



01

CONTEXT

Malaysian labour productivity growth has decelerated in recent years and productivity levels lag behind developed economies. To sustain its growth momentum, it is imperative for Malaysia to focus on enhancing its productivity performance. The target is to double labour productivity growth to 3.7% per annum during the 11MP period.

Productivity is a game changer to achieving high economic growth

Malaysia's economy has demonstrated a healthy growth trajectory over the last 50 years. As a result of this growth, Malaysia rose from a low-income economy in the 1970s to a middle-income economy in the 1990s, and is now making strides towards becoming an advanced economy and inclusive nation by 2020.

In line with this aspiration, the government has formulated the 11MP to guide the country on this final push towards realising Vision 2020. In this Plan, productivity was identified as a game changer to enable Malaysia to achieve its 2020 economic growth targets. The Eleventh Malaysia Plan (11MP) aims to increase the contribution of multi-factor productivity (MFP)¹ to Gross Domestic Product (GDP) growth to 40% by 2020, as well as increase labour productivity growth to 3.7% per annum during the Plan period. To achieve this, efforts need to be focused on driving productivity improvements over the next few years against a challenging global context of declining productivity, increasingly competitive markets and worsening global macroeconomic trends.

1. MFP and labour productivity are defined in Box 1-1.

BOX 1-1

HOW IS PRODUCTIVITY DEFINED?

Productivity is commonly defined as the ratio of inputs (labour and capital) to output (goods and services), measuring how efficiently inputs are used to produce output. There are two kinds of productivity measures, a MFP measure (relating a measure of output to a bundle of inputs) and a single factor productivity measure (relating a measure of output to a single measure of input). MFP is a measure of the residual GDP growth unaccounted for by capital and labour force growth, and measures the combined productivity of different inputs. Measuring MFP involves significant data requirements. Also, as an indicator that combines multiple inputs, it is less able to inform specific measures to increase productivity. On the other hand, a single factor productivity measure, such as labour productivity, is easier to measure and communicate at the national, sector and enterprise level, as it is able to clearly guide key initiatives to create value for the overall economy. Hence, a single factor productivity measure, labour productivity, will be the measure used throughout this Blueprint.

At the national level, labour productivity is typically expressed as the ratio of value add to total employment.

$$\text{National Labour Productivity} = \frac{\text{Value Add}}{\text{Total Employment}}$$

Value add is the measure of the value generated in each stage of production. Employment is represented by the total number of employed people in the nation, including all documented foreign workers.

At the sector level, labour productivity can be expressed as the ratio of value add to the sector's total employment. Value add is the measure of the sector's contribution to GDP, measured by the value generated in each stage of production.

$$\text{Sector Labour Productivity} = \frac{\text{Value Add}}{\text{Total Employment}}$$

At the enterprise level, labour productivity can be translated into enterprise's value add to GDP to the enterprise's total employment.

$$\text{Enterprise Labour Productivity} = \frac{\text{Profits + Wages}}{\text{Total Employment}}$$

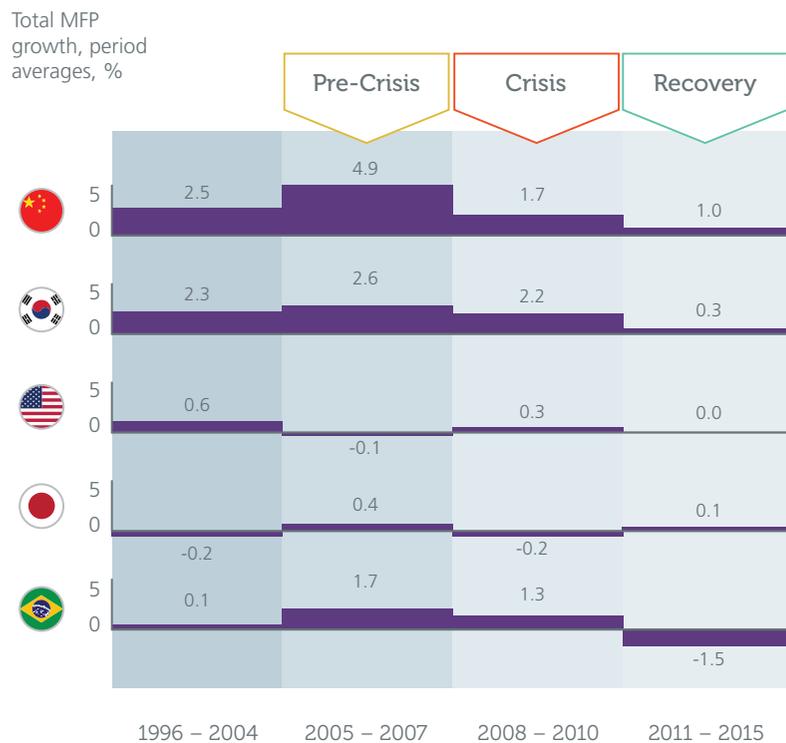
Value add at the enterprise level is expressed as profits and wages. Employment is represented as total number of workers employed at the enterprise.

Changes to the level of inputs or output will affect productivity. For example, an increase in capital or improvements in technology can increase value add for a given number of people employed, thereby increasing productivity. Alternatively, higher quality employees can produce a higher level of output, contributing to an increase in value add, which can also lead to an increase in productivity levels.

Global productivity growth is declining

Since 2005, productivity growth has been declining globally, with a number of larger economies contributing to this negative trend. Figure 1-1 shows the diminishing MFP contribution to economic growth of large countries such as China (1.1%), South Korea (0.4%) and United States (-0.2%) between the years 2011 to 2015.

Figure 1-1 TOTAL MFP CONTRIBUTION¹ TO GROSS DOMESTIC PRODUCT FOR SELECTED ECONOMIES (1996 TO 2015)



1. Equivalent to MFP growth following the production function $\Delta \ln GDP = \bar{\nu}K \Delta \ln K + \bar{\nu}L \Delta \ln L + \Delta \ln MFP$.

Source: Economic Planning Unit and The Conference Board.

For many emerging economies, growth has been predominantly driven by capital expenditure rather than productivity improvements. Many of these countries are investing in more capital and hiring more labour, without achieving a corresponding improvement in MFP. For example, as shown in Figure 1-2, while China increased its total labour and capital contributions from 5.6 percentage points (p.p.) to 5.8 p.p. between 1996 and 2015, its MFP contribution declined from 3.7 p.p. in 1996, to 1.3 p.p. in 2015, indicating that these investments in labour and capital did not result in increasing its MFP.

Figure 1-2 MFP AGAINST LABOUR AND CAPITAL CONTRIBUTION FOR SELECTED ECONOMIES (1996 TO 2015)¹



1. Equivalent to MFP growth following the production function $\Delta \ln GDP = \bar{\nu}K \Delta \ln K + \bar{\nu}L \Delta \ln L + \Delta \ln MFP$.

Source: Economic Planning Unit and The Conference Board.

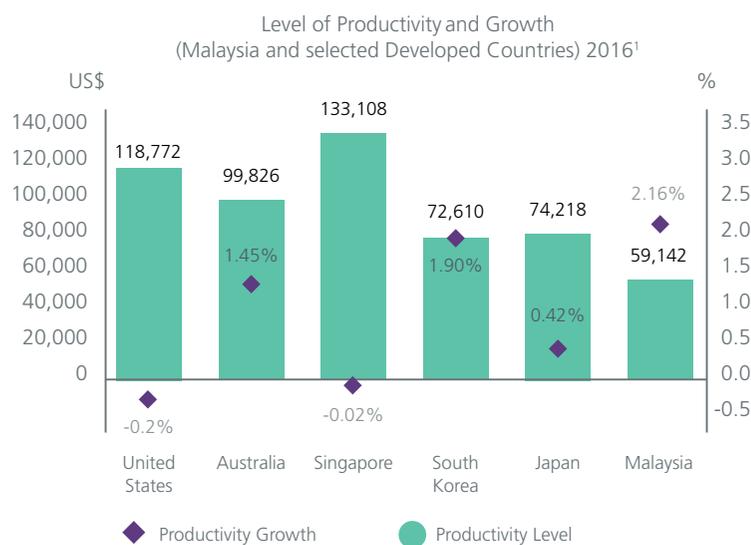
For such countries, the foremost challenge is to ensure that increases in capital and labour expenditure are accompanied by productivity growth. Thereby, achieving a higher amount of output for every unit of input invested.

Malaysia is falling behind in productivity competitiveness

Malaysia’s productivity levels are currently lagging behind several developed economies such as Japan, South Korea, Singapore, Australia, and the United States. For example, as shown in Figure 1-3, in 2016, Malaysia’s labour productivity per person employed was approximately US\$59,100, while the corresponding figure for the United States’ was approximately US\$118,800.

Malaysia’s productivity level is however higher or comparable to its peers as shown in Figure 1-3. But productivity growth rates in these countries are much faster.

Figure 1-3 LEVEL OF PRODUCTIVITY AND PRODUCTIVITY GROWTH OF MALAYSIA AND SELECTED DEVELOPED COUNTRIES (2016)



1. 2015 price level with updated 2011 PPPs.

Source: The Conference Board.

Malaysia’s international productivity ranking has also remained stagnant as evidenced by national rankings of countries based on labour productivity per hour worked. Figure 1-4 provides a comparison of countries based on labour productivity per hour worked, and it can be seen that Malaysia remained at the 45th rank globally in both 2009 and 2016.

Figure 1-4 RANKING OF COUNTRIES BY LABOUR PRODUCTIVITY PER HOUR WORKED IN USD (2016)⁵

Rank	2009	2016
1	Norway	Luxembourg
2	Luxembourg	Norway
3	Belgium	Ireland
...
10	Switzerland	Switzerland
11	Sweden	Sweden
12	Austria	Singapore
13	Finland	Austria
14	Singapore	Australia
...
17	United Kingdom	Spain
19	Spain	United Kingdom
...
45	Malaysia	Malaysia
46	Uruguay	Russian Federation
50	Mexico	Mexico
51	South Africa	South Africa

Source: The Conference Board

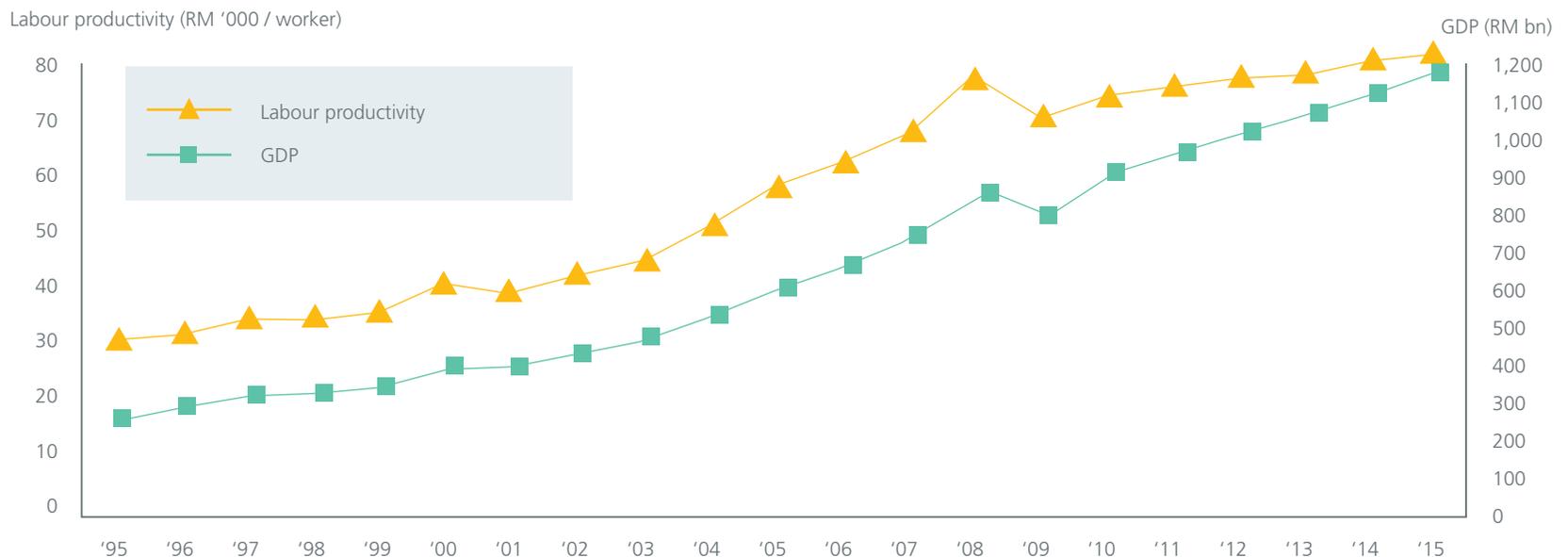
In addition, Malaysia’s ranking fell from 22nd (2016) to 23rd (2017) position in the World Bank’s Ease of Doing Business Index. This was driven by declines in several indicators, such as the ease of starting a business, registering for a property, paying taxes, trading across borders and resolving insolvency. Malaysia improved in one dimension, which was the getting credit.

In the Global Competitiveness Report by the World Economic Forum, Malaysia demonstrated a decline of seven positions, moving from the 18th (2015-2016) to the 25th (2016-2017) position, and was ranked among the highest in the developing Asian economies. However, several improvements were noted, mostly related to technological readiness and market size due to its credible performance in foreign market size index. The report highlighted that although technological readiness showed an improvement, it continues to remain Malaysia's weakest pillar. Meanwhile, the World Competitiveness Yearbook (WCY) 2016 released by the Institute for Management Development (IMD), reported that Malaysia's competitiveness ranking has declined to 19th position compared to 14th position in 2015.

High reliance on capital to grow GDP is unsustainable

For Malaysia to grow sustainably, it is pivotal that we move from input-driven growth to productivity-driven growth. The Global Competitiveness Report suggests that most of Malaysia's past GDP contribution has been input driven, supported by private investments in industry and public investments in infrastructure, utilities, schools and healthcare. This finding is in line with the fact that efforts to increase innovation and productivity and move towards a knowledge-based economy only began in the mid 1990s. It is especially critical that Malaysia moves away from relying heavily on capital for GDP growth as this is unsustainable in the long run due to increasing cost of growth via capital stock. The Blueprint focuses on improving Malaysia's labour productivity performance to ensure that reliance on capital-driven growth is reduced.

Figure 1-5 MALAYSIA'S GDP GROWTH AGAINST MALAYSIA'S LABOUR PRODUCTIVITY GROWTH (1995-2015)



Source: Economic Planning Unit and Department of Statistics Malaysia.

What is the way forward for Malaysia?

In recent years, labour productivity growth has slowed down compared with GDP growth. For example, as shown in Figure 1-5, Malaysia's GDP registered a growth of 5.3% per annum between 2011 and 2015.

However, during the same period, Malaysia's labour productivity growth was only 1.8% per annum. Under the 11MP, Malaysia sets out to achieve 3.7% year-on-year growth in labour productivity. This translates into a targetted increase in productivity per worker from RM75,550 in 2015 to RM92,300 by 2020. In order to achieve this, it is critical that productivity improvement be accelerated.

In light of these challenges, the Government has drawn up a comprehensive and inclusive Blueprint in collaboration with all stakeholders, particularly industry players. The Blueprint sets out the initiative that must be implemented in the immediate and medium term to bring impactful increase in productivity and to propel economic growth.

“Productivity is one of the game changers under the 11MP, where renewed efforts will be undertaken to boost productivity in a focused and targetted manner with clear outcomes at the national, sector and enterprise levels.”
Eleventh Malaysia Plan, 2016-2020 | Unlocking the Potential of Productivity

PRODUCTIVITY IS CRUCIAL FOR LONG-TERM BUSINESS SUCCESS

Raising productivity will improve business competitiveness and profitability to ensure businesses stay strong in the face of growing international competition





