Moving out of the middle income trap

THE LAST OF A TWO PART SERIES

KUALA LUMPUR: Economies that have moved out of the middle-income trap have done so with the help of both strong entrepreneurs and strong governance.

Universiti Tun Abdul Razak Pro-Chancellor Tan Sri Andrew Sheng Len Tao noted that Japan, Korea, Taiwan and Hong Kong are not resource rich, but have nurtured strong entrepreneurs who have created wealth by keeping global markets.

Sheng said this at the third Tun Abdul Razak Lecture entitled ‘National Unity and National Development: Malaysia Supply Chain Approach’, organised by Universiti Tun Abdul Razak here.

In the Malaysian context the country has been successful in creating skilled and professional communities through the various programmes including the New Economic Policy (NEP), but a highly successful industrial and commercial community is yet to be seen.

“We have also substantively reduced poverty and achieved middle-income status. But we are today facing a ‘middle income trap’ that is not easy to escape from,” he said.

Moreover, to become an advanced nation by 2020, Sheng said, Malaysia has to focus on productivity-led and private led-growth, growth through clusters and encourage technology capable firms and industries.

“The country also needs to retain and attract skilled professionals and talents from all walks of life,” he said.

EXPLOIT COMPARATIVE ADVANTAGES

“Malaysia must exploit its comparative advantages within the global production network in order to raise the income and enhance the quality of life, and must simultaneously seek our innovation-based comparative advantages in order to succeed.”

“If we are to compete on a global scale, we have to change the way we compete and also the way we cooperate,” he said.

In other words, Sheng said, raising incomes through higher productivities, reducing inequality through greater inclusivity and protecting our environmental heritage are the imperatives to meet the competition head on.

MALAYSIA’S TRUE ADVANTAGE

Meanwhile, Sheng pointed out that another area that Malaysia should consider is how to work together to improve our domestic supply chains to integrate and connect with the vibrant and growing global supply chains.

He said Malaysia’s true advantages were its geographical location, biological and cultural diversity, superior infrastructure and interconnectivity to the rest of the world, in the 21st century.

Malaysia’s electronics industry forms a key component of the Asian electronic and electrical engineering supply chain.

“Our palm oil industry feeds the world. We have natural rain forests, coral reefs and water resources with biodiversity that is the envy of other nations with big populations,” Sheng said.

MALAYSIA SUPPLY CHAIN

Supply chain is both a process and a structure that integrates different inputs seamlessly to produce an output that would meet the highest demand.

Malaysians must work together to forge the Malasia Supply Chain in order to compete globally and generate wealth.

Sheng, who is also a member of the National Economic Advisory Council, said the Malaysia Supply Chain could contribute to overall Bumiputera development by growing the supply chain cake.

“The government has a critical role as facilitator and enabler in creating an efficient integrated Malaysia Supply Chain. Every member of the supply chain knows that if it succeeds, they prosper, and if it fails, they fail,” he said.

He said the Malaysia Supply Chain concept implied two things: work together to prove and integrate the supply chains and a need for greater economic scale to engender higher productivity needed to succeed.

“When there is no economics of scale, the more likely the supply chain will be marginalized. The vicious circle of marginal supply chains is exactly the problem faced by small and medium enterprises (SMEs).”

“If they are not integrated into the larger global supply chain and if they are dependent on subsidies which cannot last forever because of the fiscal constraint, the loss of chances of the SMEs succeeding in the long-run,” he said.