

Executive Summary

Challenges in Hiring and Talent Upskilling in Malaysia as an Upper Middle Income Country: Paving the Way Forward for a Resilient, Skilled Workforce in the Manufacturing and Services Sectors

Malaysia's economy is on an upward trajectory to recovery from the effects of COVID-19 as well as Malaysia's prolonged period of political instability. While the World Bank predicted that Malaysia would soon transition from its current status as an upper-middle-income economy to a high-income economy between 2024 to 2028, in recent years Malaysia's productivity growth has fallen behind, while growth has been below-average for upper-middle-income comparators worldwide.

Having recently ratified both the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in 2022, Malaysia is now seeking to attract foreign direct investment. Given this development, policymakers aim to transform the Malaysian manufacturing sector and its related sectors to be more systematic, resilient, and smarter.

Both manufacturing and services represent major drivers of exports, growth, and job creation in Malaysia. The manufacturing sector contributed 24.3 per cent to Malaysia's GDP in the second quarter of 2022. The total number of employees engaged in the manufacturing sector in the first quarter of 2022 had increased by 3.6 per cent as compared to 2021. This accounted for 2.3 million employees working in this sector. Breaking down the manufacturing sector by sub-sectors, it was found that out of the RM 89.2 billion produced in the first quarter of 2022 by the manufacturing sector, Electrical, Electronic & Optical products accounted for 32.3 per cent, followed by Petroleum, Chemical, Rubber & Plastic products at 27.1 per cent.

Meanwhile, the services sector contributed 58.1 per cent towards Malaysia's GDP in the second quarter of 2022. The total number of workers in the sector has risen to 3.8 million employees in the third quarter of 2022. Breaking down the services sector by sub-sectors, out of the RM 212.8 billion produced in the first quarter of 2022, Wholesale and Retail Trade contributed 29.7 per cent, while Government Services contributed 15.4 per cent.

When looking at each sector's share of total employment, it was found that in the third quarter of 2022 the services sector represented the largest employer at 80.7 percent of formal workers employed. The second largest employer is the manufacturing sector, with about 11.8 percent of formal workers based within this sector. When looking at the skill sets needed across the economy, it was found that semi-skilled workers represented 62.3 percent of the Malaysian workforce, while skilled workers represented about a quarter. Within the services sector, semi-skilled workers represented 46.7 percent of filled jobs in the third quarter of 2022, while skilled workers were counted at 34.2 per cent. In the case of the manufacturing sector, semi-skilled workers stood at 75.9 per cent, while skilled only stood at 17.5 per cent.

As an upper middle-income country, a sizable semi-skilled workforce backed by a growing skilled workforce is generally seen as a healthy sign. Nevertheless, with Malaysia expected to become an ageing

society within the next decade, with already more than 7% of Malaysia's population aged 65 and above as of 2020, there is an urgency to develop Malaysia's skilled workforce before it enters into the aged society status, where the trend would be irreversible.

It has been commonly observed by both the private sector and economists that one major factor hindering Malaysia's ongoing development and economic competitiveness is the lack of skilled labour within the services and manufacturing sectors, particularly in terms of the skills commonly associated with up-and-coming sectors such as the digital economy and the green economy. It is thus crucial for Malaysia to proactively anticipate and create future skills, made all the more difficult by the short 'shelf life' of skills today, meaning that skills are both emerging and becoming redundant at a rapid pace (meaning Malaysia's ability to identify and create those skills must be just as fast). Further compounding the problem is the economic diversity to be found in Malaysia, with technological adoption and digitalisation varying across economic sectors. As well, geographical location plays a part as well, with economic development and human capital development needs varying between states.

Besides just focusing on technical skills, the Malaysian education system should shift towards a more holistic model which also imparts necessary soft skills such as communications, marketing, teamwork, and leadership. Indeed, it was found that the top factor affecting the ability of Malaysian companies to meet talent needs was insufficiently qualified candidates with satisfactory soft skills.

The report also looks into several challenges facing skills institutions in meeting current and future skills demands. Our research notes that the current governance model of the TVET system in Malaysia is overly complicated, with multiple government ministries overseeing TVET and TVET accreditation systems. As well, it is found that there is an inadequate collaboration between industry and skills institutions, which prevents the latter from developing a clear, accurate understanding of what employers are looking for in candidates. It is noted that while the necessary government upskilling resources are currently available for firms to utilise, a majority of firms do not use said resources due to a lack of knowledge of the training/support available.

Lastly, the report argues that access to labour market information, including current and future skills, is crucial to ensuring Malaysia's skills supply can meet skills demand. Research identified several challenges in Malaysia's current labour market information system, including weaknesses in the governance of labour market information, the lack of accurate and updated data, low-quality data, lack of awareness and usage of labour market information, lack of data analysis, and changes in current economic trends.

In response to these challenges, our report lays out several policy recommendations. Among these include improving the training and upskilling of local workers through programs such as apprenticeship and on-the-job training, encouraging greater collaboration between the private sector and training institutions, and focusing on upskilling and reskilling people already in the workforce, namely through encouraging the private sector to further utilise current government upskilling and reskilling initiatives. The report also calls for a more holistic education system that imparts future graduates with the necessary soft skills, and for streamlining Malaysia's current TVET programs and adopting a more participatory approach. Finally, a more structured approach in targeting MSMEs with support for upskilling and reskilling is also called for.