

POPULATION, HUMAN CAPITAL AND DEVELOPMENT: THE MALAYSIA EXPERIENCE

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Abstract

Like other countries in East and Southeast Asia, Malaysia has undergone a rapid demographic transition to low fertility. This has meant a growing share of the economically active population that will eventually peak as ageing becomes more pronounced. The potential increase in the labor force has been undermined by both rising enrollment in upper secondary and tertiary education, as well as by many females remaining outside the labor force. Together with high economic growth, this has created a shortage of labor. Immigrant labor, both legal and illegal, has stepped in to fill the gap but entrenched a low labor cost model. Breaking out of this requires strengthening the country's human capital base. While generous government expenditure and liberalization of the education sector has resulted in significant gains in numbers enrolled, several factors have had a negative effect on education quality. Unless reversed, this deterioration has long-term implications for the country's development.

Introduction

The population-development nexus is multifaceted and very complex in that the demographic transition is not only part of development but also has consequences for other areas of development. These consequences are both positive and negative, and are experienced at the macro (country), regional (sub-national) and local levels (McNicholl, 2003: 3). And they are shaped by both total numbers – population size – and the structure of the population. Population and its composition is itself impacted by contextual factors, such as cultural attributes and social norms, and structural factors, such as national population policies.

Among the earliest discourses about the population-development nexus is that relating population to economic growth. Although Malthusian predictions of doom had been discredited, the development literature of the 1960s has been rich with debates about whether rapid population increase retarded economic growth in developing countries.¹ Without taking sides in the debate, the East Asia experience has been one in which economic success has been associated with rapid transition from high to low fertility. The complexity of this relationship notwithstanding, Mason (2003: 12-13) pointed to several lessons – the rapidity of transition given the right circumstances, the diverse paths to transition, the complex nature of the development impact of population change, and the importance of policies and programs to achieve favorable outcomes.

Of the multifaceted impacts of population on economic growth, among the most critical is that on the size and nature of a country's human resource, referred to by economists as human capital. As countries advance economically, economists recognize that human capital more than physical capital holds the key to higher income, enabling the adoption of technology and the strengthening of institutions (see, for instance, Ranis and Stewart, 2000; Rosenweig, 1987). Indeed, human capital deficiency is postulated to lead to middle-income countries' inability to upgrade technology and thus fall into the "middle-income trap" (Gill and Kharas, 2007).

This paper discusses issues relating to population, human capital development and their implications with specific reference to Malaysia. Malaysia is part of the East Asia experience, but it has several characteristics which render it unique. First, it has a multiethnic population each with its own demographic profile and dynamics. Second, this multi-ethnicity figures prominently in the country's politics. Third, its stock of human capital has been augmented at

¹ Works by Myrdal (1968) and others (in particular Geertz, 1963) set the tone on the negative impact of rapid population growth in developing countries. However, Easterlin (1967) found the evidence of the impact of population on economic growth to be inconclusive, venturing the view that the effect of population growth on economic development might have been in any case exaggerated. Sinding (2009), however, marshaled evidence to support the argument that lower birth rates contributed positively to economic development.

different stages of its history by immigrants from other lands. Its experience with respect to the fertility transition and human capital development also has major significance for policy and even lessons for other countries.

The objectives of this paper are fourfold. The first is to briefly review Malaysia's population dynamics, specifically its fertility transition and international immigration, both of which have been important in shaping the size and nature of the country's human resource base. Second, Malaysia's experience of human capital strengthening through education and training is reviewed in the context of human capital deepening that Malaysia requires in its efforts to "graduate from the middle".² Third, an assessment is made of these efforts not only in relation to the above stated objective but also in the broader context of human development. Finally, lessons are drawn from the Malaysian experience.

This paper is structured as follows. The next section describes Malaysia's population dynamics from about 1970 to the present, a period in which rising income has occurred in tandem with falling fertility rates and about a decade of rising immigration. These developments had major consequence for the country's labor pool. Section 3 examines Malaysia's efforts at deepening this pool through education and training. Section 4 undertakes an assessment of the efficacy of these initiatives. The final section concludes with comments on the lessons from the Malaysian experience.

The Malaysian Demographic Experience

Like several countries in East and Southeast Asia, Malaysia experienced a demographic transition to low fertility at a time when the economy was undergoing rapid economic growth. This transition was not apparent when examining total population figures from 1960 onwards (Table 1). Population figures during this period were affected by two major events, one political and one demographic. The political event was the race riots of 1969 which resulted in a flow of non-Malays to Singapore and overseas, bringing down the population growth rate between 1970 and 1980 to 2.3 percent (Saw, 2007: 15). The other is immigration between 1991 and 2000 which produced population growth of 3.1 percent per annum. The extent of immigration can easily be gauged by comparing the population growth rate with the rate of natural increase. It added 0.4 percent to the latter in 1991, 1.2 percent in 2000, and 0.7 percent in 2010.

The transition to low fertility is apparent from the crude rate of natural increase, which was more than halved between 1960 and 2010. This transition has produced, from 1970, a dwindling share of the population aged 14 and below and a growing share of working age (15-

² This was the title of the book edited by Hill, Tam and Ragayah (2012). The human capital issues features in their discussion.

64) population. As the population ages, the share of the economically active population, representing the demographic dividend, will eventually peak and shrink as the age group 65 and above expands.

Table 1: Malaysia’s Demographic Transition, 1960 – 2010

Census Year	Population (mil.)	Population Growth Rate (%)	Crude Natural Increase Rate (%)	Economic Active Population (% of Total Population)	Population Aged 0-14 (% of Total Population)
1960	8.0	--	3.1	53.4	43.8
1970	10.4	2.7	2.6	52.2	44.5
1980	13.1	2.3	2.5	56.5	39.9
1991	17.6	2.7	2.3	59.2	37.2
2000	23.4	3.1	1.9	62.0	34.1
2010	28.3	2.0	1.3	67.3	27.6

Source: Department of Statistics, Malaysia, various publications.

The economically active population represents the pool from which the labor force is drawn. The latter is shown in Table 2. Just over a third of the economically active population is not in the labor force, this proportion showing little variation over the past two decades. Malaysia’s labor force participation rate, at only about 65 percent, is the result of female participation rates much below those of her neighbors and other East Asian countries (Cheong, et al, 2013: 7). Participation in the labor force is also reduced by rising enrollment at both the secondary and tertiary levels of education. In particular, the enrollment rate in tertiary education doubled between 1996 and 1998 as a result of the introduction of the Private Higher Educational Institutions Act (Act 555) 1996.

Although not comparable to the above in terms of numbers, the labor supply is also depleted by a growing number of Malaysians leaving the country for greener pastures abroad.³ From 1980 to 1990, the World Bank (2011b: 91) estimated that this outflow grew at 4.2 percent per annum, increasing by 50 percent the stock of Malaysian migrants overseas. Over the following decade this stock increased another 40 percent, averaging growth of 3.6 percent a year.⁴ This “brain drain” is more than about numbers, being both location- and skill-selective. Singapore is the recipient of up to half these migrants, while 60 percent are highly skilled. Australia has the second largest of the Malaysian community living overseas (Hugo, 2011).

³ This has led the National Economic Action Council, formed by the government to address major impediments to Malaysia becoming a developed country, to lament: “We are not developing talent and what we have is leaving.” (NEAC 2010: 6). Foo (2011) attempted to quantify the extent of brain drain while Harnoss (2011) estimated the economic costs associated with the problem.

⁴ While the economic factors are the primary drivers of this high outflow overseas, the survey conducted by Foo (2011) showed that the political and social dimensions cannot be ignored.

Table 2: Factors Affecting the Size of Malaysia’s Labor Force 1990 - 2010

Year	Labor Force Participation Rate (%)		Education Gross Enrollment Rates (%)		
	Total	Female	Primary	Secondary	Tertiary
1990	66.5	47.8	93	54	7
1992	65.9	46.9	95	56	9
1996	66.3	46.8	97	57	11 (1995)
1998	64.3	44.4	96	67	22
2000	65.0	47.2	96	66	26
2002	64.4	46.7	98	66	27
2004	64.4	47.2	96	72	30
2006	63.1	45.8	100	68	29
2008	62.6	45.7	--	66	34
2010	63.7	46.8	--	67	37

Sources: Department of Statistics, Malaysia (2009; 2013); UNESCO (2013).

With an unchanged participation rate, brain drain notwithstanding, the size of Malaysia’s labor force would have grown with the share of the population that is economically active in addition to the natural increase in the population. This growth, however, is insufficient to meet the even more rapid expansion of labor demand, fueled by heady economic growth rates that, although interrupted by recession in the mid-1980s, reached 9.1 percent between 1990 and 1997 when the Asian Crisis broke (NEAC, 2010: Figure 5).⁵ This labor deficit was made good by immigration of foreign workers, both legal and illegal. Table 3 shows the rapid growth in legal immigrant workers between 1999 and 2008. Indonesians have been dominating this flow since 1999 and even before, but diversification in source country suppliers of labor is evident from the annual growth rate of 47.7 percent of the group “All other sources” during this period.

Table 3. The Flow of Legal Immigrants Workers to Malaysia 1999 – 2008

	No. of Immigrant Workers (000)	Percent Share from			
		Indonesia	Bangladesh	Thailand, Philippines, Pakistan	All Other Sources

⁵ Using demographic data as well as economic data reflecting labor demand, Hirschman (2013) documented Malaysia’s journey from labor surplus in 1970 to labor shortage in 2000.

1999	410	65.7	27.0	2.9	4.4
2001	850	74.7	13.5	2.0	9.8
2004	1,470	69.7	3.7	1.6	25.0
2008	2,062	52.6	15.3	3.3	28.7
% Change p.a. 1999-2008	+19.7	+16.8	+12.4	+21.5	+47.7

Source: EPU (2014) Table 1.4.1.

In addition to legal migrant workers, there has been a large influx of illegal migrants, mainly from Indonesia and the Philippines.⁶ Estimates of the number of these illegal migrants cannot be verified, but the figure of 2 million had often been cited (for instance by Kim, 2006). However, some credence to this number can be given by the approximately 1.3 million illegals who registered under an amnesty program (the “6P Program”) (Bernama, 2011). Other indirect evidence comes from population data for the state of Sabah. The population of that state grew from about 600 thousand in 1970 to 3.1 million in 2010, an average annual increase of 4.2 percent over 40 years. Even if the natural rate of increase in Sabah had been 3 percent a year that would have produced a population of about 1.95 million in 2010. The balance of 1.15 million people would have been immigrants. And since legal foreign workers are primarily in Peninsular Malaysia where much of the manufacturing is located, these immigrants would have been illegals. Indeed since about 800 thousand residents of Sabah were estimated to have moved to Peninsular Malaysia for work, (Kim, 2006) the number of illegals in Sabah alone would have numbered about 2 million.⁷

Malaysia’s demographic and socio-economic evolution since 1970 can thus be summarized as a rapid fall in fertility leading to a growing share of the economically active population, of which about a third had stayed outside the labor force. The latter is made up of students in upper secondary and tertiary education, as well as females. Since 1980, outmigration of skilled labor has been on the rise, magnifying the loss of human capital. Significant low-skill migrant worker inflows augmented the country’s labor supply, enabling sustained high economic growth through the traditional labor intensive model.

In the face of a labor supply constraint, an important strategy, implemented successfully by Korea and Taiwan, is to deepen the human resource pool to enable the economy to move up the value chain through education and training. Malaysia clearly embraces this strategy. In

⁶ Indonesia has a contiguous border with East Malaysia and is separated from Peninsular Malaysia by the narrow Straits of Melaka. The southern islands of the Philippines are not far from Sabah.

⁷ Saw (2007: 16) noted that there were an estimated one million illegal immigrants in 2004, 800 thousand of whom were Indonesians. A four-month amnesty saw the departure of 392 thousand illegal migrants.

putting forth his “Vision 2020”, then Prime Minister Mahathir Mohammad (1991) stated: “In order to achieve this economically just society, we must escalate dramatically our programmes for national human resource development... there has to be the fullest emphasis on making the needed advances at speed and with the most productive results – at the lowest possible economic and societal cost.” How well have the country’s programs translated this vision into practice?

Education and Training for Human Capital Development

In reviewing Malaysia’s performance in human resource deepening, two dimensions – one quantitative and the other qualitative – merit consideration. From a quantitative perspective, Malaysia has made substantial progress. As Table 2 has shown, there is little doubt that in terms of access to education, Malaysia has achieved 100 percent coverage of primary education and therefore the UN’s Millennium Development Goal 2 of universal primary education (UN, 2011: 3). Two-thirds of youth of the appropriate age group are in secondary schools while a third are in tertiary education in 2010, compared to just over half and under a tenth respectively in 1990.

It has also achieved parity both respect to ethnicity and gender in both primary and secondary education. Using cohort analysis, Hirschman (2013a) showed the narrowing and closure of gaps between ethnic Malay, Chinese and Indians entering the first year of primary school, those with up to lower secondary education completed, and those who completed secondary school. Indeed, for the second and third categories, Malays had gained a decided advantage over the other ethnic groups from the 1955 – 1964 birth cohort onwards (Table 4).

Table 4. Achievement by Levels of Education among Malaysia’s Ethnic Groups

Education Achievement/ Ethnic Group	Birth Cohort				
	Before 1905	1905-14	1925-34	1945-54	1965-74
<u>% Entering Primary Year 1</u>					
Malay					
Chinese	35	47	72	93	97
Indian	53	58	76	93	94
	53	58	76	93	94
<u>% Schooled up to Lower Secondary</u>					
Malay	2	4	7	45	89
Chinese	7	8	16	44	77
Indian	-	15	18	50	78
<u>% Progressing from Lower Secondary to Completing Upper Secondary</u>					

Malay	20	56	65	60	76
Chinese	58	55	60	62	63
Indian	--	47	65	53	56

Source: Hirschman (2013b)

Likewise, gender parity has been more than achieved (UN, 2011: 33-35). Shyamala et al (2014: 129) reported that since the early 1990s, enrollment rates for females have been equal to or exceeded those for males at all levels of education, and together with higher retention rates, the disparity in favor of women rose with the level of education. This parity is reflected in the equalization of literacy rates among those aged 15-24 (UN, 2011: 35).

This quantitative achievement has been made possible largely by generous government expenditure. Malaysia spends more on education as a share of GDP than its East Asian peers, and on education as a share of the total government budget than most of its East Asian peers (Table 5). This spending has also been escalating from one five-year plan to the next. The development expenditure allocation for the Ninth Plan 2006-2010 was RM40.4 billion, two and a half times that for the Seventh Plan's RM17.5 billion (Cheong, Selvaratnam and Goh, 2011: 168).

Table 5. Public Expenditure on Education: Malaysia and Selected East Asian Countries

	As % of GDP			As % of		
	2000	2005	2011	2000	2005	2011
Malaysia	--	4.9	5.6	21.4	21.0 (2004)	20.9
China	5.6	3.3	3.5	11.4 (1999)	--	--
Indonesia	1.3 (1995)	--	--	11.1 (2001)	15.3	15.0
Korea, Rep.	3.2	3.2	3.3	--	--	--
Philippines	3.3	2.3	2.8	15.2	12.4	13.2 (2009)
Singapore	3.9	3.2	3.2	14.8	23.7	20.5
Thailand	3.9	3.5	4.3	27.5	20.2	24.0
Vietnam	2.9 (1995)	--	--	--	--	20.9 (2010)

Sources: ADB (2013) Table 7.5; World Bank Database.

At the tertiary education level, the passage of the Private Higher Education Institutions Act in 1996 that opened up tertiary education to the private sector was a milestone that saw the expansion of enrollment in private sector institutions. This expansion was so rapid that in a little over a decade (2007), the number of students enrolled in private institutions had accounted for 42 percent of total post-secondary enrollment (Cheong, Selvaratnam & Goh,

2011: 166). And in 2010, the private higher education sector accounted for 52.5 percent (484,377 students) of student enrolment at the tertiary level as against 47.5 percent (437,420 students) in public institutions of high learning (Kementerian Pengajian Tinggi, 2011).

In discussions of human capital development in Malaysia, the area known today as technical and vocational education and training (TVET) has been conspicuous by its absence until recent times. Yet TVET has played major roles in the technological advance of Germany and Korea. As Malaysia aspires for developed country status, what has been the situation in this neglected sector?

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Table 6. Enrolment in Secondary Vocational Education, 1999 – 2010

	1999	2003	2007	2011	% growth p.a. 1999-2011
Total	124,816	138,521	157,812	178,480	3.0
Female	54,350	57,581	68,853	75,780	2.8
% Female	43.5	41.5	43.6	42.4	

Source: UNESCO (2013)

National-level data have been hard to come by. Table 6 is constructed based on data from UNESCO's Institute for Statistics database. Although the data covers only full-time enrollment and most likely excludes part-time attendees and those participating in short-term training, the numbers are small compared with those enrolled in formal academic education. And with an annual growth rate of 3 percent, it is not gaining on academic secondary education. As noted by Cheong et al, 2013: 18-22), the gains made in this sector over the period 2000 to 2010 have been mainly qualitative, involving the achievement of sustained advocacy for TVET to support economic development, provision of incentives for skills upgrading (through the Human Resource Development Fund, HRDF), incorporating industry to foster a more demand driven approach to training, and the institution of training standards and quality assurance.

Assessing Education's Role in Human Capital Deepening

Beyond numbers, however, a number of structural and quality issues pose major challenges. First, as already noted, despite having enrollment and retention rates higher than for males, more than half the females drop out from the labor force, while those that remain were more likely than males to be found in lower-paid jobs or were unemployed (Shyamala et al, 2014: 127). Achieving the MDGs for education is a necessary but not sufficient condition for the productive use of human capital.

Second, despite near universal access, those students from low income households suffer several major disadvantages compared to their better-off peers. A newly completed survey revealed that these students have limited access to government education aid, lack of interest in class cause them to drop out at an early age, education-related expenses, even if defrayed by government subsidies, are a major financial burden for parents, while accessibility issues constrains choice for them (Patel, 2014: 1).

Third, despite the growth of private tertiary education, stake holders in that sector complain of the absence of a level playing field. They argue that they are viewed through the eyes of public sector institutions, and are benchmarked against them. Before the passage of the 1996 Act, private colleges were not allowed to award higher degrees. And long after 1996, quality assurance applied to private sector institutions continued to be undertaken by assessors from public sector institutions. More than these instances, differences between private and public institutions from objectives to medium of instruction, have sharpened the divide, both perceived and real between them (Hill et al, 2013: 10). Thus, even as, by the numbers, Malaysia has achieved its goal of being an education hub, it is faced with a tertiary education system running along parallel tracks, with little prospect of convergence.

Arguably the most serious challenge to Malaysian education is eroding standards despite high public expenditure. This erosion is manifest from international tests In which Malaysian students participated together with students in many other countries. These are the Trends in International Mathematics and Science Study (TIMSS), conducted every four years⁸ and the OECD study Program for International Student Assessment (PISA) conducted in 2009 and 2012. Table 7 shows Malaysia's absolute scores, not just rankings, in mathematics and science for grade 8-equivalent students to have fallen between 1999 and 2011, dipping below the international average score of 500 by 2007. This stands in sharp contrast to the performance of Singapore and the other newly industrialized economies (NIEs) which is collectively and consistently topping all other countries. The results from PISA are similar. Malaysia's scores are below average and far below those of the NIEs. And as if to underline that higher education spending does not necessarily translate into better results, Vietnam, which just achieved middle-income status, achieved a score of 511 points in mathematics and 528 points in science, the highest in ASEAN except Singapore, and above the OECD average of 494 points (<http://gpseducation.oecd.org/CountryProfile?primaryCountry=VNM&treshold=10&topic=PI>). Of the many challenges facing education, this has the most serious implications for human capital deepening and hence the long-term economic development of the country.

⁸ TIMSS is an international assessment of mathematics and science achievement of students in the fourth and eighth grades (or their equivalents) in participating countries. It was developed by the International Association for the Evaluation of Educational Achievement. (www.oecd.org/pisa)

Table 7. Malaysia's Test Scores in International Tests TIMSS and PISA, 1999 to 2011

Country/Skill Tested	TIMSS				PISA	
	1999	2003	2007	2011	2009	2012
<u>Mathematics</u>						
Malaysia	519	508	474	440	404	421
Korea, Rep.	578	589	597	613	546	554
Singapore	604	605	593	611	562	573
Taiwan	585	585	598	609	543	560
<u>Science</u>						
Malaysia	492	510	471	426	422	420
Korea	549	558	553	560	536	538
Singapore	568	578	567	590	542	551
Taiwan	569	571	561	564	520	523

If academic education leaves something to be desired, an effective TVET system can still help alleviate deficiencies in the human resource pool. Unfortunately, Malaysia's TVET system, while much improved over the last decade, suffers from major weaknesses of its own. In a recently completed study for the World Bank, Cheong et al, (2013) concluded that several major challenges emanated from the government's supervision and delivery of TVET programs and from the public attitude towards TVET.

First, unlike in countries like Germany, Korea and Singapore where TVET represents a pathway parallel but not inferior to academic education, the Malaysian public attitude towards TVET is that it is the refuge of those students who cannot make it in academic education. The result is that the TVET system is indeed populated by students of revealed intellectual capability inferior to those in academic education. This attitude is also manifested in the availability of data for TVET. While statistics from total enrollment to dropout rates are readily available for academic education, it is extremely difficult to find from government statistics a single data series for TVET participants at the national level, even allowing for the fact that TVET programs vary widely in duration.

This lack of data to provide a broad picture of TVET is partly because organizationally, Malaysia has multiple public agencies engaged in TVET but with limited interagency coordination. This lack of coordination means that even if each agency has improved transparency by releasing data, there is no coordinated effort at data aggregation. More serious than data is the possible overlap of programs and delivery locations although program consistency issues have been addressed through the harmonization of standards under the National Occupational Skills Standards (NOSS). These have implications for the effectiveness of program supervision as well as the efficiency of program delivery (Cheong et al, 2013: 16).

Third, and in terms of the government's role, policy formulation and announcements have not been matched by implementation and its supervision. As an example, and in addition to the issue already discussed above, measurement of program impact has largely been in terms of the amount of allocations utilized, and, to the extent that output is measured, impact assessments of training beneficiaries beyond employment are still largely absent. Nor was there any evidence that funding and other inputs were linked to targets to be achieved. And even if links could be established, it is impossible to assess the efficiency of funding use (Cheong et al, 2013: 15).

Finally, the public-sector focus of TVET allows for limited roles for non-government stakeholders, especially in active labor market programs, and only *ad hoc* attempts have been made to engineer public-private partnerships. Although industry participation in programs offered by public sector institutes has increased to dilute the public sector's supply-driven approach to provision, other stakeholders like workers who are potential beneficiaries have not been consulted. Also left out is the growing number of non-state providers who complained, during a workshop that brought both public and private providers together, of the government attitude towards them was primarily one of ensuring regulation and control with no attempt to understand their priorities and operations.⁹

Thus, the TVET sector, though having seen major improvement over the past decade, is burdened by an image problem, and government commitment in which policy formulation is not matched by implementation. And it has as yet too limited a coverage to make a significant contribution to deepening the human resource pool.

As a final point, it has been argued by critics of viewing education solely as a builder of human capital that education has been "commodified" – education as a commodity for which a price is determined by the conjunction of demand and supply – by economists in this age of globalization (see, for instance, Simpson, 2011). Education, they argue, should simply be a benefit to society by imparting knowledge, i.e. it should be part of human development. This is to an extent true, but in a country bent on economic catch-up to join the ranks of advanced nations, this focus on human capital can hardly be ignored. And even if the objective is human development, the Malaysian education is not delivering.

Concluding Remarks

A review of Malaysia's demographic trends with respect to the size of the potential labor force as a result of the fertility transition reveals an opportunity to strengthen the country's human

⁹ This was at the workshop organized by the World Bank and hosted by the Institute of Strategic and International Studies in Kuala Lumpur on February 25, 2013.

capital base to move up the development ladder and avoid the “middle-income trap”. This opportunity, the demographic dividend, will be lost as the population begins to age.

Malaysia has not fully availed itself of this opportunity. While retention in school and tertiary education represents the right reason for remaining outside the labor force, the low labor force participation of females and occupational mismatch means that whatever gains in human capital deepening has not been put to effective use for the economy. This also suggests that the assumption of the positive impact of female education (see, for instance, Lutz, 2011: 1) needs to be viewed on a case-by-case basis.

Of the above challenges, that faced by education is the most important, and has consequently been extensively highlighted (Cheong et al, 2011; Lee and Shyamala, 2012; Mukherjee and Wong, 2011; World Bank, 2007, 2013), although with respect to the latter conspicuously not by the government.¹⁰ The sources of these weaknesses have also been identified, and have been traced to the country’s affirmative action policy that not only set out to equalize access but also outcomes as well the government’s mentality of control unaccompanied by public accountability (Cheong, Selvaratnam and Goh, 2011; Lee and Shyamala, 2012; Mukherjee and Wong, 2011). The former downgrades the importance of meritocracy in education while the latter encourages neither transparency nor institutional autonomy. While these and other factors need not be repeated here, the implication of a failure to develop human resources from a compromised education system has dire long-term consequences for a country, whatever its aspirations. The most important of these are the inability to achieve technological catch-up and the progressive deterioration in the quality of institutions.

The above challenge is related to the second major development with respect to the demographic transition. This is the immigration of migrant labor to fill the gap in labor supply. At a time of rapid growth, such a strategy would have been entirely appropriate, and this model has served Malaysia well (Del Carpio et al, 2013; Hirschman, 2013a). However, instead of viewing this as temporary relief to allow up-skilling of the local workforce, this model has become entrenched, with industry firmly opposed to its removal and the government commitment to curbing the use of low-skill imported labor only lukewarm. This situation, if continued, will compound the impact of a poor education system in retarding economic upgrading.

The Malaysian experience speaks to the fact that the benefits of the demographic dividend will not accrue automatically to a country and its citizens. It must be earned. Government policies are needed to capture these benefits. But they can also lead to these benefits being denied.

¹⁰ The government’s Education Blueprint, while recognizing the many weaknesses and has proposed many remedies. Yet no mention was made of the sources of these weaknesses.

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