Malaysia: innovation profile (Innovation in Southeast Asia)

An industrial sector based on the manufacture and export of the technology-based products of multinational enterprises (MNEs) has fuelled Malaysia's rise to a middleincome country. Electronics, particularly semiconductors, account for 40% of exports, followed by automobiles and parts, and a burgeoning services sector features tourism as well as Islamic banking and finance. Among Southeast Asian countries, Malaysia generally ranks second after Singapore in economic competitiveness. Like Indonesia, Thailand and the Philippines, Malaysia used foreign direct investment (FDI) and export-led manufacturing to emulate the success of the first wave of East Asian Tigers. Growth slowed, however, following the Asian economic crisis of 1997, and the slowdown persisted until the global financial crisis made matters worse. Currently Malaysia shows some signs of recovery, but there is still concern that the recovery may be difficult. MNEs in Malaysia mostly confine themselves to manufacturing and assembly activities. There is little research and development (R and D) or technology transfer and technical spillover from foreign to domestic firms. The country also suffers from a continuing shortage of skilled labour. Consequently, there is little innovativeness in the economy as a whole. Moreover, the domestic economy has seen declining private investment and stagnating productivity growth, coupled with a lack of competition in sectors such as services. This has led to fears that Malaysia is caught in a "middle-income trap" that can only be overcome by a stronger emphasis on innovation as a driver of economic growth. The Tenth Malaysia Plan (2011-15) and the New Economic Model (NEM) stress human capital development and improvements in innovation capacity. Substantial investments have been made in telecommunications infrastructure such as the Multimedia Super Corridor (MSC). The Plan emphasises the need to intensify research activities and outputs from universities and public research institutes, and to enhance their links with private companies in order to maximise commercialisation opportunities. Local content, R and D and technology transfer provisions for MNEs should be strengthened and incentives for firm training increased. The positive implications for growth of the NEM structural reform agenda are threatened by an increasing brain drain and the fiercely competitive regional environment for trade and foreign investment.

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