

Upskilling workforce key to our progress



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TWO-PRONCED APPROACH: *Technology and raising the quality of the education system to equip workers with skills will turn Malaysia into a high-income country*

In the public discourse of propelling Malaysia up the ladder to become a high-income country, two themes have taken centre stage in terms of the labour market: technology and human capital.

Even though these themes have been discussed and debated in depth separately, especially for the creation of the 11th Malaysia Plan, the simple notion of how these two themes interact with each other in the Malaysian context was never touched upon.

As a developing economy, Malaysia has a relatively abundant resource of unskilled labour. This has served Malaysia well as we shifted from an agriculture-based economy to an industry-based economy in the 1980s.

For the next two decades or so, we were very successful in attracting foreign direct investments (FDIs) from Japan, the United States and Europe due to our political stability, attractive investment incentives and our cheap and abundant unskilled labour supply. The FDIs were very much welcomed as they ensured employment, technology transfer and know-how for the Malaysian workers.

Currently, however, as we move along the economic development curve, we find ourselves trapped, unable to graduate from a middle-income to a high-income country. Worse yet, we find that wage inequality and employment inequality between skilled and unskilled Malaysian workers in the manufacturing sector in this country have increased drastically for the past 20 years. Why is this happening?

The answer to that question is simple: technology. As trade liberalisation takes place, both at home and in more advanced countries where we import our technology from, we find that prices of machinery and equipment (M&E) which embody technology are relatively cheaper than before due to the higher competition among the producers.

This change is considered as good news for local firms that wish to incorporate technology in their production and business processes that may lead to increased productivity, output and profit margin.

A recent study has shown, however, that cheaper M&E does not have the same effect on the skilled and unskilled Malaysian workers in this country.

The study highlighted that for the past 20 years technology has had a positive effect on the demand for skilled workers on the one hand, but has a negative effect on the demand of unskilled workers on the other.

In a nutshell, employment inequality between skilled and unskilled Malaysian workers has been increasing due to the skills-biased effects which accompany the import and usage of these M&E benefiting skilled workers more.

As skilled workers have the expertise and training in operating highly, technological, advanced M&E, cheaper prices for M&E translate into higher demand for skilled workers in comparison to unskilled workers. In this sense, unskilled Malaysian workers lose out in the manufacturing sub-sector in terms of employment.

The scarcity of Malaysian skilled workers adds further to the rising wage inequality problem between skilled and unskilled Malaysian workers here. The recent study has highlighted that there is a glaring difference in the relationship between wages and types of labour. As real wage for unskilled workers increase, we find that employment for unskilled workers decrease.



Malaysia needs to build its base of skilled labour in the long

term to transition to a high-income nation

This is the expected relationship for any good in the market. Surprisingly, due to the scarcity of Malaysian skilled workers, the study highlighted that as real wage for skilled workers increase, we find that employment of skilled workers also increase. This relationship suggests that 'skilled Malaysian workers are similar to that of luxury goods in the market. Due to its brand name and scarcity, the higher the price (wage) for a luxury good (skilled workers) the higher the demand. In this sense, unskilled Malaysian workers lose out again in the manufacturing sub-sector in terms of wages.

So, is technology the solution for Malaysia? The simple answer is a solid "No". Technology on its own will not help us to become a high-income country, as long as the current structure of our labour market remains unchanged.

How can we ensure that technology will help us in the long-run? A component that we are lacking to graduate from a middle-income country status is abundance of skilled Malaysian workers.

To achieve this goal in the long run efforts need to be focused on the quality of our education system. In the short run how do we narrow the gap of wage inequality between the two groups of workers? This is achieved by equipping our local unskilled workers with high quality on-the-job-training provided by both the public and private sectors.

With this two-pronged approach Malaysia can transition itself to a high-income nation status; not just by name but also by its sufficient software and hardware available on the ground.

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