

Skills and Malaysia's Labour Market

**Panel Discussion III : Future Talent Direction in Fulfilling High-Income Country
Goals**

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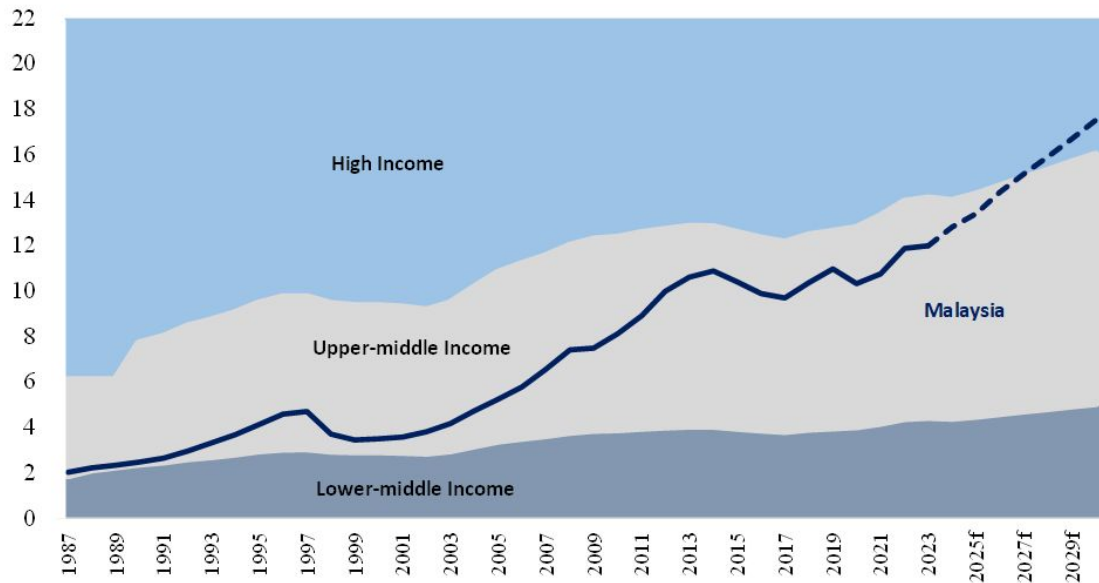


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As Malaysia approaches high-income country status, concerns about skills, productivity, and income remain

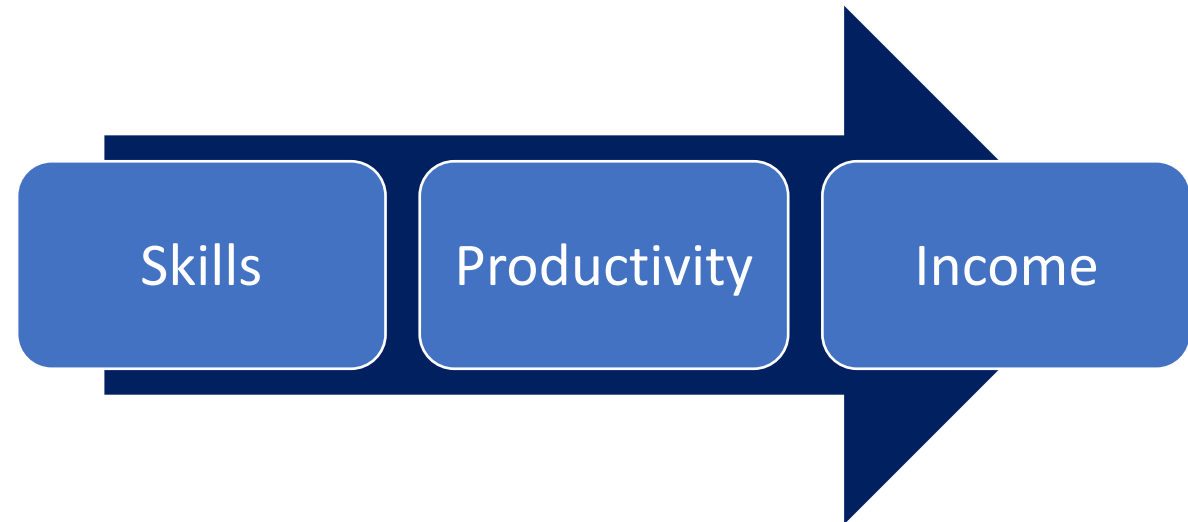
Latest projections suggest Malaysia will exceed the threshold that defines high-income economy status at the end of this decade

GNI per capita, Atlas method (current US\$ thousand)



Source: World Bank staff calculations.

Although not straightforward, and influenced by many factors, at a high-level...



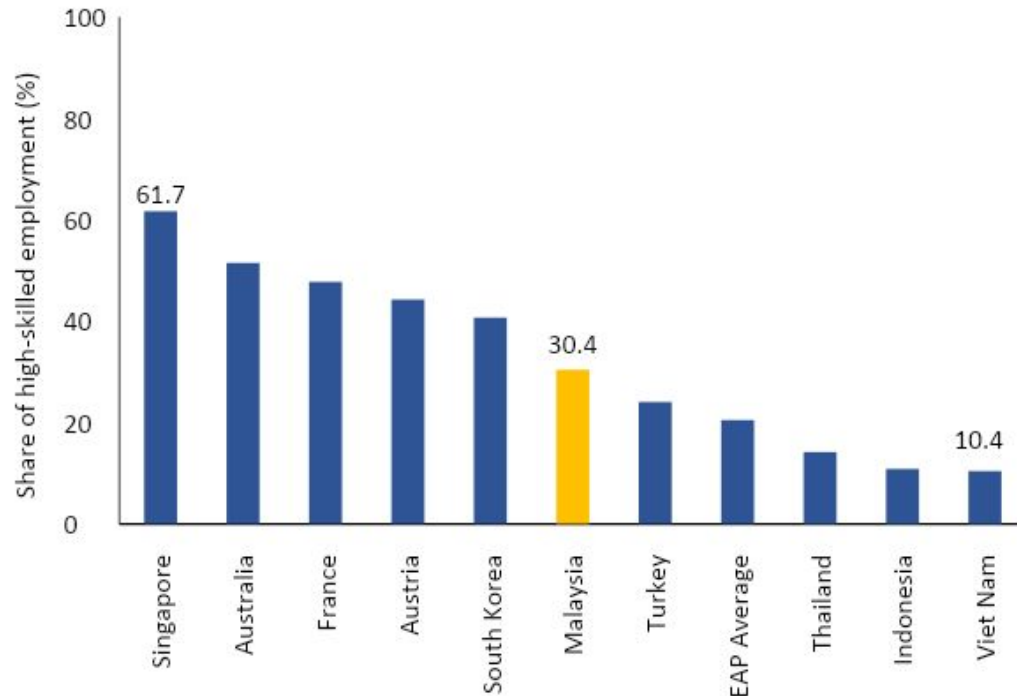
Skills allow for interaction with technologies that can improve **productivity**, which in turn leads to economic growth and higher **incomes**

The interrelatedness of skills, productivity, and income is reflected by:

1 Higher shares of high-skilled jobs in high-income countries

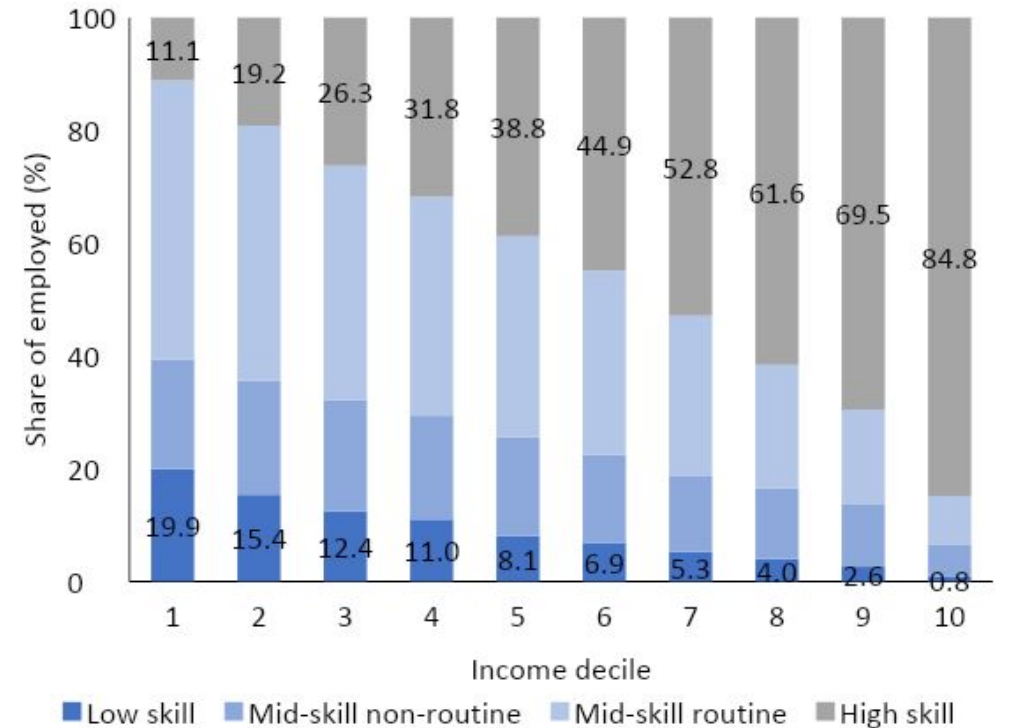
2 Higher wages among workers with higher levels of skill

High-skilled employment as a share of total employment (%)



Source: ILOSTAT for latest available year, DOSM LFS (2023)

Share of employment by skill level and income decile, 2022 (%)

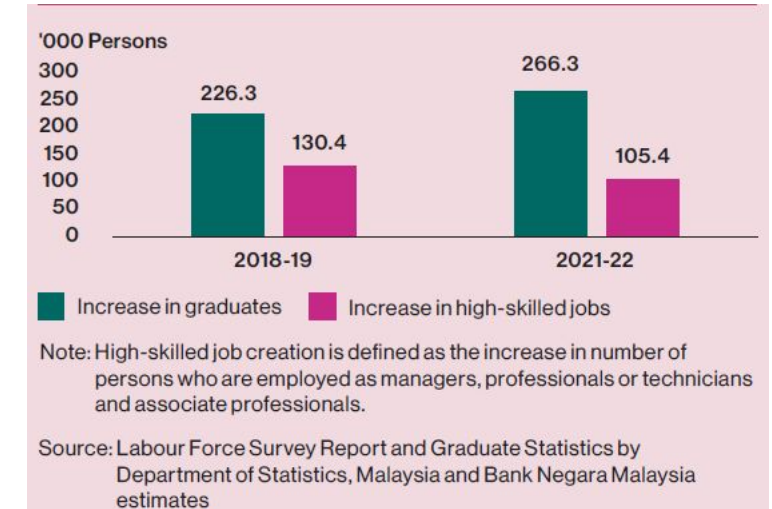


Source: World Bank staff calculations from DOSM LFS

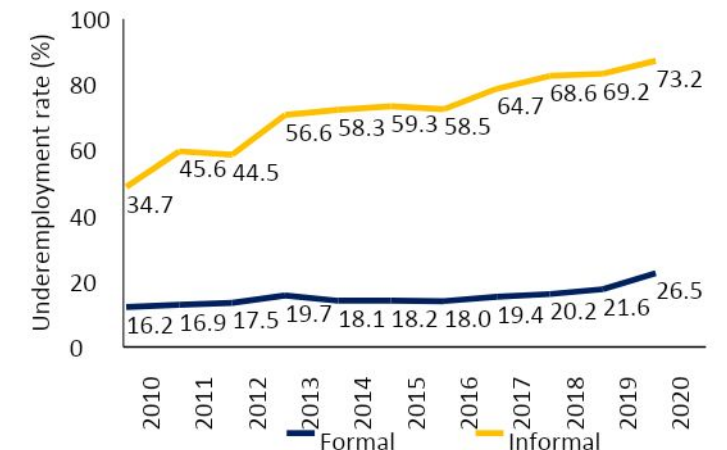
To translate into productivity and higher incomes, human capital needs to be effectively utilized

- Educational attainment, which is often used as a proxy for skills, has been increasing in Malaysia
- At the same time, skill-related underemployment is high and rising, which reflects an underutilization of labor/skills, particularly among women and the informally employed
- Reasons for skill-related underemployment are not fully understood, but are likely a mix of:
 - Failure of the economy to create sufficient high-skilled employment to absorb new graduates
 - The skills acquired through the education system may not meet the needs of employers – which is why employers report skills shortages

Increase in Graduates in the Labour Force and High-skilled Job Creation



Skill-related underemployment rate, by employment type

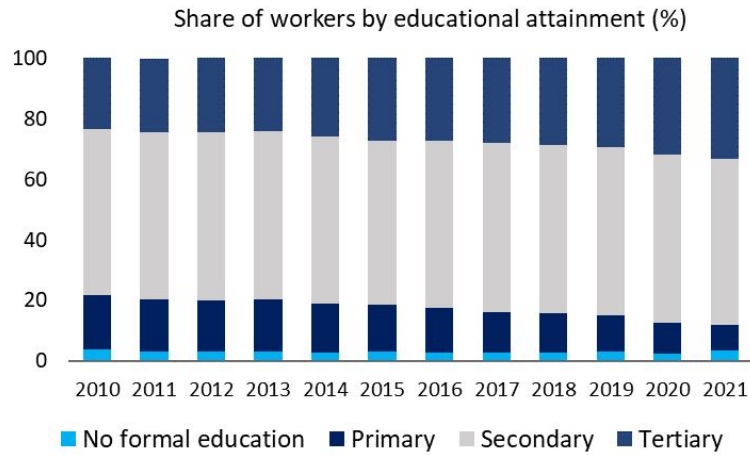


Source: World Bank staff calculations from DOSM LFS

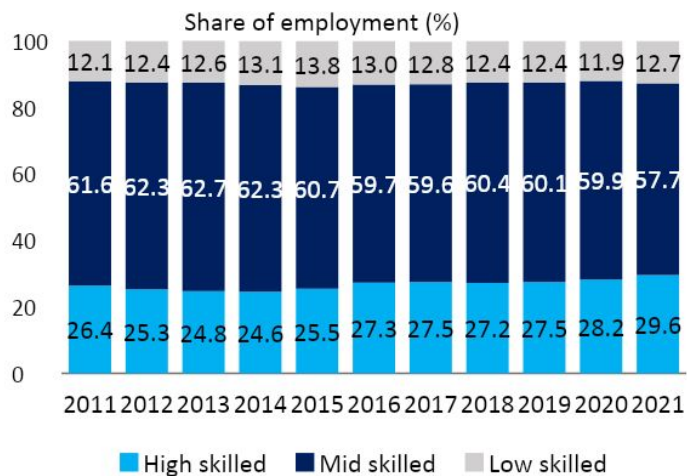
One of the reasons wages are low is because the productivity of employment is below where it could be, given the level of skills

There are still very high returns to education, but these have fallen over time given tertiary education is less scarce

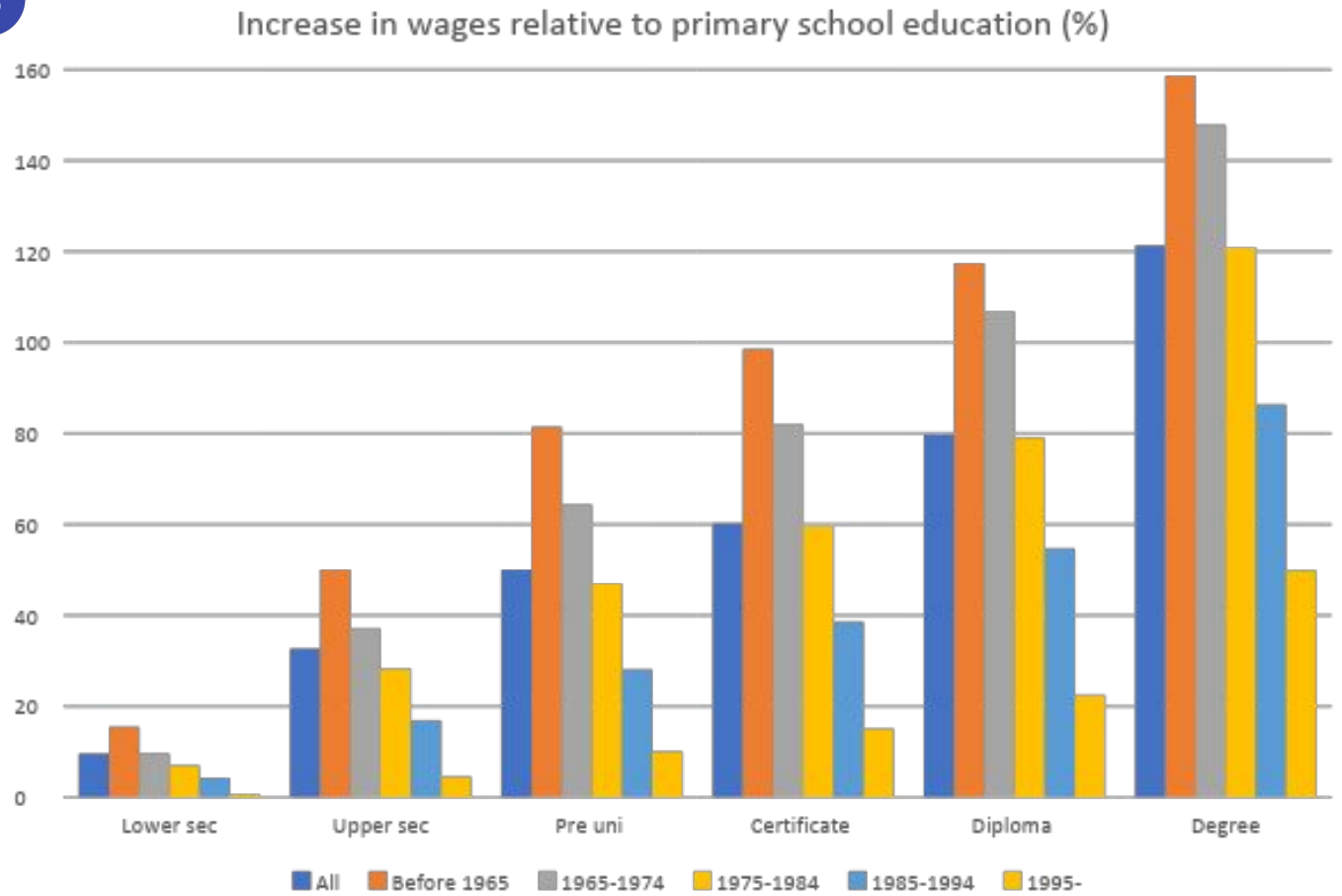
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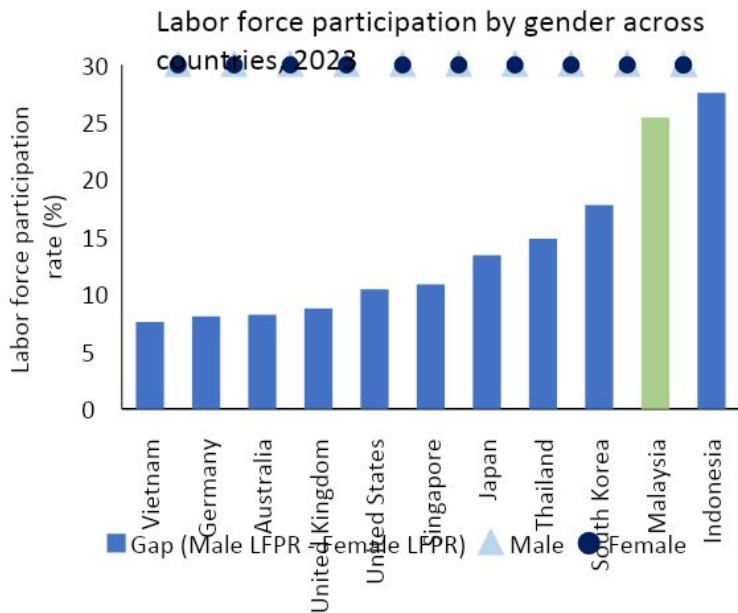


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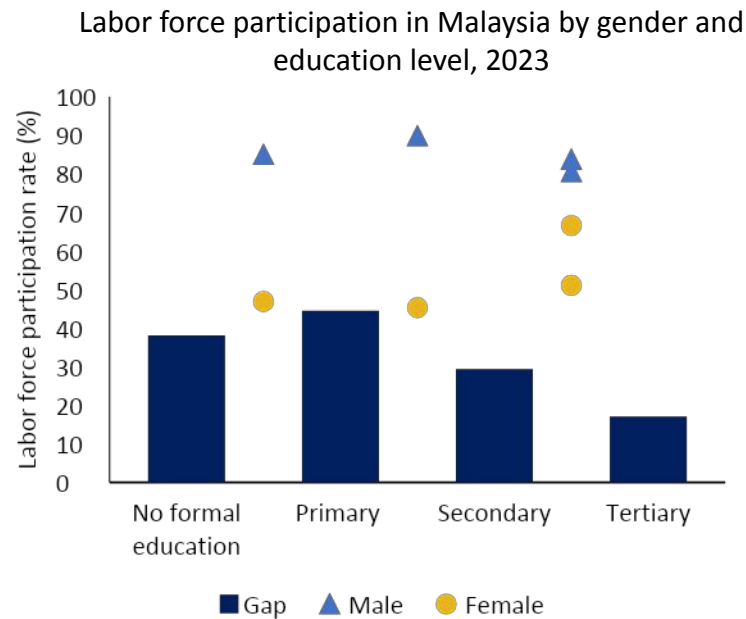


Labor force participation also reflects the utilization of human capital in an economy

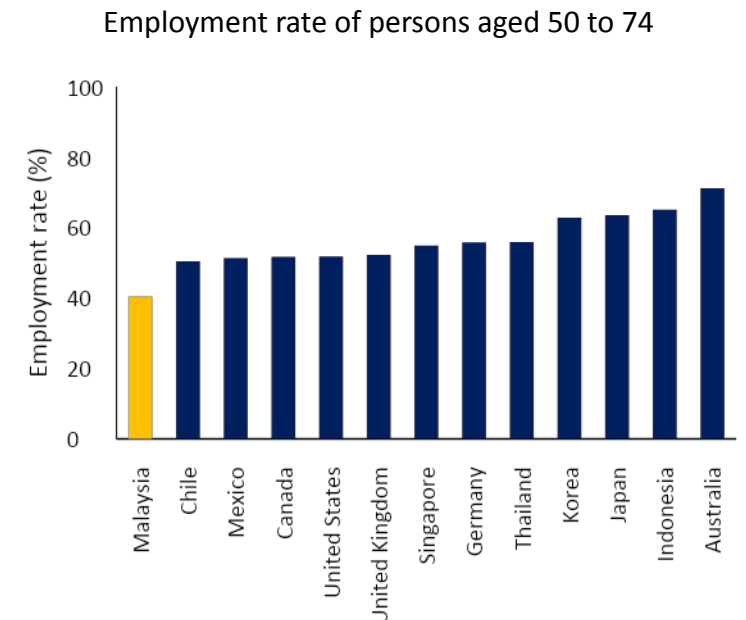
- The LFPR in Malaysia is higher than in many advanced economies, but is low among:
 - Women, particularly those with lower levels of education
 - Older persons
- Increase LFPR among these groups will become increasingly important as Malaysia ages and its working age population shrinks
- While the more effective utilization of the Malaysian workforce is of paramount importance, migrant workers are also an important source of human capital (as is the case in most HICs)



Source: ILOSTAT and DOSM LFS



Source: DOSM LFS



Source: ILOSTAT and World Bank staff calculations from DOSM LFS

Looking forward

The challenge for Malaysia in the years ahead is clear:

- **Increase incomes through more high productivity employment**

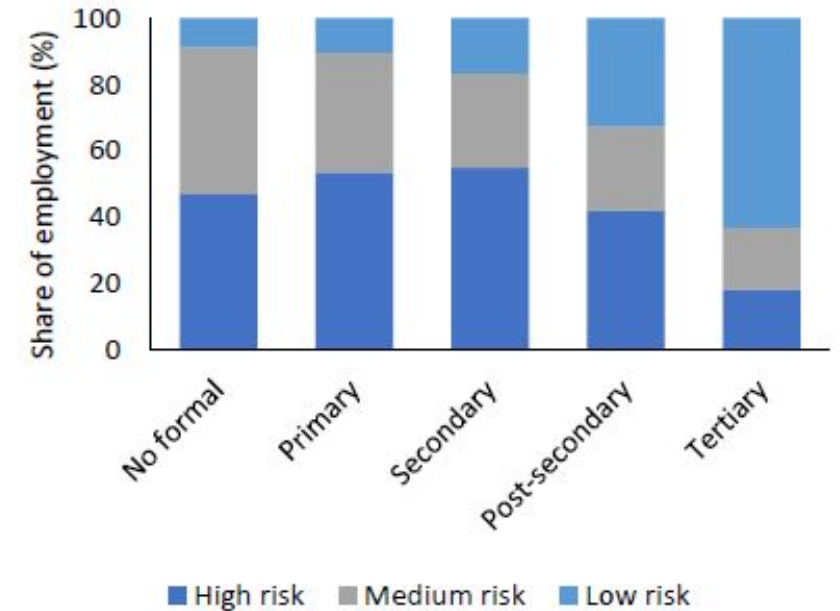
A skilled workforce is one important ingredient to achieve this, given that high productivity employment is generally high skilled employment. However, a skilled workforce alone is not sufficient.

Malaysia will need to address this challenge in the face of various megatrends:

1. Technological change (automation and artificial intelligence)
2. Societal ageing (in an ageing region)
3. A greening of industry (and jobs)
4. Persistent informal employment + the gig economy

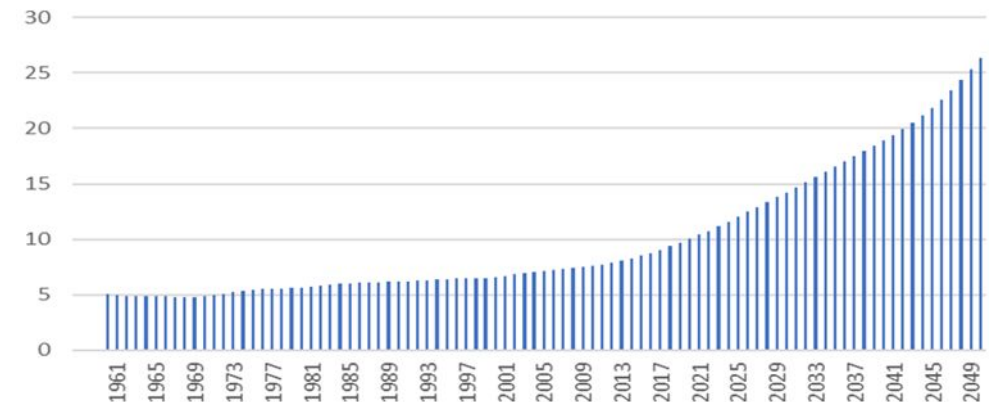
A focus on lifelong learning, supported by strong foundational skills, is important to addressing challenges associated with these megatrends

Share of employment of Malaysians by risk of automation and education level (%)



Source: World Bank staff calculations using data from DOSM

Old age dependency ratio (65+ / working age population), Malaysia



Source: World Bank staff calculations using data from UN Popstat

Terima Kasih!



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