

Keeping Malaysia Competitive

Malaysia's favourable ranking in terms of international competitiveness masks its institutional weaknesses. Malaysia should reform its institutions to address these weaknesses to remain competitive.

National competitiveness is key to continued prosperity. Currently, there are several rankings that measure the competitiveness of nations. The more widely quoted rankings are the World Economic Forum's Global Competitiveness Index (WEF), the IMD World Competitiveness Yearbook (IMD) and AT Kearney's Confidence Index (ATK). While the validity and/or accuracy of these rankings can be debated, they are generally as a general indicator of how a country ranks in relation to its competitors.

The IMD ranking assesses factors grouped in four key areas -economic performance, government and business efficiency, and infrastructure. Malaysia ranked 21 in 2003, 16 in 2004, 28 in 2005 and 23 last year. Singapore ranked 4 in 2003, 2 in 2004, 3 in 2005 and 2006. Taiwan ranked 17 in 2003, 12 in 2004, 11 in 2005 and 18 in 2006. China ranked 29 in 2003, 24 in 2004, 29 in 2005 and 19 in 2006. India was 50 in 2003, 34 in 2004, 39 in 2005 and 29 in 2006.

The WEF looks at selected factors grouped under nine pillars, which they consider critical to driving productivity and competitiveness. The nine pillars are: institutions, infrastructure, macro economy, health and primary education, higher education and training, market efficiency, technological readiness, business operations and innovation. Malaysia ranked 31 in 2004 and 26 in 2006. Singapore ranked 7 and 5, Taiwan 4 and 13, China 44 and 54, while India 56 and 43 respectively.

The ATK ranks countries by tracking the impact of likely political, economic and regulatory changes on the foreign direct investment intentions and preferences of the leaders of the world's leading companies. Malaysia was ranked 15 in 2004 but dropped of the ranking in 2005. Singapore was ranked 18 for both years and Taiwan was ranked 25 in 2004 but did not make the top 25 in 2005. China was ranked 1 in both years and India was ranked 3rd in 2004 and 2nd in 2005.

The WEF, IMD & ATK rankings are a serious cause for concern to Malaysians. Singapore outranks Malaysia by a considerable distance and is in the top ten. More importantly, China and India, which have problems far more complex than Malaysia, are catching-up on Malaysia. India and China's WEF and IMD ranking reflect their current status as late developers but where investors see the future, as indicated by ATK. Malaysia unfortunately was not in the ATK top 25 for 2005, indicating that investors do not see potential in Malaysia.

Observing more closely, Malaysia's weakness is caused mainly by its institutions. Malaysia's ranking in the WEF basic requirements are pale compared to Singapore. Malaysia ranked 26 for efficiency enhancers, 32 for higher education and training, 9 for market efficiency and 28 for technological readiness. Singapore ranked 3, 10, 4 and 2, respectively. As for innovation factors, Malaysia ranked 22 for innovation factors, 20 for business sophistication and 21 for innovation, while Singapore ranked 15, 23 and 9 respectively.

Malaysia's basic requirements are close to Taiwan's performance but Taiwan's efficiency enhancers and innovation factors push Taiwan ahead of Malaysia. Meanwhile, India and China are fast catching up in these two categories and both these countries have the size and potential to provide most of the manufactured products and services currently provided by Malaysia.

While these ranking can lead to many interpretations, they establish the fact that Malaysia is not keeping pace with the pacesetters. All is not lost as Malaysia's overall performance is still respectable. However, the government must reform its institutions to remain competitive.

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