



DATUK DR JOHN ANTONY XAVIER

LONG-TERM ISSUE

# FORGING AHEAD COMPETITIVELY

National competitiveness matters as it ensures sustained economic growth and gives a nation an edge in export markets

**T**HE new cabinet has been formed and it is up and about tackling the affairs of the state. These include public-debt management, expenditure savings, the fiscal deficit, cost of living and societal integration.

Indeed, these are pressing matters that warrant quick redress.

However, we should be mindful of what Stephen Covey wrote in his 1989 runaway bestseller, *The Seven Habits of Highly Effective People*: "Most of us spend too much time on what is urgent and not enough time on what is important."

In the national context, one such important long-term issue is national competitiveness. National competitiveness matters as it ensures sustained economic growth. A nation's competitiveness springs from innovations in product offerings and business and manufacturing processes of its industries. There is a correlation between innovation and national prosperity.

National competitiveness gives a nation an edge in export markets. It is also a magnet for increased investments and technology as businesses pump in money to take advantage of an innovation-oriented economy. These translate into increased jobs and incomes that contribute to the prosperity of the nation.

Does the government have a role in promoting national competitiveness? The free-marketeers would have us believe that it does not. They contend that markets should be left alone. However, such an irresponsible approach will only lead to a steady erosion of national competitiveness. This is because the marketplace is imperfect, what with governments, such as Japan, often backing their companies through a horde of policies. Our industries are up against such unfair competition. To deny them of government cover will be disastrous.

As such, the new government has got its job cut out. However,

that is not a licence for it to prop up industries through all manner of regulations and incentives. It will only end up insulating them from the heat of competition, which is a vital ingredient in sharpening their competitive advantage. Neither is it about keeping wages artificially low to gain a cost advantage. That will only exacerbate inequality as capital reaps the greater returns.

The government's role is, at best, facilitative, aiming to build an ecosystem that fosters industry innovation. Most rich countries are aggressive innovators.

Here are suggestions for the government to build an innovative ecosystem.

First, the government should push industries to pioneer frontier technology. The 11th Malaysia Plan identifies some 238 frontier products. Manufacturing of these products by adapting existing capabilities and technologies will push the boundaries of our innovation economy.

Second, trade policy is instrumental in building a competitive ecosystem. The world has gone in one generation from globalisation to deglobalisation. The government should counter the increasingly protectionist tendencies in the EU and the United States markets where our industries, such as electrical and electronics and palm oil, have a competitive advantage. It should also widen global-market access for them. However, we should be mindful that competitiveness springs more from productivity growth on the back of innovation than from global-market share per se.

Third, manual labour can be a blessing as well as a curse. Our small and medium-size enterprises (SMEs) comprise 99 per cent of all business establishments. They are the backbone of our economy. They contribute roughly 40 per cent to the national output. Yet, they remain addicted to unskilled labour by as much as 80 per cent of their workforce. While cheap foreign



Immigration officers interrogating foreign workers who were detained for not having work permits following a raid. The government is taking an uncompromising stand to cut down on foreign labour. FILE PIC

labour is a short-term cost-advantage, it does not conduce to long-term competitiveness.

It is salutary that the government has taken an uncompromising stand to restrict the influx of migrant labour. The artificial shortage thereby created should force the affected industries to upgrade their technology and skills for greater competitiveness. Japan, Germany, Switzerland and Singapore, for example, are nations without natural resources. That has spurred them on towards competitive innovation.

Fourth, the government has compensated for its migrant-labour restriction with skills development through technical and vocational education and training (TVET). The government has a high benchmark to attain in bringing our TVET standards comparable to Germany and Sweden. The apprenticeship systems of Germany and Sweden produce high-quality graduates who then go on to work in their SMEs. These countries are driven to enlarging their pool of skilled labour on account of labour shortages. So, restricting migrant labour restriction is indeed salubrious.

Fifth, competitive advantage depends on the existence of specialised research institutions. Take Germany. Their SMEs, the "mittelstands", are obsessed with innovation. That obsession has made 1,300 of them into world leaders in machinery, auto parts, chemicals and electrical equipment. Germany offers them a personalised ecosystem. Its 69

specialised research institutes – the Fraunhofer-Gesellschaft – that work closely with the mittelstands to develop industry-ready innovations. These can be easily adopted to improve product offerings. Taking a leaf from the German experience, the government should intensify its efforts at developing specialised research and apprenticeships that are tied to related industries.

Sixth, Malaysia is at an advanced stage of development. It has long left behind policies relating to infant-industry protection. Accordingly, the government should promote domestic and international rivalry. Such rivalry will force local industries to innovate aggressively to retain their competitive advantage.

We have slipped in our world competitive ranking from 18th in 2015 to 23rd in 2018. Climbing up the rungs to become a top 10 most-competitive nation can take as many as two decades. It will involve continuous upgrading of human skills, accelerating innovation through industry-relevant research, promoting competitive rivalry among companies and foreign-market penetration.

There must be no let-up in the pressure on the government and industries to push in that direction if we want to achieve such an enviable position.

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