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STRATEGIC EFFORT

PRODUCTIVITY ALCHEMY

Growth requires combination of three ingredients

THE first of its kind, the Malaysia Productivity Blueprint, launched last month by Prime Minister Datuk Seri Najib Razak, rightly asserts that wealth comes from productivity growth. Productivity grows when each firm produces more and better quality products and services at lower costs.

Productivity growth determines a nation's competitiveness by becoming a magnet for attracting foreign direct investments (FDIs). It also boosts our export capacity. Countries compete for FDIs for the benefits they bring into the country. These investments create jobs. They bring in productivity-boosting technologies. Combined, these offer better wages for the workforce and take us nearer to our destination of a high-income nation. Indeed, over the last 20 years, there has been a positive correlation between income growth and productivity growth in Malaysia.

The blueprint argues that productivity growth is a function of a sound macro-economic environment. This environment will include the good health and skills of the nation's workforce, sound institutions, rule of law and business-friendly policies.

This ecosystem for productivity growth relies much on the public service. The speed, efficiency and cost-effectiveness of the private sector depend much on the efficiency and business-friendly nature of the public service. Advanced infrastructure developments, too, contribute significantly to the development of a business ecosystem and a nation's competitiveness. And, it is the public service that plans and executes such infrastructure development, sometimes in partnership with the private sector.

As is the case with most countries, we started our process of economic development with natural endowments — a climate and soil conditions conducive to the production of primary commodities, and later with its discovery, oil. Subsequently, we imported technology to fuel our industrialisation drive and development process. As we progressed, we adapted technologies built elsewhere to suit our economic structure and development needs. Our continued development hinges much on productivity growth spurred by home-grown innovations — new products, new businesses, unique processes and technologies. Such an innovation-driven economy will cause the economy to grow faster and provide the high wages to sustain higher standards of living.

It is this business sophistication on the back of innovation that the productivity blueprint highlights as a key driver of productivity growth. Business sophistication and a firm's productivity multiply when the firm is co-located with other competitors it competes and collaborates with simultaneously. In such a geographical cluster, these competing firms are surrounded by a constellation of suppliers and related industries, including research institutes and testing laboratories.

That the electronic and electrical (E&E) companies in Penang are globally competitive is testament to the power of the E&E cluster there. Similarly, Italy continues to be highly competitive in high-value fashion — textiles, clothing and leather goods — and precision machine tools simply because these industries are cultivated within their industrial clusters. The co-location within their related clusters has enabled Italian firms to generate world-renowned innovations that have boosted their productivity manifold.

Such is the power of industrial clusters. They provide for cheaper logistics, readier access to talent, supplies, information and ideas from the research and development that go on in the clusters — all ingredients to produce better products at lower costs.

Productivity growth, therefore, requires an alchemy of three ingredients. The first is public-service efficiency, second, private-sector efficiency and third, the development of industrial clusters. It becomes obvious then that the public service is central to the productivity growth of the nation.

In acknowledging this key role of the public service, the productivity blueprint outlines policy priorities of how the public service can boost national productivity.

FIRST, the public service should formulate a comprehensive labour policy which, among others, confronts the issue of the continued reliance on low-skilled and low-waged workers. The public service should conduct a national strategic workforce planning exercise to effect this shift from a low-skilled to a high-skilled workforce. That planning will have to factor in measures to minimise disruptions in employment consequent to this structural shift across the economic sectors.

SECOND, the public service will have to take a whole-of-government approach, popularised by the national transformation programme, to rationalise further regulatory constraints, including those relating to exports and imports, and non-tariff barriers that impede productivity growth. Regulations, too, should be consistently applied throughout the country.

Too much regulation constrains. Too little brings negative externalities of environmental pollution and worker exploitation. The balance between too much and too little is elusive. It is something that the public service will have to work at getting better with experience. Periodic regulatory reviews should give the public service valuable feedback on the efficacy of its regulations in promoting productivity.

THIRD, the incentives and financial support offered to businesses must be directly linked to productivity improvement.

The public service has to review the existence of various grants for research, development and innovation under different government bodies with the view to centralising these grants under one roof.

FOURTH, industrial policy must focus on developing clusters of industries replete with their related supporting industries. The Third Industrial Masterplan (2006-2020) is very clear on this.

At 3.6 per cent, Malaysia's productivity growth beats that of many advanced economies, including Australia (-0.5), Japan (0.03), Singapore (1.1), South Korea (1.3) and the United States (0.7). The challenge is to consistently hit the targeted annual productivity growth of 3.7 per cent under the 11th Malaysia Plan. An even greater challenge will be to up the productivity level.

The work for the public service has been cut out. It is time for the public service, in collaboration with the private sector, to redouble its efforts at boosting its productivity. The nation's productivity depends on it.

The Immigration office at the Urban Transformation Centre in Johor Baru last year. The public service should effect a shift from a low-skilled to a high-skilled workforce.

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