input to the Sixth Plan. The project was launched with UNDP funding, and a score of outstanding specialists were recruited internationally as well as from within Malaysia. In my then capacity as co-ordinator of the project's execution, I was made keenly aware that EPU wanted the highest quality of expertise available and that the Malaysian planners wanted to take a direct and active part in this important research work.

A vast number of studies were made of various aspects of human resources development as well as of the interaction of manpower and employment growth with structural change and macroeconomic incentives. These studies were used by EPU in preparing the manpower chapter of the Sixth Malaysia Plan, covering the period 1991-5. The two Chief Technical Advisers of the HRDP Project, Professor Robert E.B. Lucas and Dr Donald Verry, produced a preliminary synthesis report for the plan, but they found that in spite of all the extensive studies that had been made, very important aspects and dimensions of the transformation process were still missing or were insufficiently covered.

Lucas and Verry have continued their study of the Malaysian economy and labour market, and with this book they have managed to bring together all the relevant aspects, presenting for the first time a complete picture of the interaction of macroeconomic change, economic structure, income distribution, human resource development and employment. The fact that this work is completed a few years after the end of the project is not a disadvantage - to the contrary, more up-to-date statistics are available, and some developments are better understood with hindsight.

The task of transforming Malaysia from a primary producer to an industrialized economy within a few decades is more complex than was imagined when it was formulated ten years ago. A very high rate of investment and economic growth at the levels which Malaysia has displayed is clearly not enough, as had already been demonstrated in the first half of the 1980s. In addition, the New Economic Policy's (NEP) very ambitious goals for restructuring the distribution of incomes, education and economic power in favour of the Bumiputera majority laid down certain rules and restrictions for the choice of growth paths. Malaysia's version of 'affirmative action' was not

based simply on access quotas but formed a comprehensive set of policy measures which supported each other in a way which produced uniquely successful results. But it naturally limited the range of choices as regards human resource investment, employment promotion and sectoral development policy.

As Lucas and Verry point out, it was not until 1987 that manufacturing overtook agriculture in terms of value added to the Malaysian GDP. The agricultural sector is not only important because of its contribution to exports and incomes, it is the very foundation for income, work and life of a major proportion of the Bumiputera population. This means that shifting development emphasis out of agriculture and into industry could not be brought about as it has been in many industrialized economies, that is by tilting economic incentives against the rural population. The way Malaysia has tried to resolve this problem has been successful in reducing rural poverty, but as this study shows, it limits the pace of structural change towards an industrialized society.

In the early 1980s, the Government attempted to speed up the transformation from labour-intensive and agro-based production to capital-intensive high-technology industries through a large scale public investment programme. Like in the case of Korea, the outcome of this attempt was a very low economic rate of return and a very low impact on human resources development. Employment slumped and there was widespread worry that even a more rapid rate of growth would not produce full employment. This is in fact what happens if one tries to move directly from labour-intensive to capital-intensive production, without passing through a phase of more advanced utilization of human resources – a 'skills-intensive' mode of production, so to speak.

If Malaysia is going to reach a stage in its development where in the words of the Industrial Master Plan it is 'to rely primarily on the skill and ingenuity of its people', it is not only necessary to invest heavily in education and training. As explained by Lucas and Verry, a whole range of incentives and disincentives will have to be modified to encourage people to undergo training and to make sure their skills and ability are utilized for productive purposes. Malaysia has invested massively in education, and most of this investment is yielding very high returns in terms of incomes and production. But these investments have mostly affected the younger generation, while a large part of the labour force got their basic education before these facilities were available. This is another factor which may slow down transformation into a fully industrialized economy.

One example of this is the education level of women. There is no longer a gender gap at school, but the proportion of illiterate women in the working age population is still much higher than it was in the East Asian 'tiger' economies when they started to go through their transformation. In the employment chapter of the Seventh Malaysia Plan the Government recognizes that it will be necessary to increase female participation in the labour force if the economy is to continue to grow fast and Malaysia is to avoid depending on increasing numbers of immigrant labour. But if this is to happen the labour market will have to change so as better to make use of female labour, to develop and reward their skills and to encourage them to stay on and develop those skills. This will take time, and deliberate efforts of adjustment.

Another area where the labour market changes but slowly is the utilization

of manpower with higher education. In spite of a very rapid growth of university-trained entrants to the labour market, private industry has been slow to make use of them. In the 1980s, worsening employment prospects for high-level manpower gave rise to discussion about a 'mismatch' of demand and supply in various skills markets, but the present study shows that the picture is more complex than that. The Seventh Plan places heavy emphasis on university-trained personnel and on increasing the supply of scientists and R&D manpower, but even here it would seem prudent to expect the response of the labour market to appear with a considerable time lag. A number of NEP-induced restrictions will also have to be modified if those targets are to be reached.

Lucas and Verry have produced a very broad, yet detailed study of the changes which the labour market is undergoing along Malaysia's road towards becoming an industrialized country. It offers fascinating insights into the interrelationships of development and poses questions which have a more general relevance even outside South East Asia. In commending their book to the readers, I should like to extend my warm thanks to the colleagues at EPU and UNDP who have contributed to making this study possible.

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Gus Edgren