
02

PRODUCTIVITY AT
A GLANCE

Under the 11MP, Malaysia sets out to increase labour productivity from 1.8% to 3.7% year-on-year growth. In order to achieve this, it is critical that productivity improvement be accelerated.

Understanding productivity performance at the national level

Malaysia's overall labour productivity has been growing at a historical rate of 1.8% from 2011 to 2015. The increase in labour productivity was a result of higher growth in value add as compared to growth in employment in this time period¹. However, the proportion of skilled labour has been decreasing, from 27.6% of total employment in 2010, to 25.5% of total employment in 2015². The decline in the proportion of skilled labour can also be attributed to the growth of foreign labour, which grew at 4.8% per annum between 2010 to 2015, reaching a total of 2.1 million³.

When the productivity of large and small-medium enterprises is compared, large enterprises grew at a rate of 2.9% per annum, while SME productivity levels have been declining at a rate of -0.6% per annum between 2010 to 2015⁴. In 2015, large enterprises were also 3.3 times more productive than SMEs.

If Malaysia continues to experience slowing labour productivity growth, a high level of foreign labour employment, a declining proportion of skilled workers and a significant large versus small-medium enterprise productivity gap, the nation will be at risk of missing the 11MP productivity targets.

Understanding productivity performance at the sector level

Figure 2-1 shows the productivity performance of Malaysia's subsectors in 2015, against 11MP targets of RM92,300 value add per worker. Subsectors highlighted in green such as oil and gas, ICT services, finance and insurance, utilities, real estate and manufacturing have met and exceeded the 2020 national productivity target. In comparison, most of the services, construction and agriculture sectors have productivity levels, which are significantly lower than the target.

Sector productivity performance is analysed based on the five main economic sectors - agriculture, manufacturing, services, construction, and mining and quarrying.

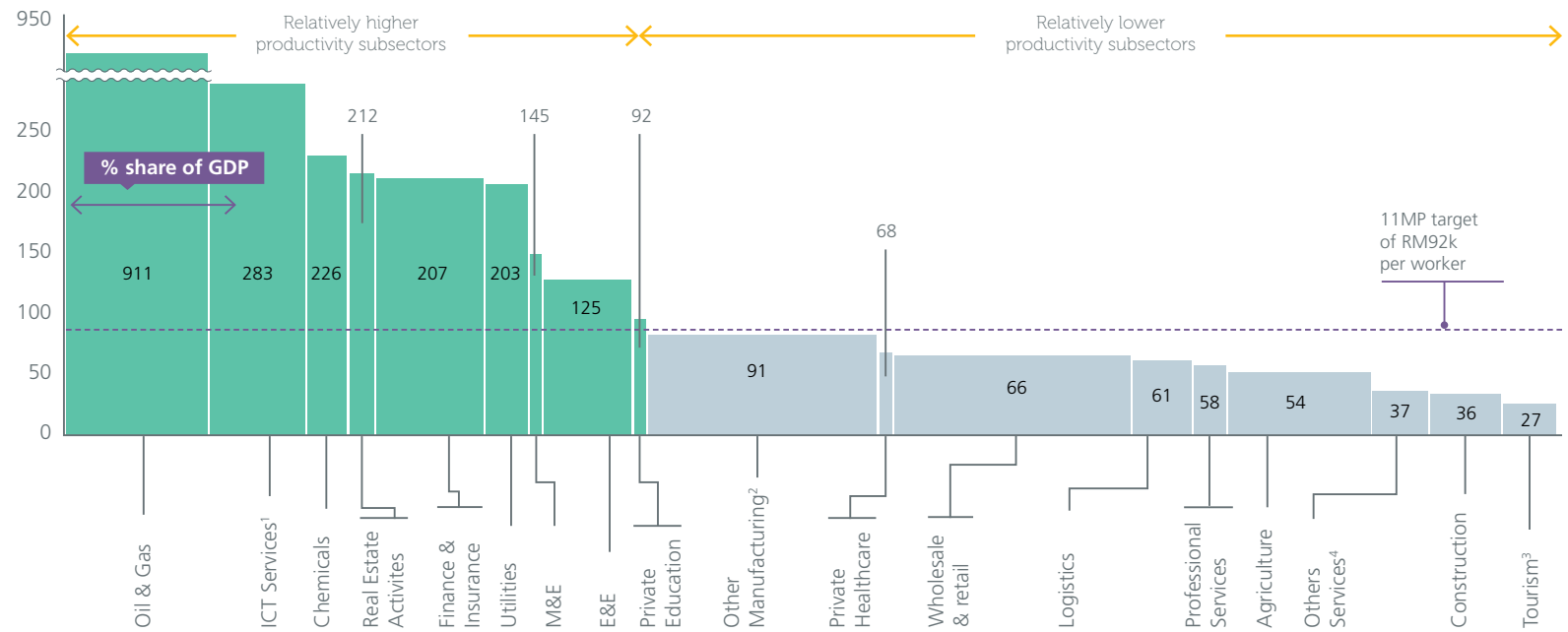
1 & 2. Data from the Department of Statistics Malaysia.

3. Data from Ministry of Home Affairs.

4. Data obtained from SME Corp, at constant 2010 prices.

Figure 2-1 BREAKDOWN OF PRODUCTIVITY BY SUBSECTORS COMPARED TO 11MP PRODUCTIVITY TARGETS (2015)

Labour productivity (RM '000 / worker)



SUBSECTORS	Oil & Gas	ICT Services ¹	Chemicals	Finance & Insurance	Utilities	M&E	E&E	Private Healthcare	Retail & Wholesale	Logistics	Professional Services	Agriculture	Construction	Tourism ³
Best in Class	127	152	370	335	637	389	557	758	256	423	590	747	1,067	524
Comparable GDP per Capita ⁵		97	56	126	159	142	36	179	175	167	459	54	247	176

Note: Subsectors that meet 11MP overall RM92k per worker target are considered as relatively higher productivity subsectors.

1. ICT Services exclude ICT related manufacturing as already included as part of E&E.

2. Other Manufacturing includes food processing, beverages, tobacco products, textile, leather products, wood products, paper products, refined petroleum products, non-metallic and metallic products.

3. Food & Beverage Services is included in Tourism.

4. Other Services comprise of domestic household services, social work activities and non-governmental bodies.

5. Indexed based on Malaysia = 100.

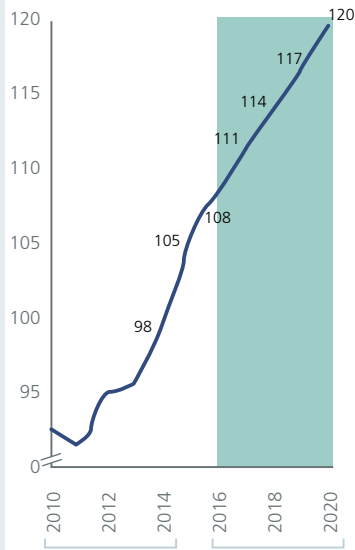
Source: Economic Planning Unit, Department of Statistics Malaysia, and Malaysia Productivity Corporation.

BOX 2-1

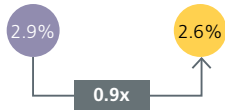
AT CURRENT GROWTH RATES, MOST SECTORS WILL FALL SHORT OF 11MP PRODUCTIVITY TARGETS

Manufacturing

Labour productivity (RM '000 / worker)

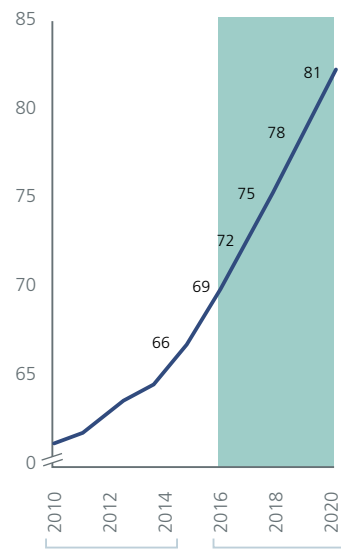


Growth in the past % p.a., 2011-2015: 2.9%
 11MP target % p.a., 2016-2020: 2.6%



Services

Labour productivity (RM '000 / worker)

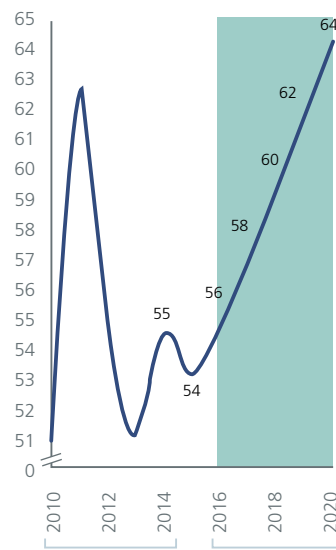


Growth in the past % p.a., 2011-2015: 2.0%
 11MP target % p.a., 2016-2020: 4.1%

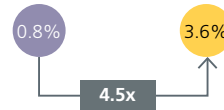


Agriculture

Labour productivity (RM '000 / worker)

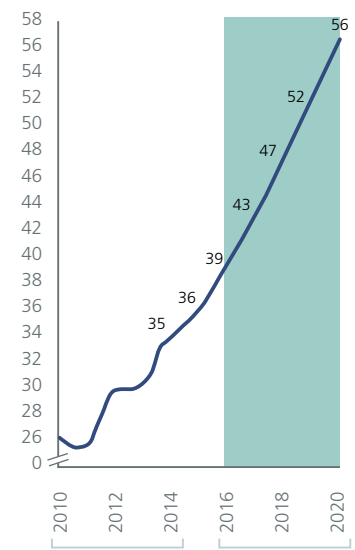


Growth in the past % p.a., 2011-2015: 0.8%
 11MP target % p.a., 2016-2020: 3.6%

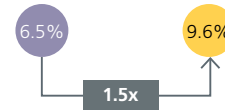


Construction

Labour productivity (RM '000 / worker)



Growth in the past % p.a., 2011-2015: 6.5%
 11MP target % p.a., 2016-2020: 9.6%



Note: Labour productivity levels for 2016-2020 are based on 11MP productivity growth targets.

Source: Economic Planning Unit, Department of Statistics Malaysia, and Malaysia Productivity Corporation.

Figure 2-2 PROFILE OF MAJOR ECONOMIC SECTORS

Sector	Value Add								
	RM Billion, 2015			Share to GDP (%), 2015			Growth (% p.a.), 2011-2015		
	Total	Large	SMEs	Total	Large	SMEs	Total	Large	SMEs
Agriculture	94.4	48.3	46.1	8.9	4.5	4.3	2.6	0.0	5.7
Mining and Quarrying	95.1	93.5	1.6	9.0	8.8	0.2	1.2	0.9	32.6
Manufacturing	244.2	160.5	83.7	23.0	15.1	7.9	4.9	3.8	7.2
Construction	46.6	24.5	22.1	4.4	2.3	2.1	10.6	3.4	24.2
Services	568.9	341.7	227.1	53.5	32.2	21.4	6.2	5.7	7.2
TOTAL	1,062.8	677.2	385.6	100.0	63.7	36.3	5.3	4.0	7.8

Sector	Number Establishments				Employment		Labour Productivity		
	Number		Share to Total (%), 2010		Growth (% p.a.), 2011-2015	Share of Total %	(RM), 2015	Growth (% p.a.), (2011-2015)	Gap, large/SMEs
	Large	SME	Large	SME	Total	Foreign workers			
Agriculture	2,121	6,708	4.6	95.4	1.7	36.9	53,676	0.9	2.2
Mining and Quarrying	119	299	28.5	71.5	12.8	6.1	911,245	-10.3	52.1
Manufacturing	1,808	37,861	4.6	95.4	2.0	18.7	105,138	2.9	1.5
Construction	2,857	19,283	12.9	87.1	3.9	23.9	35,601	6.4	1.2
Services	10,898	580,985	1.8	98.2	4.0	8.4	66,329	2.1	5.6
TOTAL	17,803	645,136	2.7	97.3	3.4	15.1	75,549	1.8	3.3

Source: Economic Planning Unit, Department of Statistics Malaysia, and SME Corp.

Productivity performance of main economic sectors

Most of the economic sectors recorded labour productivity below national average of RM75,550 in 2015 except for the manufacturing and mining sectors, which recorded RM911,250 and RM105,138, respectively. Among the main structural challenges to productivity improvements that were common across the sectors are the dominance of low-skilled workers, high proportion of foreign workers and large presence of SMEs with high productivity gap compared to large enterprises, as shown in Figure 2-2.

Between 2011 and 2015, total employment rose by 3.4% per annum, from 11.9 million in 2010 to 14.1 million in 2015. The growth was mainly driven by the faster expansion of semi- and low-skilled workers at 4.0% per annum. As a result, the share of skilled workers has fallen from 27.6% of total employment in 2010 to 25.5% in 2015.

The reliance on foreign workers also increased⁵, where its share to total employment increased from 14.1% in 2010 to 15.1% in 2015. The dependence of foreign workers is particularly high in the agriculture sector, where they made up 36.9% of the employment in the sector. This is followed by the construction sector at 23.9% and manufacturing at 18.7%. The high proportion of low-skilled workers coupled with the high dependence on foreign workers have resulted in low labour productivity performance in the agriculture sector, where it rose by only 0.9% per annum during 2011-2015, lower than the national average of 1.8% per annum.

In 2015, SMEs employed 65.5% of the workers in the labour force but contributed 36.3% to total GDP. This translated into a lower labour productivity performance among the SMEs as compared to the large firms, where the latter was 3.3 times more productive than the former. The lower productivity for SMEs was partly due to the high reliance on labour input. SMEs employment increased by 8.5% per annum during 2011-2015, which is 8 times faster than that of the large firms.

5. Refer to the non-citizen component in the Labour Force Survey published by the Department of Statistics Malaysia.

Productivity growth
is impacted by

5

core
challenges

across sectors

Overall, productivity across sectors has been growing at a slower rate, and has been hindered by five common challenges:

Talent



Enterprises face shortages in talent to drive long-term productivity. Many cite low-wage levels and poor English language skills as the contributing factors to the depleting talent pool, as it becomes increasingly difficult to attract and retain a skilled workforce. In addition, disconnection between academia and industry also contributes to graduate unemployment as they are not perceived as industry-ready, and typically require re-training. Due to high turnover rates, enterprises have a low level of willingness to invest in training programmes to upskill existing employees. In parallel, enterprises have increased their employment of low-skilled foreign workers, with foreign worker growth in the construction and services sectors of 26.0% and 12.2%, respectively from 2011 to 2015⁶. Despite steady total employment growth of 3.4%⁷, the proportion of highly skilled workers has remained constant at 25% over the years.

Technology

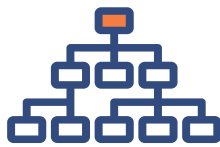


With relatively limited levels of investment in technology and digitalisation, Malaysian enterprises are limiting productivity growth. SMEs frequently cited insufficient commercial funding and low awareness of available options as the key barriers to adopting new technology. The lack of collaboration between academia and industry has also led to a low commercialisation rate of research and development. Transfer of technology and knowledge by MNCs to local enterprises is also limited. There is also a need for quality and affordable digital infrastructure.

6. Data from Ministry of Home Affairs.

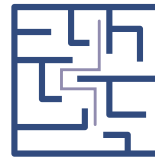
7. Data from Department of Statistics Malaysia.

Incentive Structure



Most of the economic sectors are characterised by a high number of relatively small players. This raises concerns as the market is highly fragmented and individual enterprises have limited economies of scale to deliver high value add. In addition, key sectors that drive the Malaysian economy, such as manufacturing, are focusing more on the low-value market segment but have yet to establish significant presence in the high value segment. Many government incentives have been provided for enterprises to upgrade themselves but these initiatives have not necessarily functioned as levers to boost productivity.

Business Environment



While Malaysia has made significant improvements to reduce regulatory burden there remain work to be done. Inconsistent interpretation and application of regulations, existing regulatory constraints and nuances between federal and state government create additional challenges in enhancing enterprise-level productivity. The cost of starting a business in Malaysia currently stands at 6.7% of income per capita, more than two times that of developed countries⁸.

Productivity Mindset



At present, there is limited understanding of the benefits of productivity among Malaysian enterprises. 95% of the enterprises surveyed agreed with the statement that 'productivity is important'⁹. While this awareness is encouraging, only 40% of enterprises surveyed tracked their productivity systematically¹⁰. Given the various challenges faced by Malaysian businesses, improving productivity is not a primary concern, and many enterprises and business owners are currently contented with the status quo, and hesitate to adopt new yet more efficient operating methods.

8. World Bank Doing Business 2015.

9 & 10. Online Productivity Survey.

