

12 most competitive economy: How do we get there?

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IMD and MPC engage regularly on strategies to improve Malaysia's global competitiveness. Recent sessions were with Professor Arturo Bris in Lausanne, Switzerland, and a forum with IMD Alumni in Kuala Lumpur.

MALAYSIA Productivity Corporation (MPC) welcomes the Madani Economy's target to position Malaysia as the 12th most competitive economy globally.

For 25 years, MPC, as Malaysia's focal point for the World Competitiveness Ranking (WCR) and as a strategic partner for the Institute for Management Development (IMD), has been leading the country's effort to improve its global competitiveness ranking.

WCR 2023 ranked Malaysia at 27th of 64 economies, an increase of five spots from 32nd last year.

The improvement indicates the unity government's effective post Covid-19 pandemic policies and interventions in building a more robust economy to benefit the rakyat.

Malaysia's improved ranking is commendable but not transformative enough to accelerate economic growth.

In 1997, Malaysia was ranked as the 14th most competitive nation globally but its competitiveness ranking has deteriorated over more than two decades.

The Madani Economy's pursuit of a better competitiveness ranking for Malaysia is timely and accurate.



A higher competitiveness ranking will enhance Malaysia's standing as a preferred destination for investment, trade, and industrial development, and will create more high-skilled jobs and boost economic complexities.

As a result, the people will be able to enjoy higher salaries and wages.

During a meeting with MPC, IMD World Competitiveness Centre director Professor Arturo Bris emphasised the importance of prioritising competitiveness as a national agenda, as implemented by countries with the most improved rankings.

He pointed out Malaysia's advantage in this aspect, citing the presence of a lead agency dedicated to driving and facilitating competitiveness efforts, which some other countries lack.

Productivity boosts competitiveness

Countries with high competitiveness rankings, such as Ireland, Switzerland, and Singapore, recorded robust overall productivity in ranking and performance levels.

As productivity highly correlates with competitiveness, increasing productivity across all sectors will impact the WCR competitiveness factors.

The key factor to achieve competitiveness is through fostering productivity and efficiency across all industries by capitalising on their unique expertise and specialisations.

The building blocks of high productivity are high-quality inputs such as a well-trained workforce, robust infrastructure, and access to cutting-edge scientific advancements. The right carrots and sticks must be in place to spur competition and incentivise productivity.

Productivity and competitiveness can be further enhanced by leveraging sophisticated local markets and catering to demanding local needs.

Clusters of firms specialising in particular fields can boost productivity and competitiveness by fostering knowledge sharing, innovation, and efficiency.

Understanding the determinants that create regional competitiveness and maintaining a focus on productivity, innovation, and leveraging inherent strengths are paramount in achieving economic development.

Primarily government-led economic growth is rapidly becoming a relic of the past. The mantle has been passed to the private sector, making it incumbent upon business and academia to collaborate and lead the change towards creating prosperous communities and robust economies



Widening productivity gaps among states in Malaysia

In 2021, five states, namely Sarawak, Melaka, Negri Sembilan, Penang, and Selangor were performing above the national average productivity level at RM90,697.

The productivity performance of these states plays a crucial role in driving the country's overall productivity.

There is a significant productivity disparity among the states. Some states are lagging and have yet to match their performance from 2010, indicating a widening gap between the most productive and less productive states.

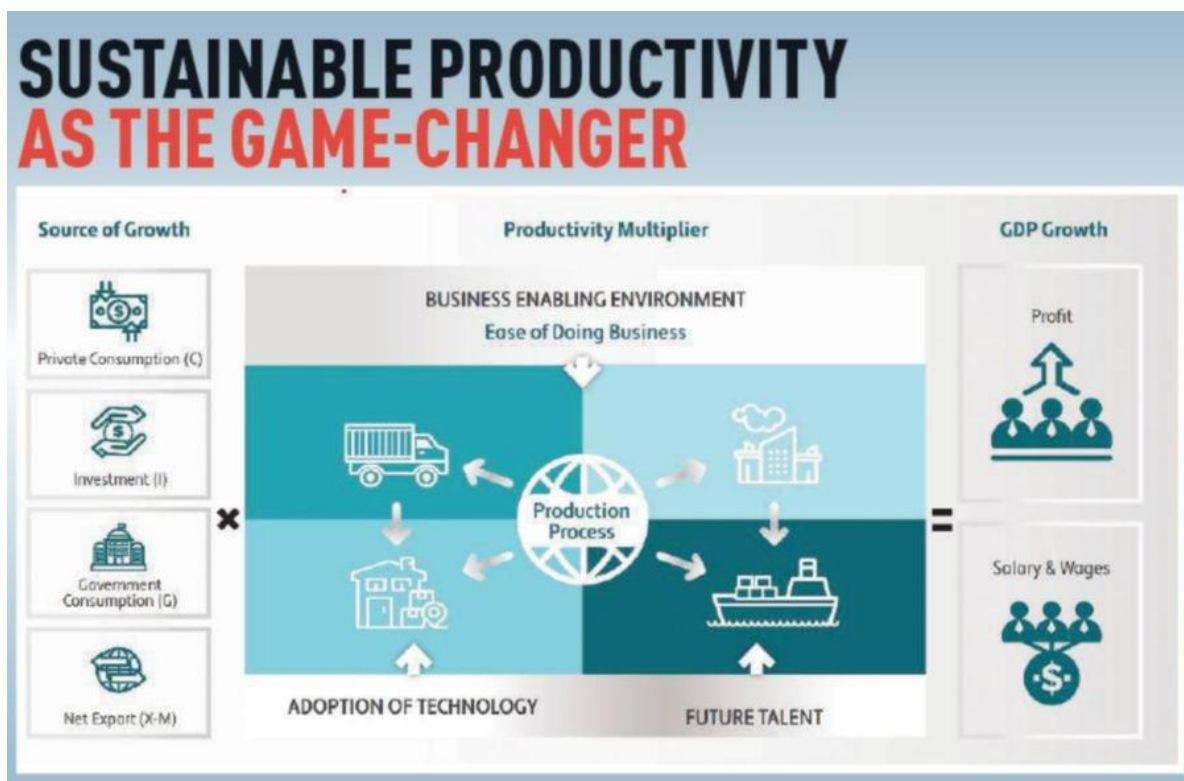
States with higher economic, industrial, and social activities record higher productivity levels.

Addressing the productivity disparities among states is crucial to achieve more balanced economic development and reducing regional inequalities.

Efforts should be made to identify the factors contributing to the success of the high-performing states and implement policies and initiatives to support the lagging states in improving their productivity.

Improving productivity in underperforming states may involve investing in infrastructure, promoting innovation and technology adoption, enhancing human capital through education and skills development, and fostering a business-friendly environment.

By narrowing the productivity gap between states, Malaysia can promote more inclusive and sustainable economic growth, improving living standards and overall economic prosperity.



Sustainable productivity is the game-changer

Multiplying productivity at the sources of economic growth by focusing on talent development, technology adoption, and quality regulations generates higher gross domestic product (GDP) and wages.

Growth originates from the government and private consumption, investment and net exports. As Malaysia's productivity is growing at a relatively slow rate, it can negatively impact investments and exports in the long run.

Productivity multipliers are instrumental in amplifying the sources of growth. It encompasses three elements:

Improving Ease of Doing Business:

Establishing a business-friendly environment, reducing bureaucratic obstacles, and streamlining regulatory processes can bolster productivity and stimulate business growth and investment. A conducive business climate positions Malaysia as a preferred destination for investments, trade, and businesses. Supportive and quality regulations ease business operations and enable investors and businesses to optimise resources, minimise compliance costs, save time, and increase efficiency and effectiveness.

Increasing Technology Adoption and Digitalisation:

By integrating advanced technologies, businesses optimise processes, heighten efficiency, and cultivate competitive advantages. Investments in technology and research, development, commercialisation and innovation enable firms to develop more complex and highly competitive products and services to compete in high-value chain market segments, locally and globally.

GLOBAL COMPETITIVENESS RANKING CORRELATES WITH PRODUCTIVITY

Country	2023 Competitiveness Ranking	Overall Productivity (PPP) Ranking	Overall Productivity (PPP) in US\$, 2022
Ireland	2	3	150,007
Switzerland	3	8	135,642
Singapore	4	1	183,959
South Korea	28	30	93,626
Malaysia	27	47	65,725
Indonesia	34	59	27,963
Philippines	52	61	24,130

Source: World Competitiveness Ranking 2023, Institute for Management Development (IMD)

Developing Competent and Skilled Future Talent:

Investing in education, skill development, and human capital is fundamental for sustained productivity growth and fostering business growth and expansion. The national Academy in Industry (Ail) gives youths opportunities to be trained as highly skilled workers. Ail has attracted 200 international manufacturing companies to join the programme aimed at implementing labour market reforms.

Sources of growth multiplied by the productivity drivers leads to higher GDP growth. It entails the distribution of wealth to businesses in the form of profits and to workers in wages and salaries.

GDP expansion signifies an escalation in economic activities and an increment in the wealth generated within an economy. The soon-to-be-launched New Industrial Master Plan (NIMP) 2030 by the Investment, Trade and Industry Ministry has identified several economic sectors to drive industrial transformation and create new wealth sources that would increase economic complexity, spur sustainable economic growth, create high-quality job opportunities and improve living standards. Productivity improvement in the identified sectors will boost competitiveness.

The essence of the Productivity Multiplier Framework aligns with the Madani Economy agenda, emphasising human capital, technology, and ease of doing business as the catalysts for robust economic growth.