

Seminar on Asian Competitiveness

Issues on Malaysia's Competitiveness

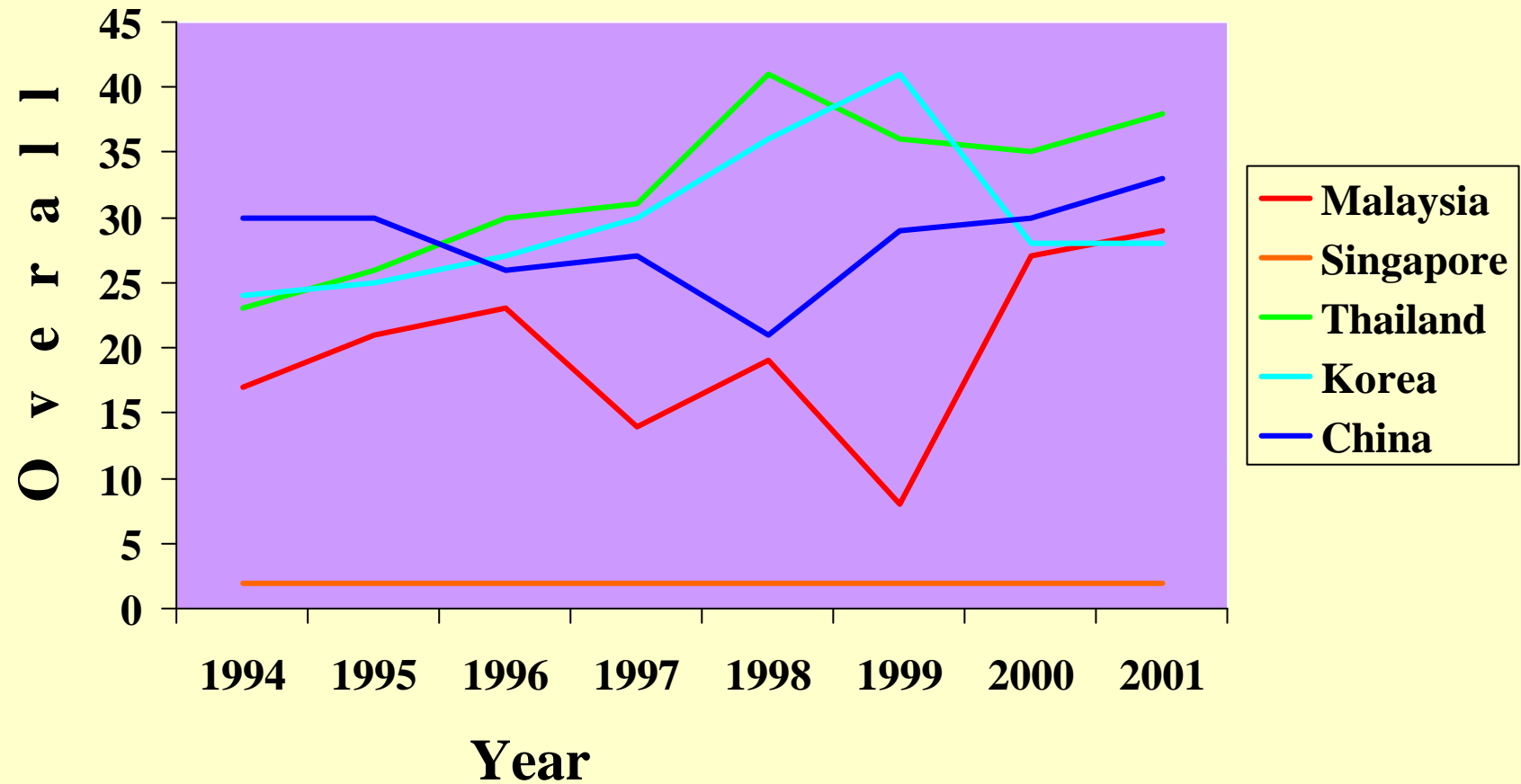
30 September 2002



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National Economic Action Council**

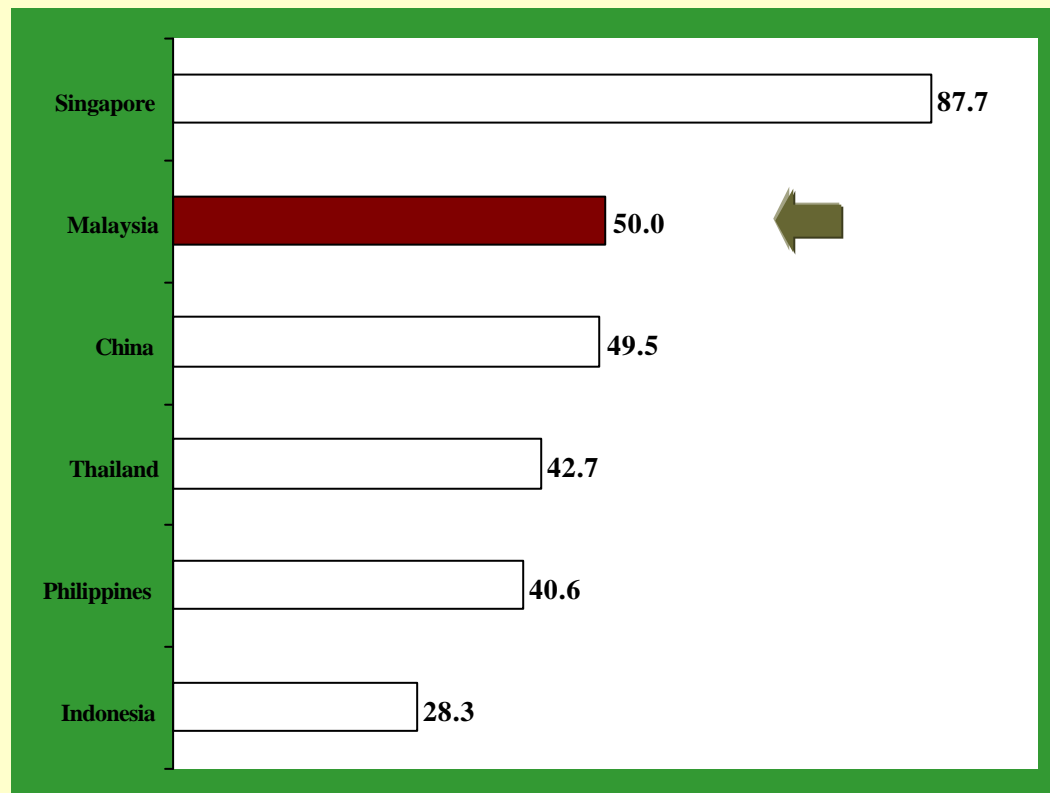
Malaysia's Ranking In The World Competitiveness Scoreboard



Malaysia's overall competitiveness currently lags behind several Asian countries

World competitiveness survey (2001)

Ranking



2

29

33

38

40

49

Malaysia scored well in:

- Overall infrastructure
- Technology
- Local equity market

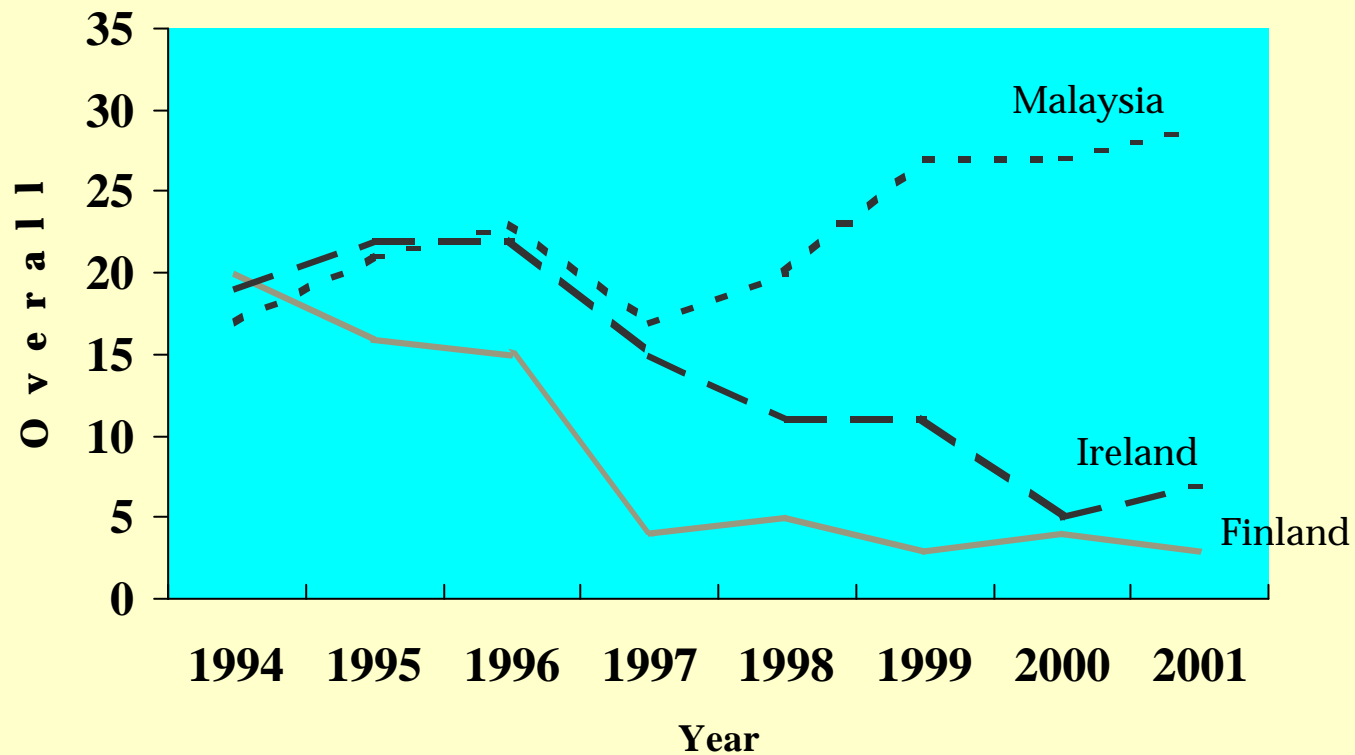
Malaysia lagged behind in:

- Science and engineering
- University-industry collaboration
- Corporate governance
- Local competition

FDI Confidence Index

- Malaysia fell from 22nd position to out of the top 25 destinations.
- Reasons
 - Political reasons.
 - Shortage of high-skilled labor & increasing labor costs.
 - American and Japanese investors less likely to invest.
 - But upbeat on investing in services sector.

Malaysia's Ranking in the World Competitiveness Scoreboard

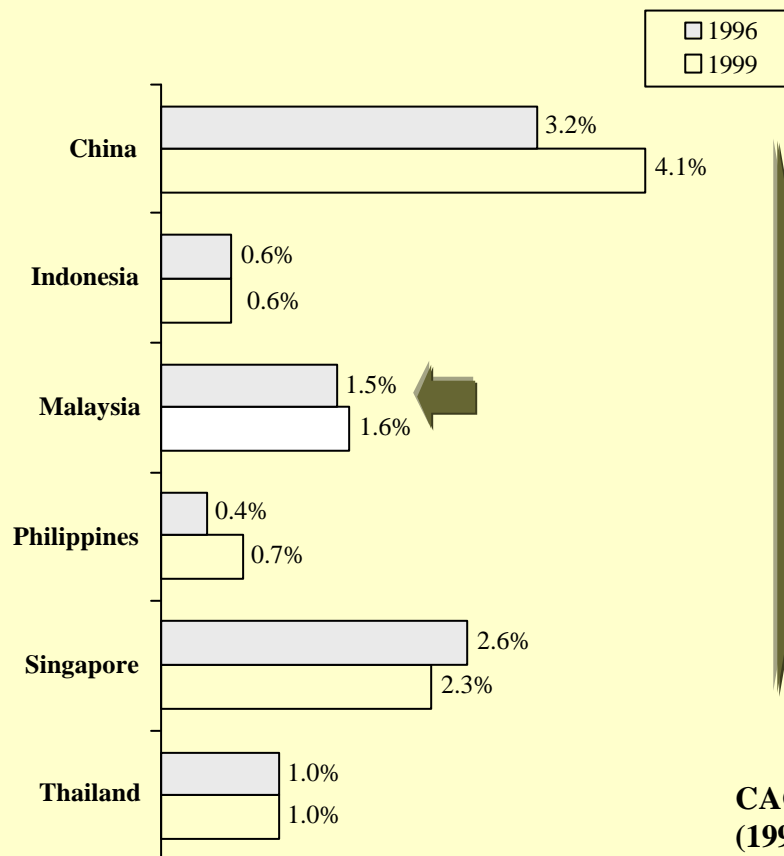


Malaysia has developed a strong export-oriented economy but is still highly reliant on electronics

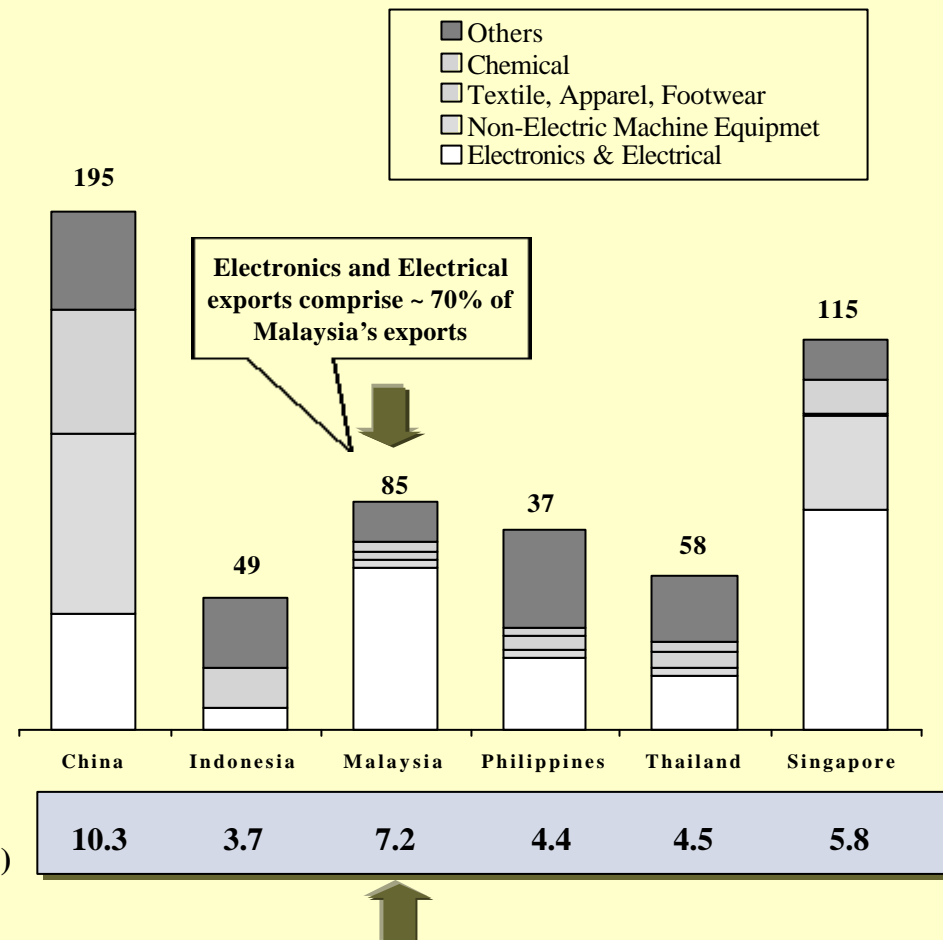
Malaysia's share of global manufactured exports has increased

Malaysian merchandise exports grew the fastest in ASEAN

Share of global manufactured exports (1996 and 1999)



Merchandise exports composition (2000, US\$ billion)

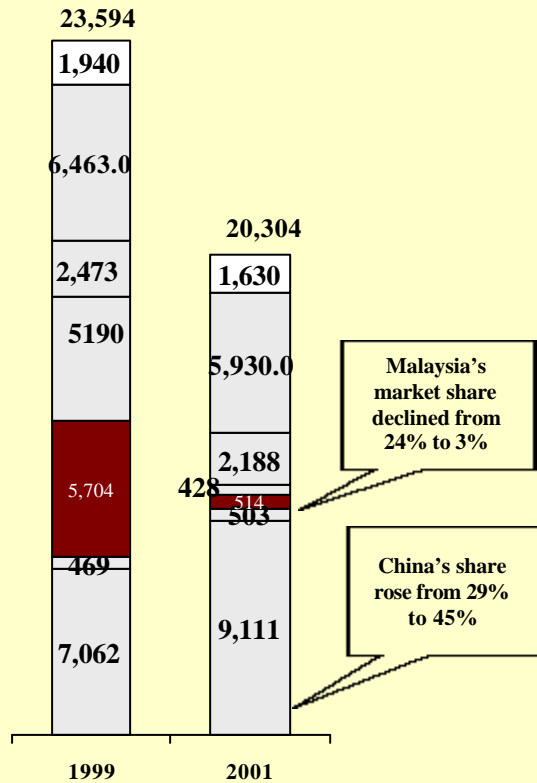


Sources: Development Data Group, World Bank, ITS, WTO; A.T. Keamey analysis

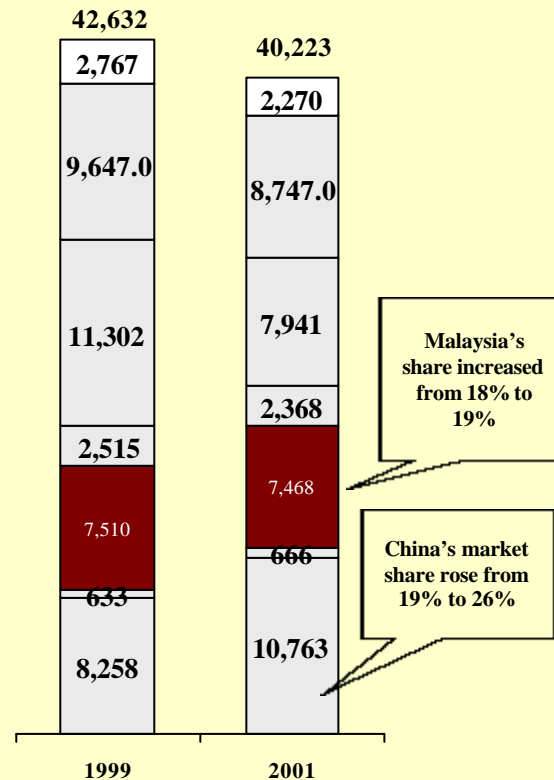
Malaysia's exports of data processing machines and electric machinery to the U.S. have increased but lost significant share in telecom and recording apparatus

ASEAN5, China and Taiwan exports to the U.S. (1999 and 2001, US\$ million)

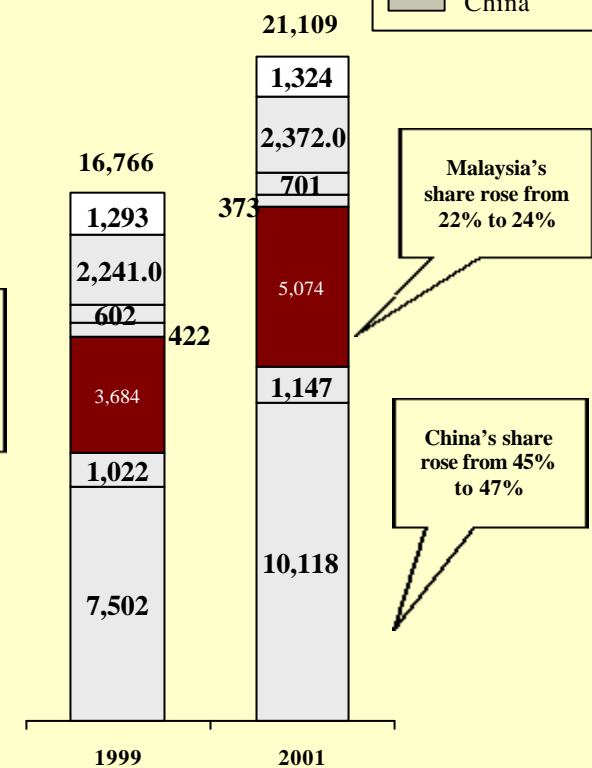
SITC #76: Telecommunication and recording apparatus



SITC #75: Office + data processing machine



SITC #77: Electric machinery appliances

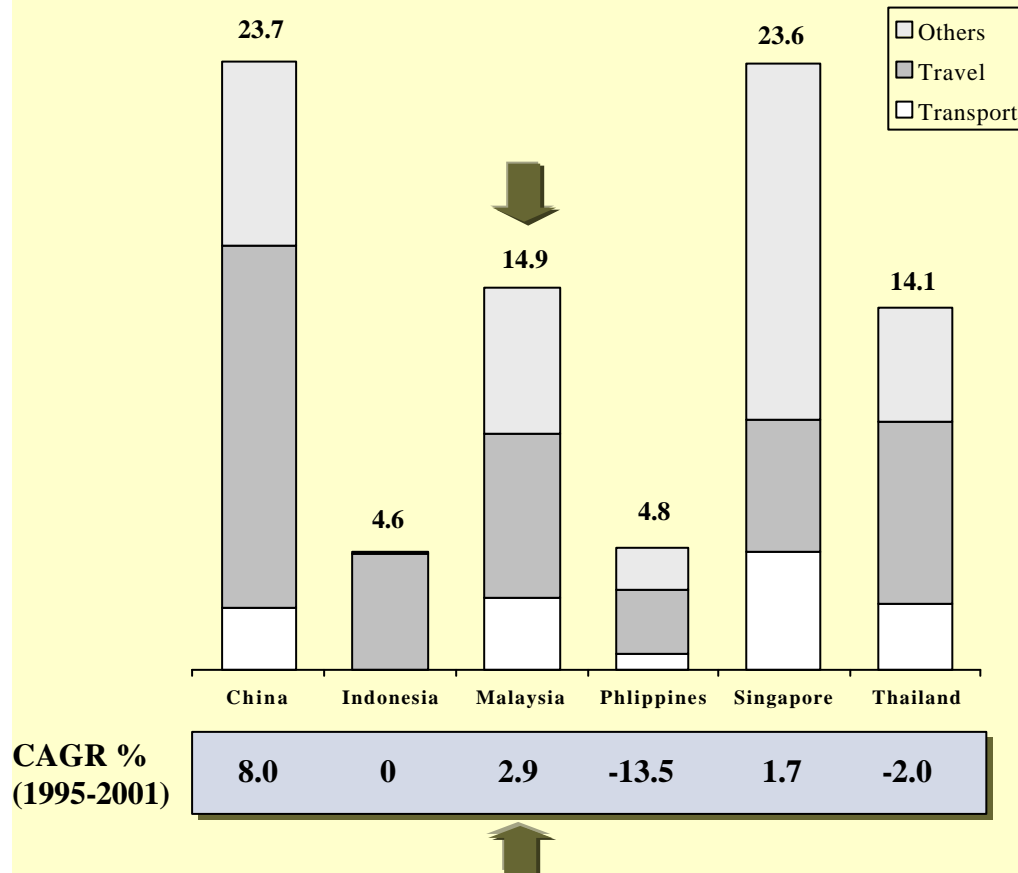


Source: U.S. Census Bureau, Department Of Commerce; A.T. Kearney analysis

In the services sector Malaysian exports still have ample room for growth

Services exports for Malaysia grew the fastest in ASEAN but still lags behind Singapore in value

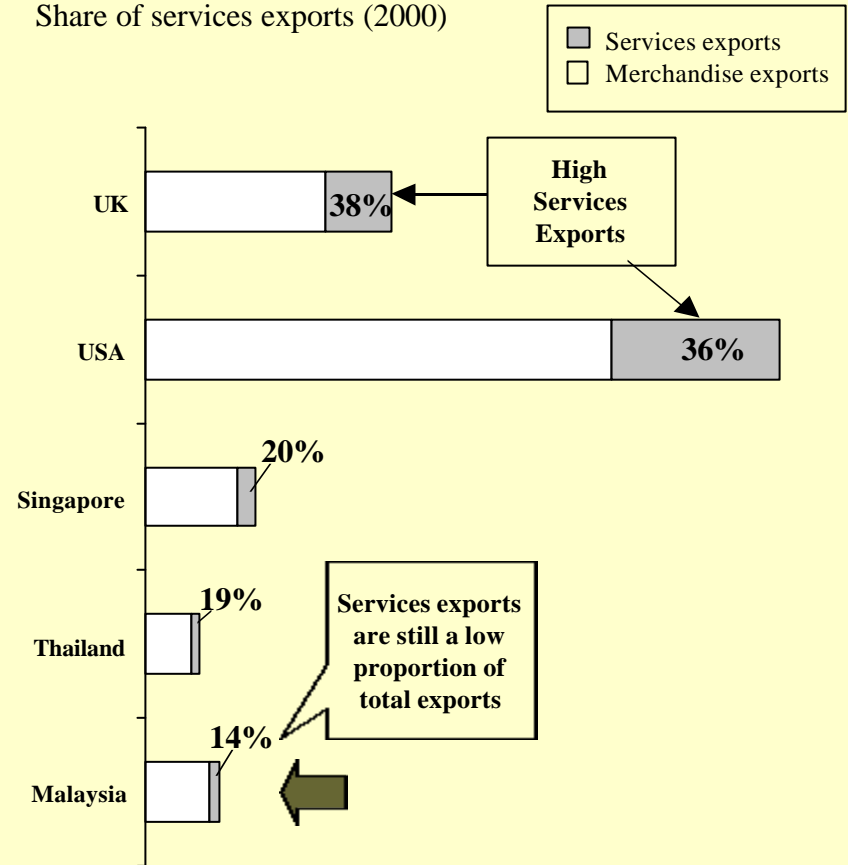
Services exports composition (2000, US\$ billion)



Source: World Bank; A.T. Kearney analysis

Developed countries show strong services exports

Share of services exports (2000)

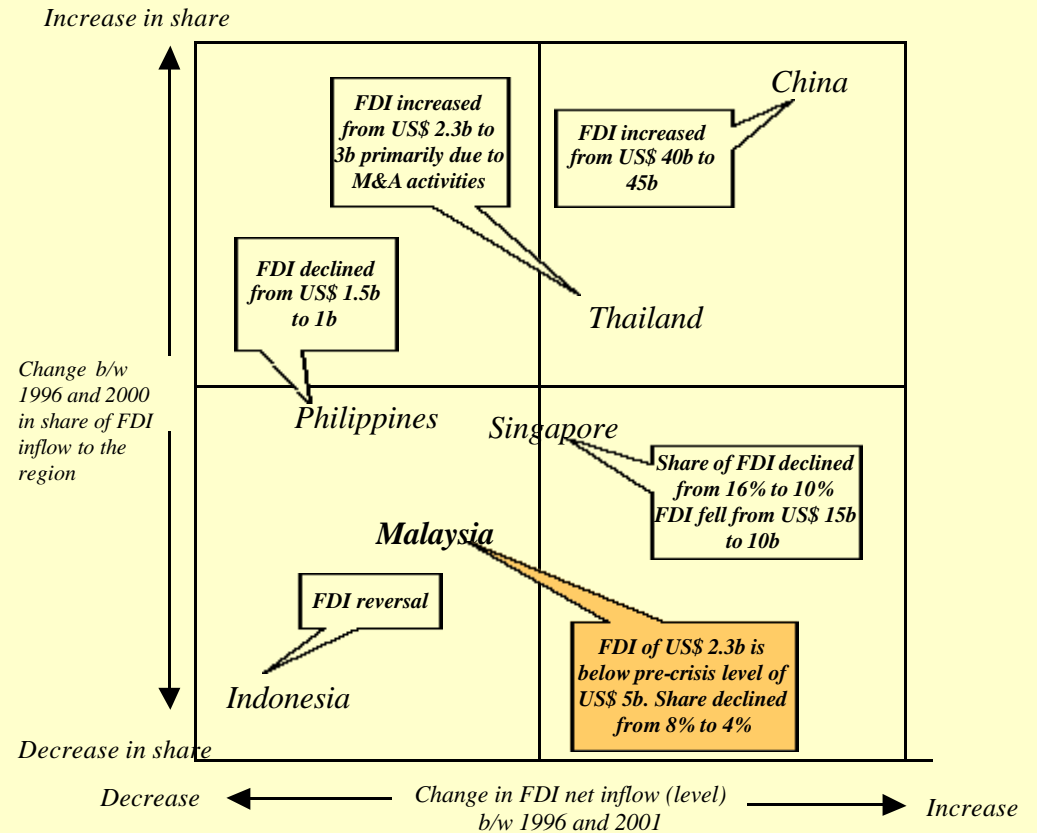
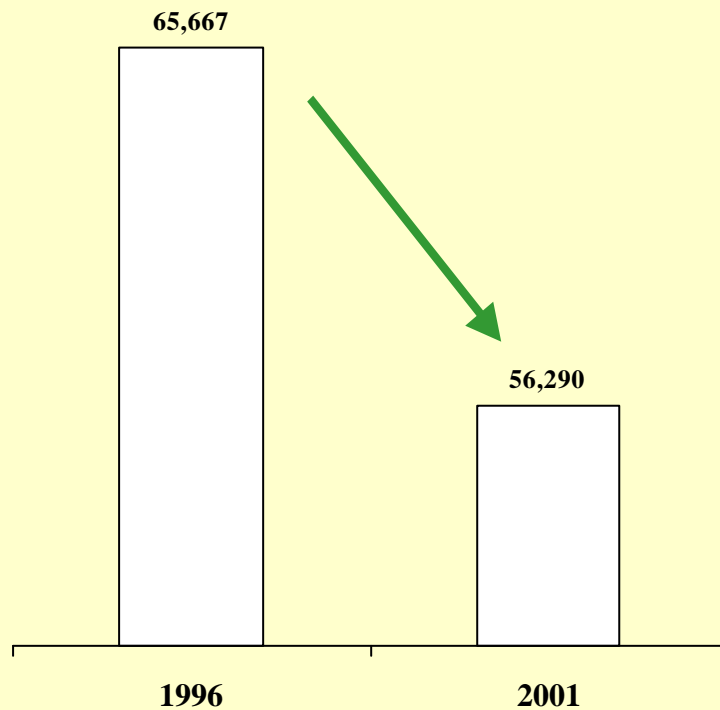


Most ASEAN countries including Malaysia have yet to regain pre-crisis levels of foreign direct investment

Although total FDI inflows to ASEAN5 and China declined from pre-crisis levels ...

... some countries gained FDI while others lost out

FDI inflows to ASEAN5 and China (1996 and 2001, US\$ million)



To increase foreign investment in this competitive environment, Malaysia needs to improve its perception as an attractive investment location

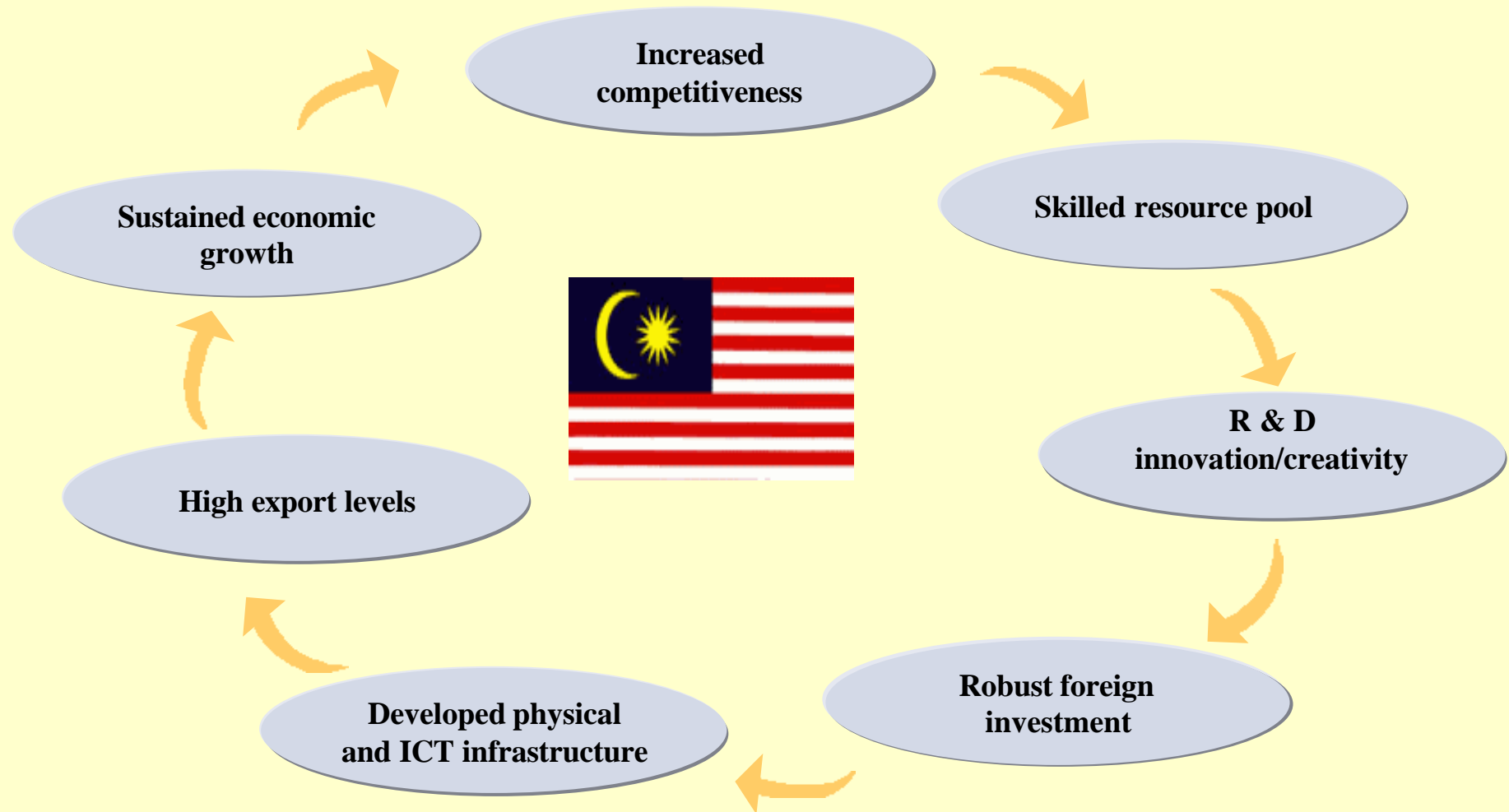
Source: IMF; A.T. Kearney analysis

Emerging issues on Malaysia's competitiveness

Emerging issues on Malaysia's competitiveness...

- **Since mid-90s, Malaysia has been losing its position in the global competitiveness ranking**
- **Some economies have been dramatically improved their ranking**
- **The rise of giant and smaller efficient competitors**

Competitiveness is driven by several interdependent factors



What are the determinants for competitiveness?

- **The WCY 2001: 4 factors shape a country's competitiveness**
 - ✓ **Economic performance**
 - ✓ **Government efficiency**
 - ✓ **Business efficiency**
 - ✓ **Infrastructure**

Malaysia needs to prepare itself for an increasingly competitive regional environment

Malaysia has made great progress ...

- Over the past 3 decades, Malaysia has been one of the fastest growing economies in the world
- Its economy has been transformed from a primarily agriculture-based one to one based on manufacturing
- A proactive government, high savings rate and strong foreign investment have led to one of the best developed infrastructures in the region
- Liberalization measures implemented across the board increased productivity and competitiveness of industries and helped attract significant foreign investment
- Malaysia's booming export sector has enabled it to accumulate ample international reserves

... however, future challenges remain significant

- Investor confidence in the country needs to increase significantly to attract pre-crisis foreign investment
- Productivity of most industries and skill level of workers are much below global standards
- Export base is heavily focused on manufacturing industry – particularly electronics – leaving Malaysia highly susceptible to global cycles
- Malaysia's service sector is still too protected and not globally competitive
- China is emerging as a strong base for manufacturing and a key destination for foreign investment

**Major challenges to accelerate
the progression to knowledge-
based economy**

Integration into the global economy to optimize the benefit of globalization...

- **Market and industry global integration have exposed Malaysia to global changes**
- **WTO progressive liberalisation demands more sectors to be opened**
- **But as a very open economy, Malaysia has to adopt strategic liberalisation**

Economic resilience to face the short-run business cycle....

- **Have a more resilient domestic economy to cushion the global impact**
- **private sector to manage risk better, esp. those of global shocks**
- **Malaysia needs to diversify export products and find new sources of exports (services?)**

Technology capability to move into K-economy ...

- **Technological upgrade adopted via technology transfer (inflows of FDI), not by being center of innovation**
- **Lack of institutions in both public & private sectors to support a high level of technological innovation, R & D**
- **Small R&D investment esp. from private sector**

Quality of HR to meet the needs of a competitive economy.....

- **Labour cost increased by 8 % p.a., but productivity grew only by 4 %**
- **Growth is still driven by input rather than productivity**
- **Shortage of skilled workers**
- **Education is key to moving up to next stage of growth**

Business environment to support companies in competing.....

- **Services activities that support businesses must be efficient**
- **Lower the cost of doing business**
- **Bureaucracy, to some extent, can be further improved to support business development**
- **Compete on quality and service**

Infrastructure and logistics

- **Are transportation costs and utility rates competitive?**
- **The distribution of goods and services through air & sea transport must be more efficient**
- **Higher ICT infrastructure capability e.g. broad band**

**Strengthening competitiveness is
a key challenge for Malaysia**

**Human capital and productivity
of capital and labour are critical
factors**