Malaysia Economic Monitor
Brain Drain

April 2011

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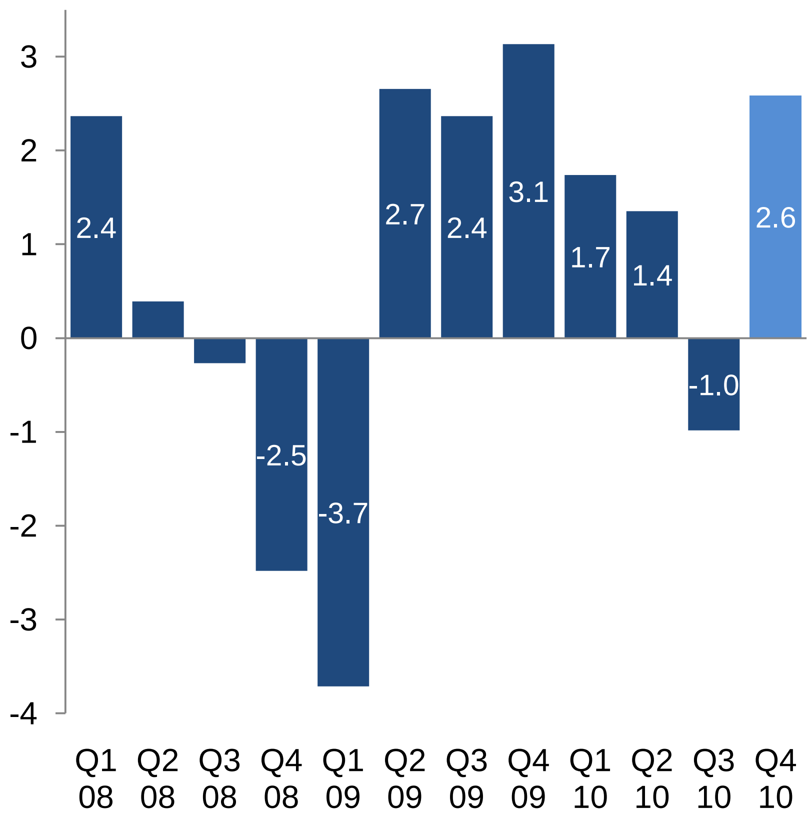
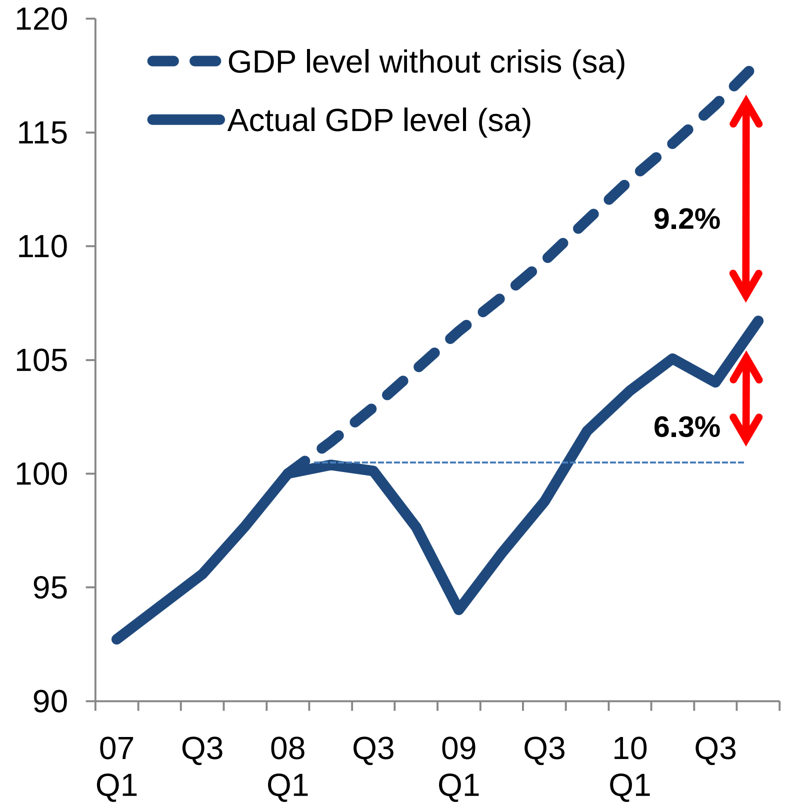
How is the economy performing post-recovery?

Growth momentum picked up late 2010.... but output losses from the crisis persist

Real GDP growth, QoQ , sa, percent

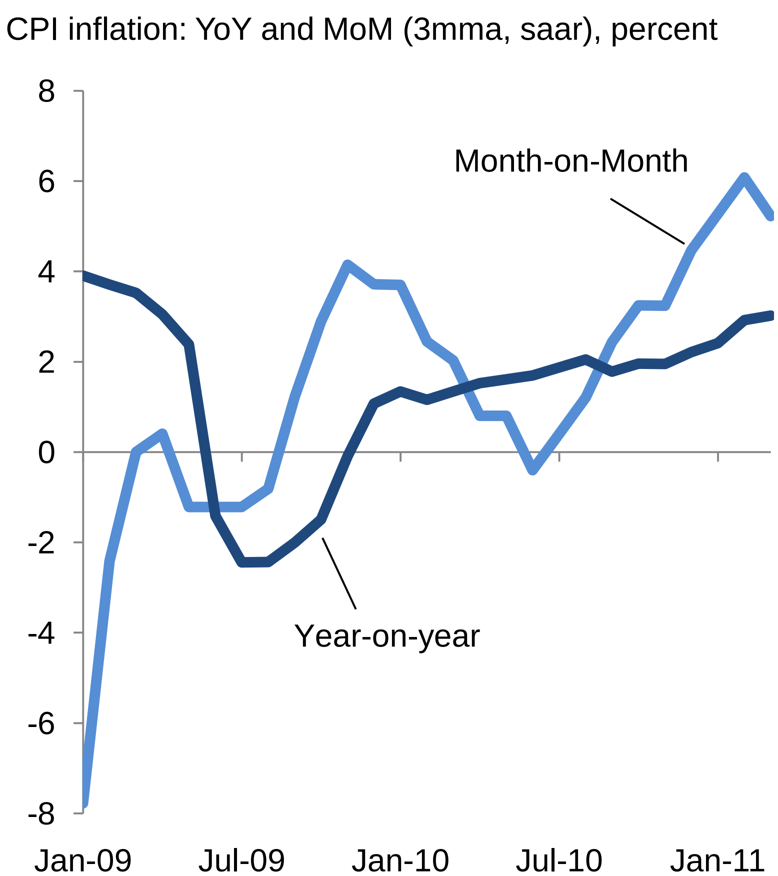


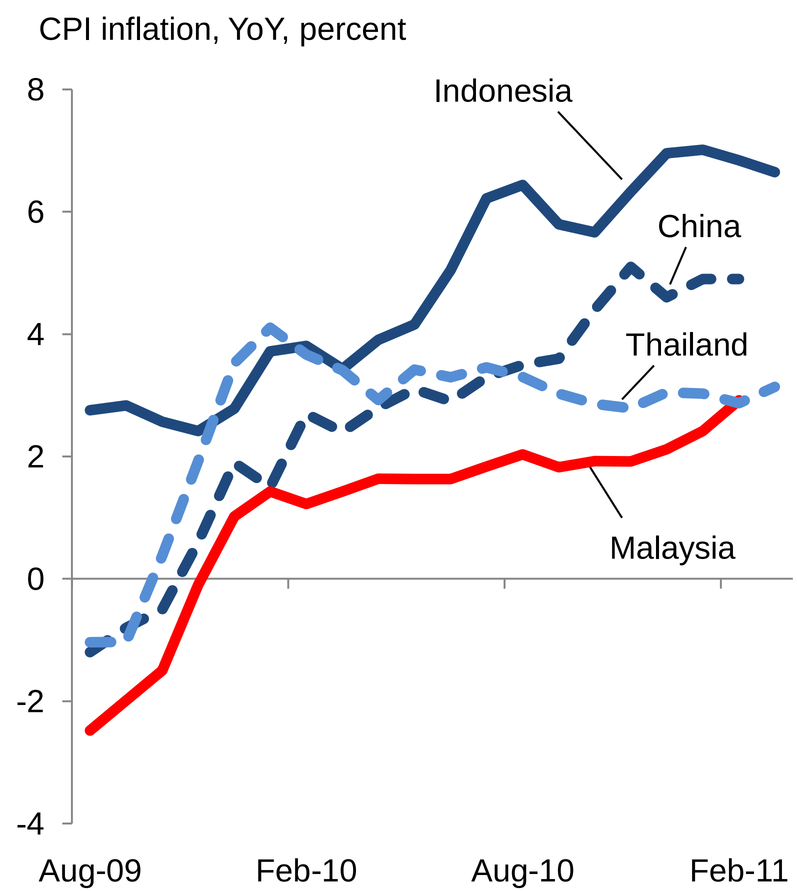
Actual and simulated GDP levels (sa), Q1 2008=100



Note: No-crisis scenario assumes quarterly growth at averages of 2002-07.

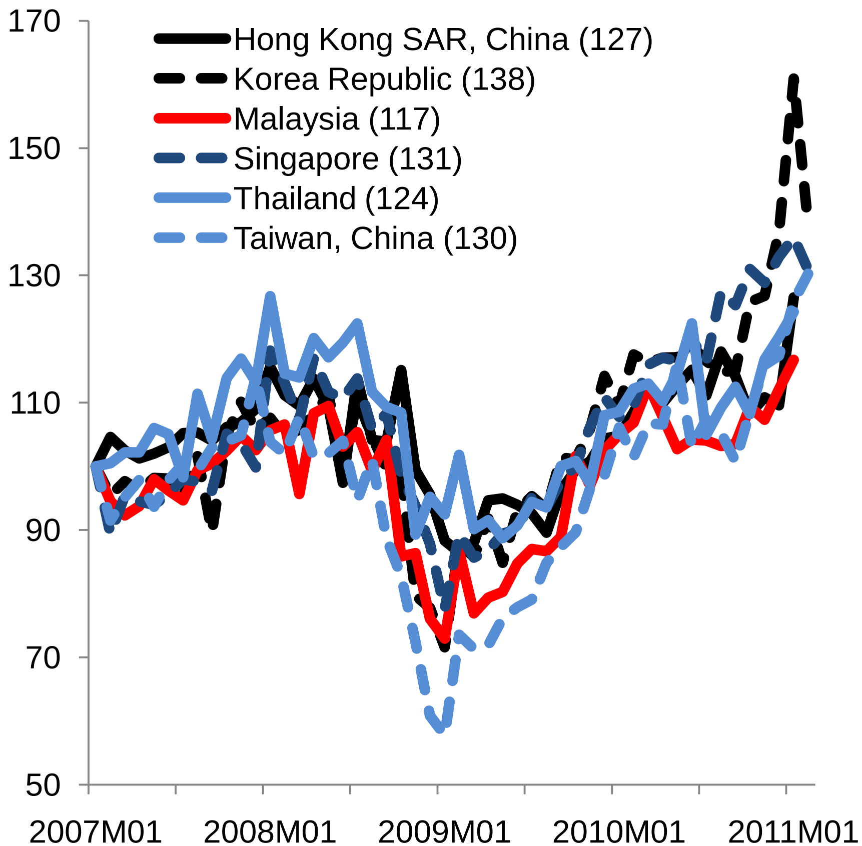
Inflationary pressure is building....
but remains benign in regional context



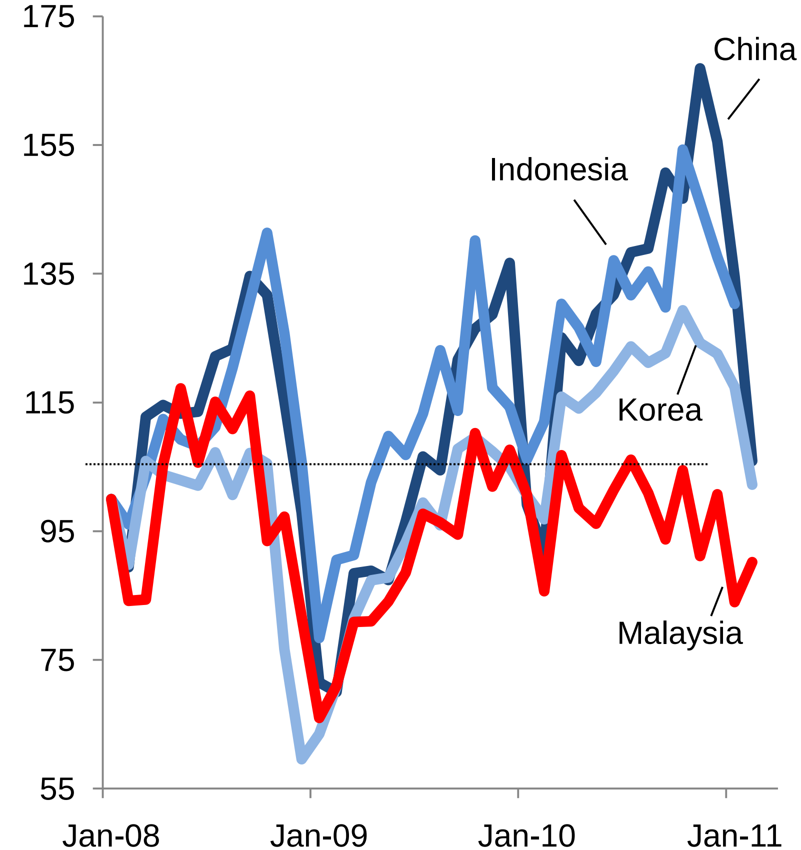


Export recovery lagged the region's.... a decline in structural competitiveness?

Goods export volume in USD, rebased to Jan 2007=100



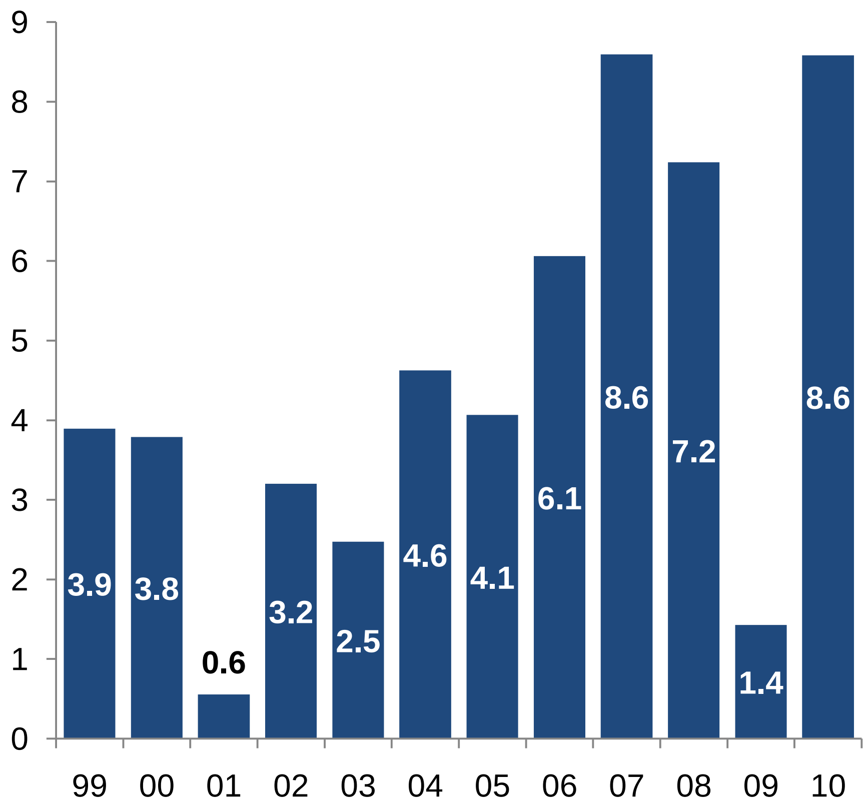
E&E export value, sa, rebased to Jan 2008=100



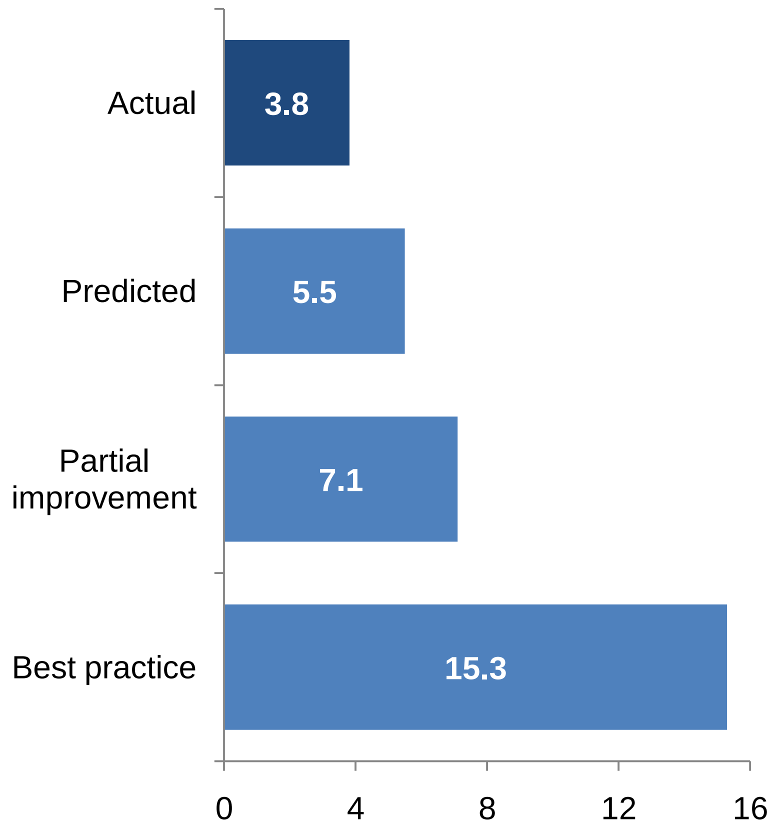
Note: Export volume of Jan 2011 relative to Jan 07 (=100) in brackets

Foreign direct investment rebounded.... but remains well below potential

Total FDI inflows, USD billion (UNCTAD data)



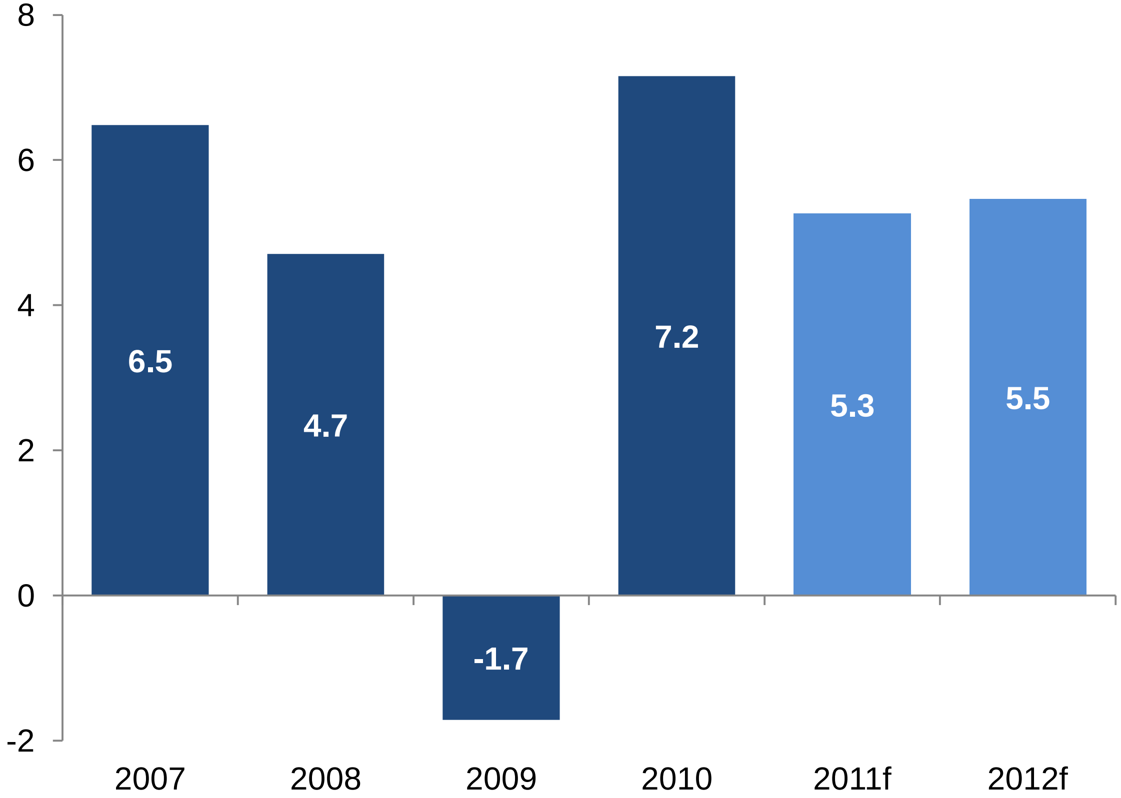
Actual and simulated average annual FDI inflows from 24 OECD economies during 2007-09, USD billion, OECD bilateral FDI data



What is the outlook for growth?

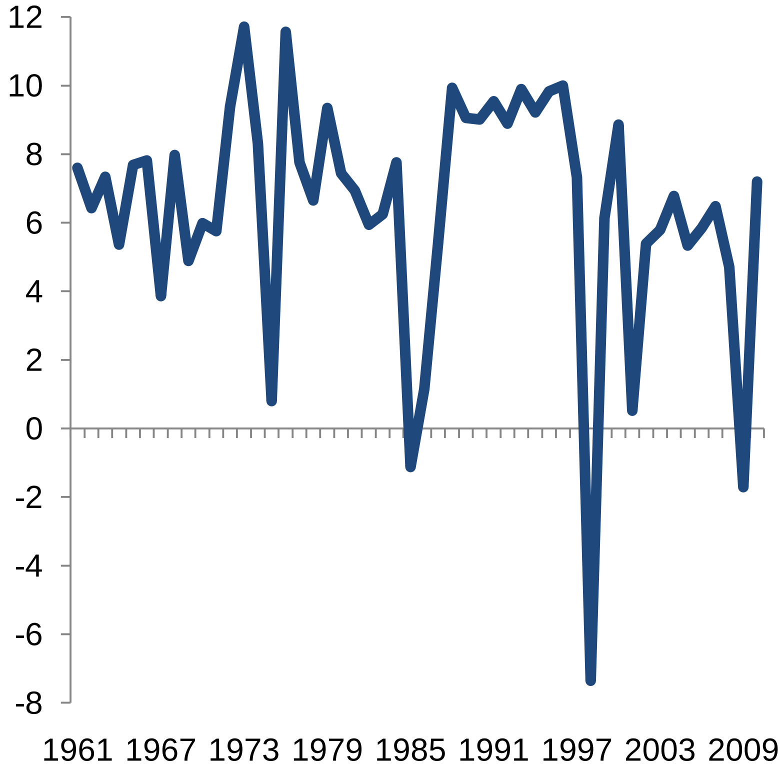
In the near term, output is expected to resume growth at pre-crisis rates

Actual and forecast real GDP growth, year-on-year, percent

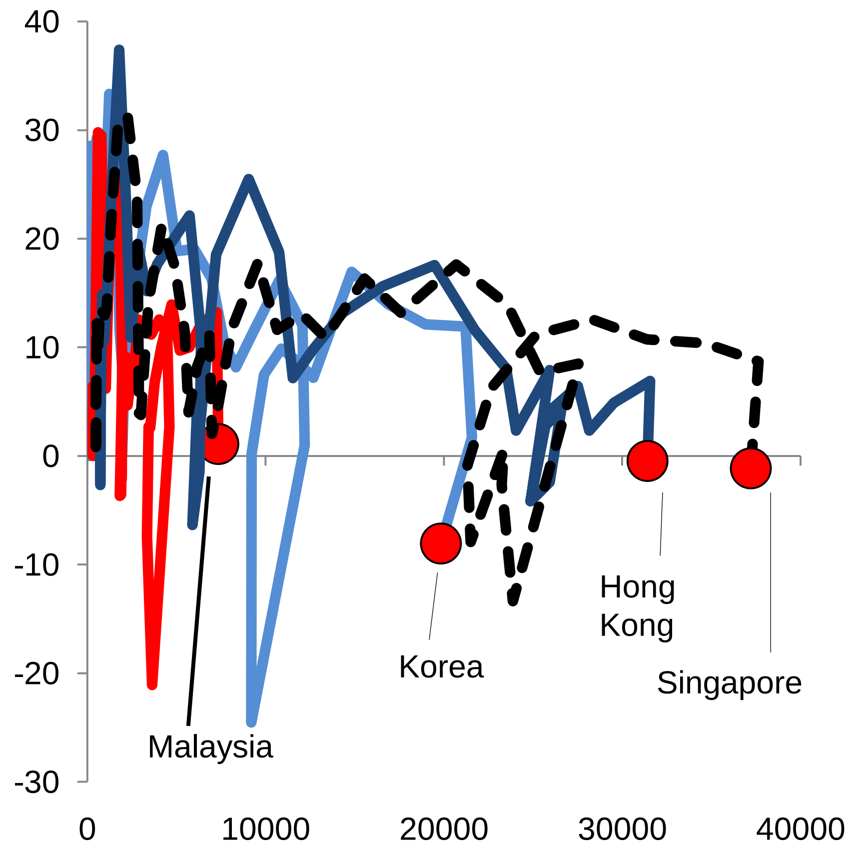


Over the medium term, the challenge is to escape the middle income trap....

Real GDP growth, percent

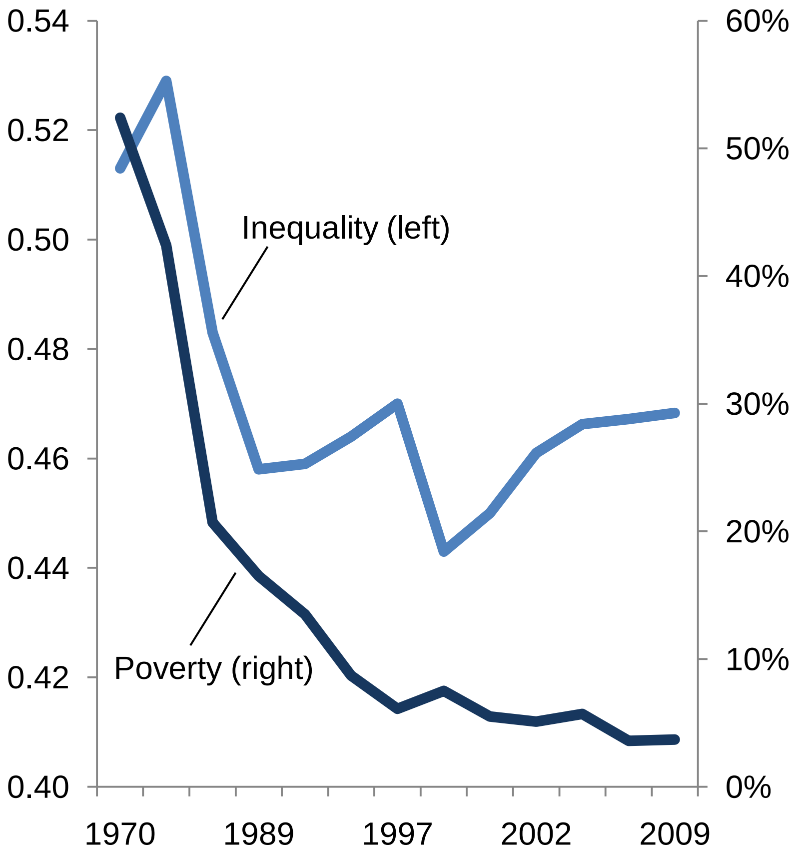


Annual growth over 1962-2009 in GNI per capita against level

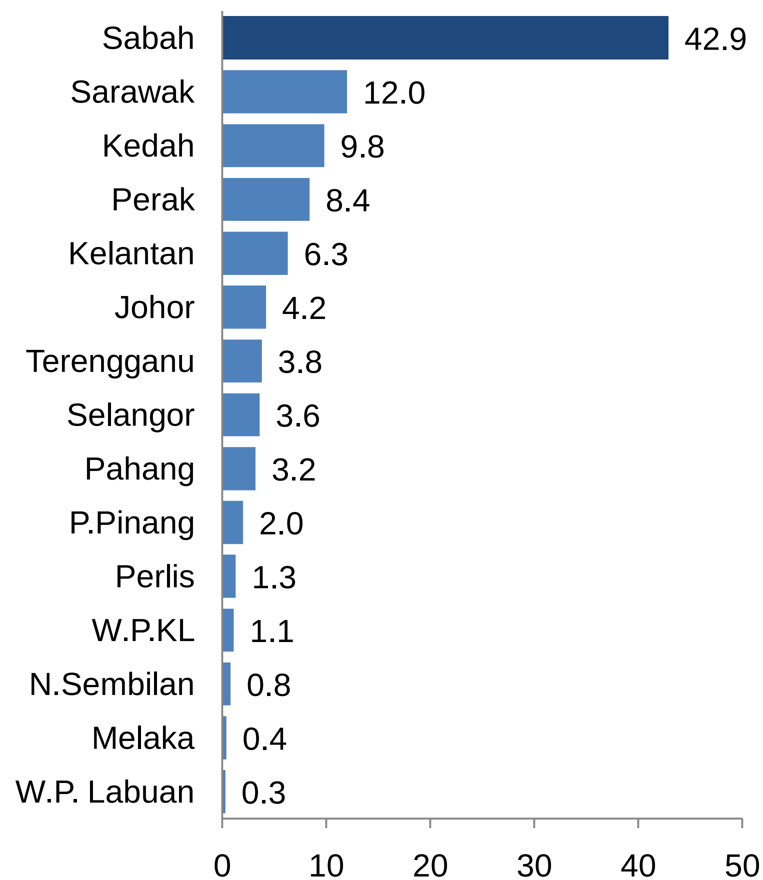


..... and book further success in reducing poverty and inequality

Gini coefficient of inequality and poverty incidence



Share of national poor in 2009, percent



The reform agenda: progress has been made, but implementation needs to be accelerated

- **Assessment and articulation: significant progress**
  - Frank assessments
  - Bottom-up and private-sector led approaches
  - Sound structure of the reform agenda

- **Implementation: more needs to be done**
  - New frameworks to facilitate implementation
  - Positive sentiment on NKEA projects
  - Interviews suggest skepticism on NEM

- **Addressing cross-cutting issues is key, else:**
  - Project-based growth acceleration not sustained
  - Underlying competitiveness eroded

Whither the Brain Drain?

Why a report on brain drain?

An impediment to Vision 2020?

- Malaysia needs talent
- Talent seems to be leaving

A subject of debate and controversy

- Anecdotes are abundant
- Systematic studies are few

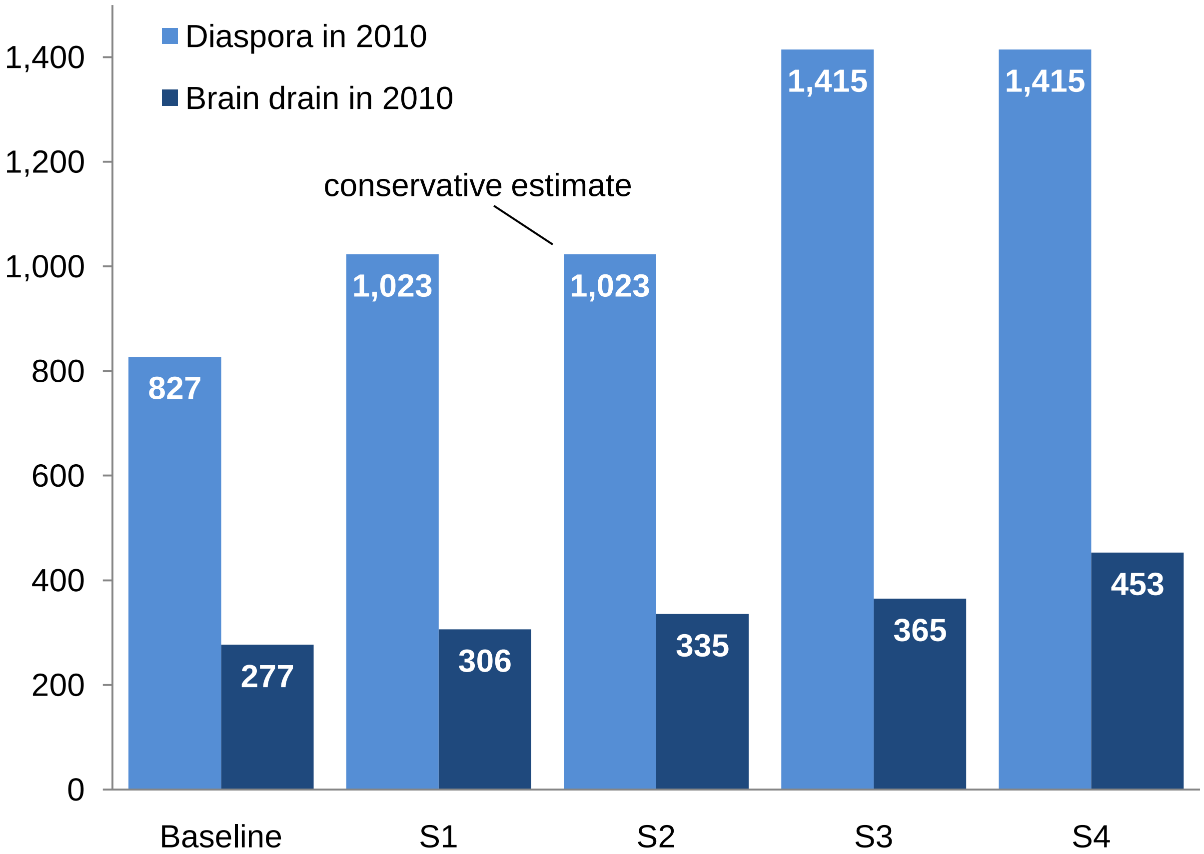
A topic that raises many questions

- How large is the brain drain?
- What is its economic impact?
- How can policymakers respond?

(1) How large is the brain drain?

- The Malaysian diaspora is estimated at one million as of 2010
- The diaspora is geographically concentrated and ethnically skewed
- About a third of all migration represents brain drain

Diaspora is estimated conservatively at 1 million, of which a third is brain drain



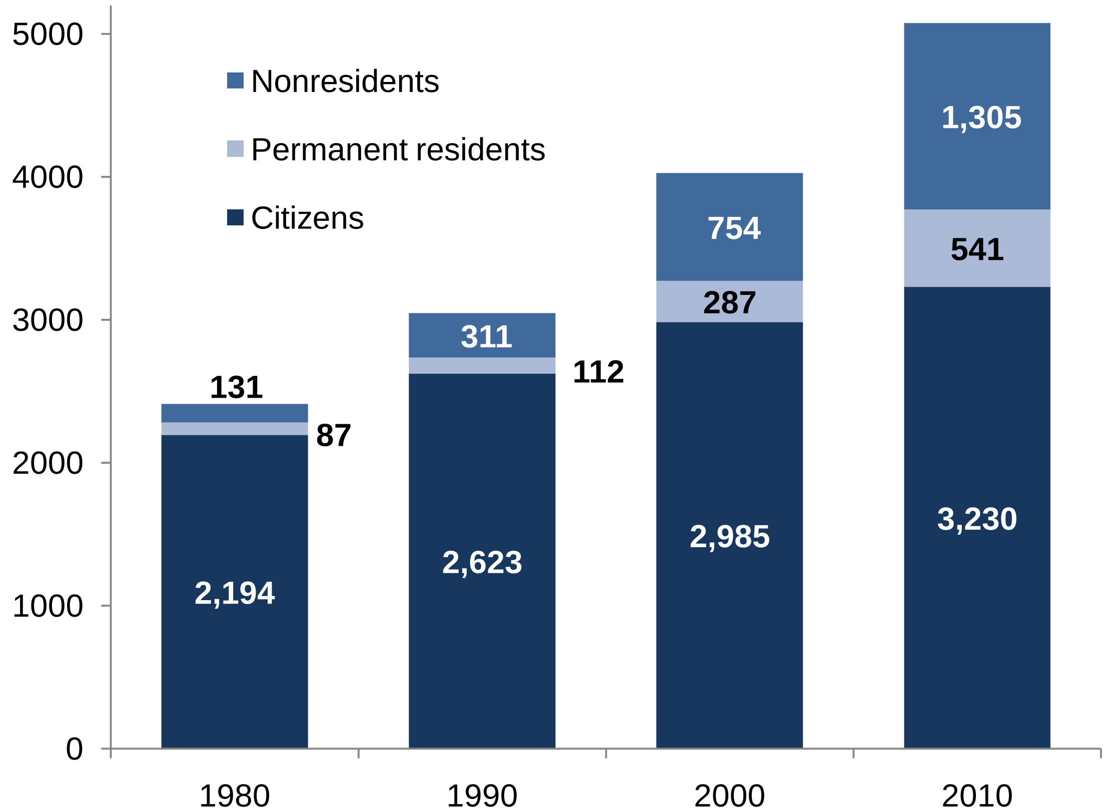
Assumptions on Singapore nonresidents

	Share Malaysian	Share skilled
Base	0%	0%
S1	15%	15%
S2	15%	30%
S3	45%	15%
S4	45%	30%

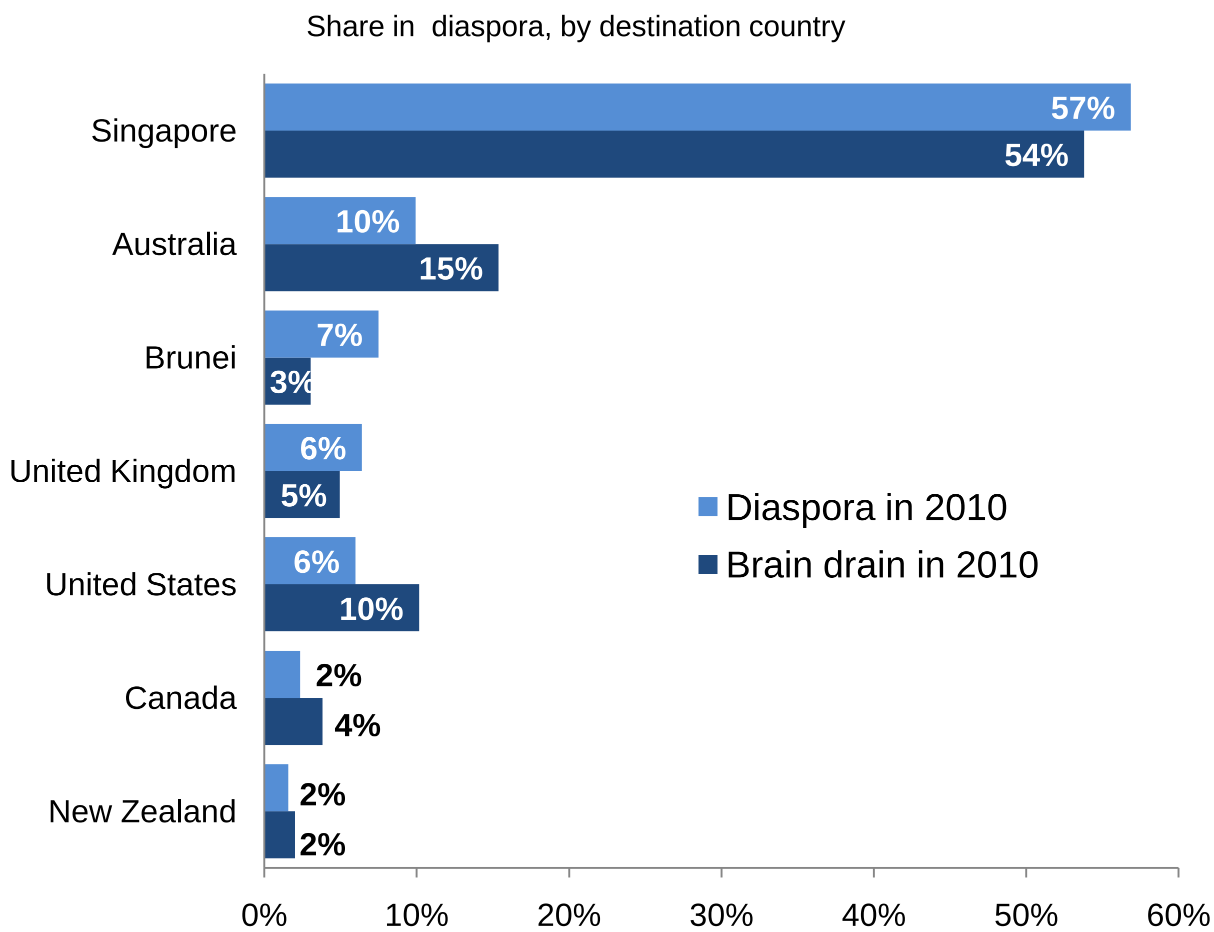
Note: in thousands

Singapore's nonresident population has grown rapidly

Evolution of population in Singapore, thousands

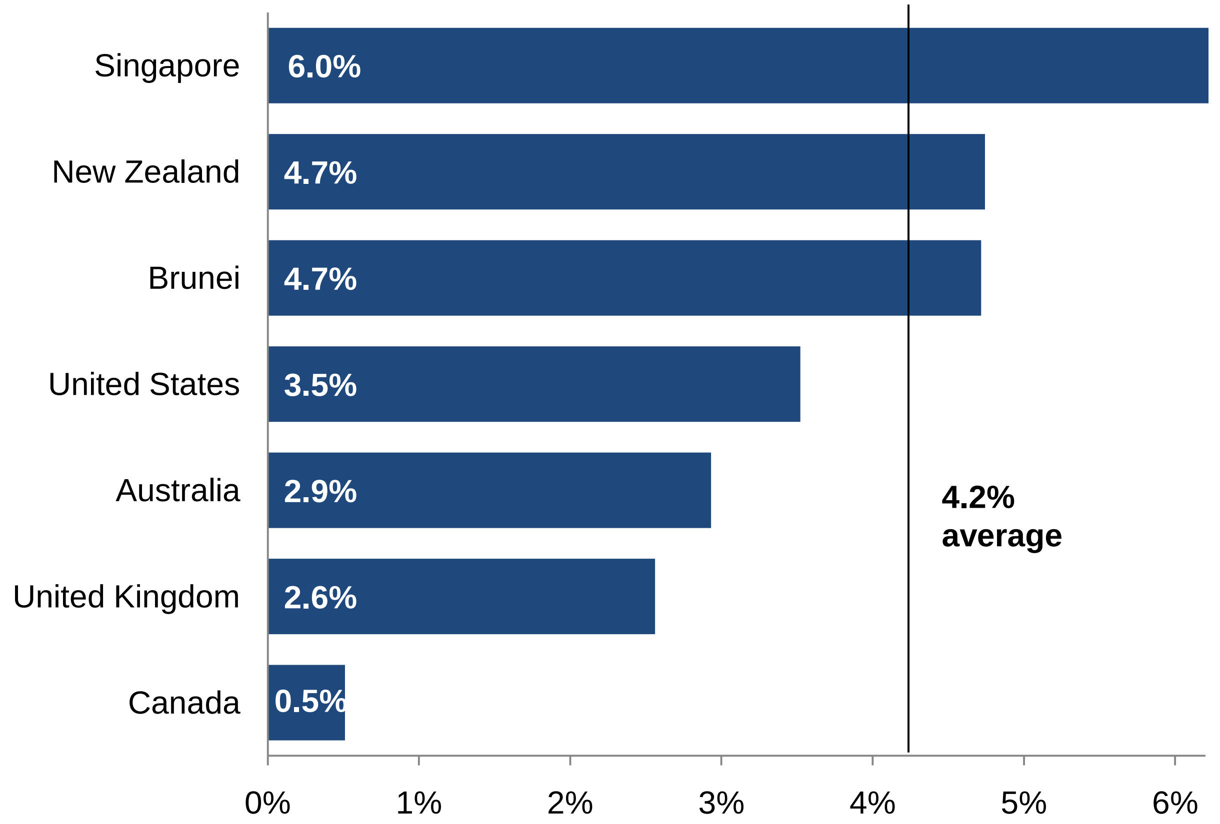


Diaspora and brain drain are concentrated in just a few countries

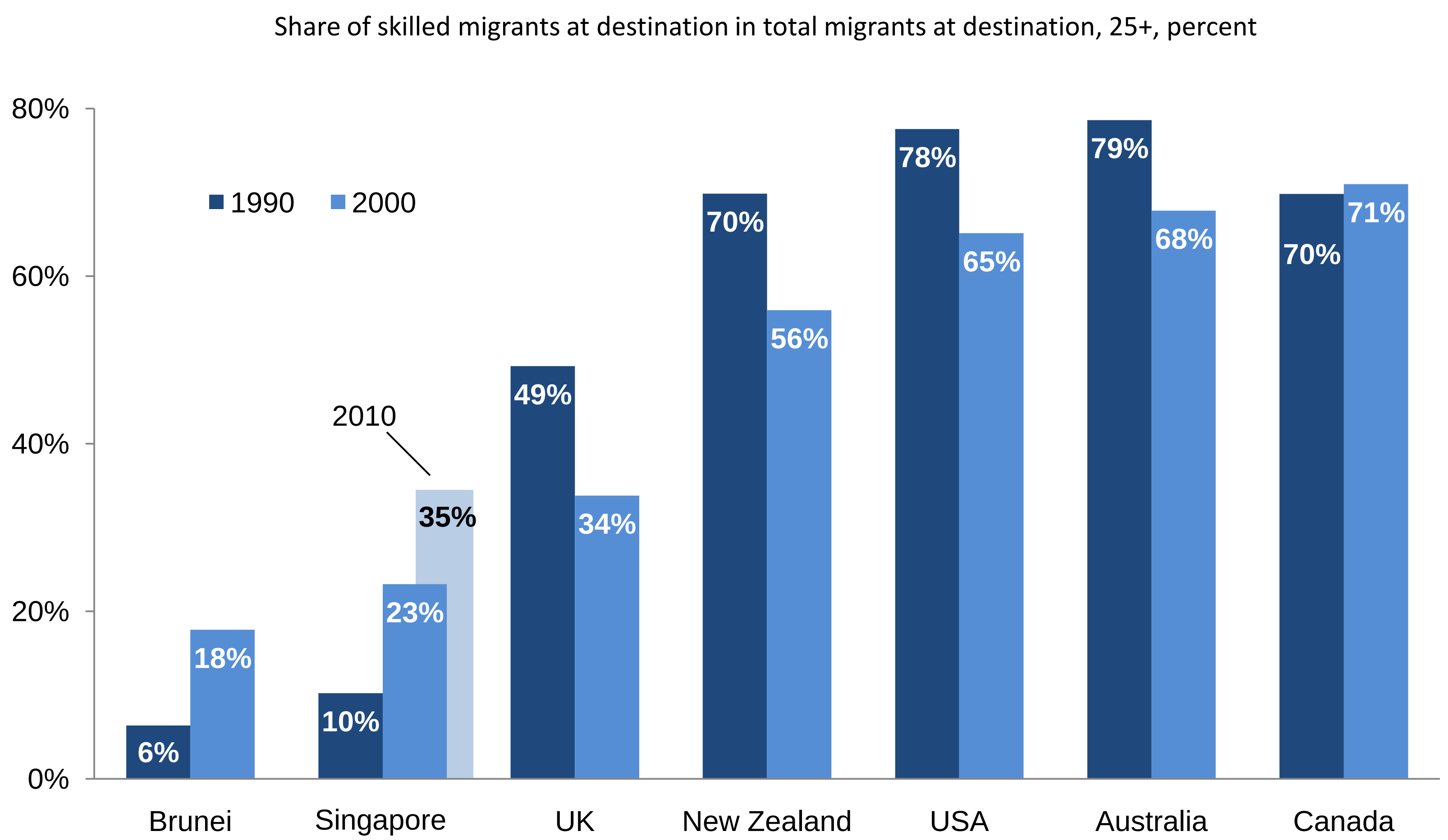


The rate of brain drain remains elevated…..

Estimates of yearly growth in skilled-migrant population, 25+, 2000-2010



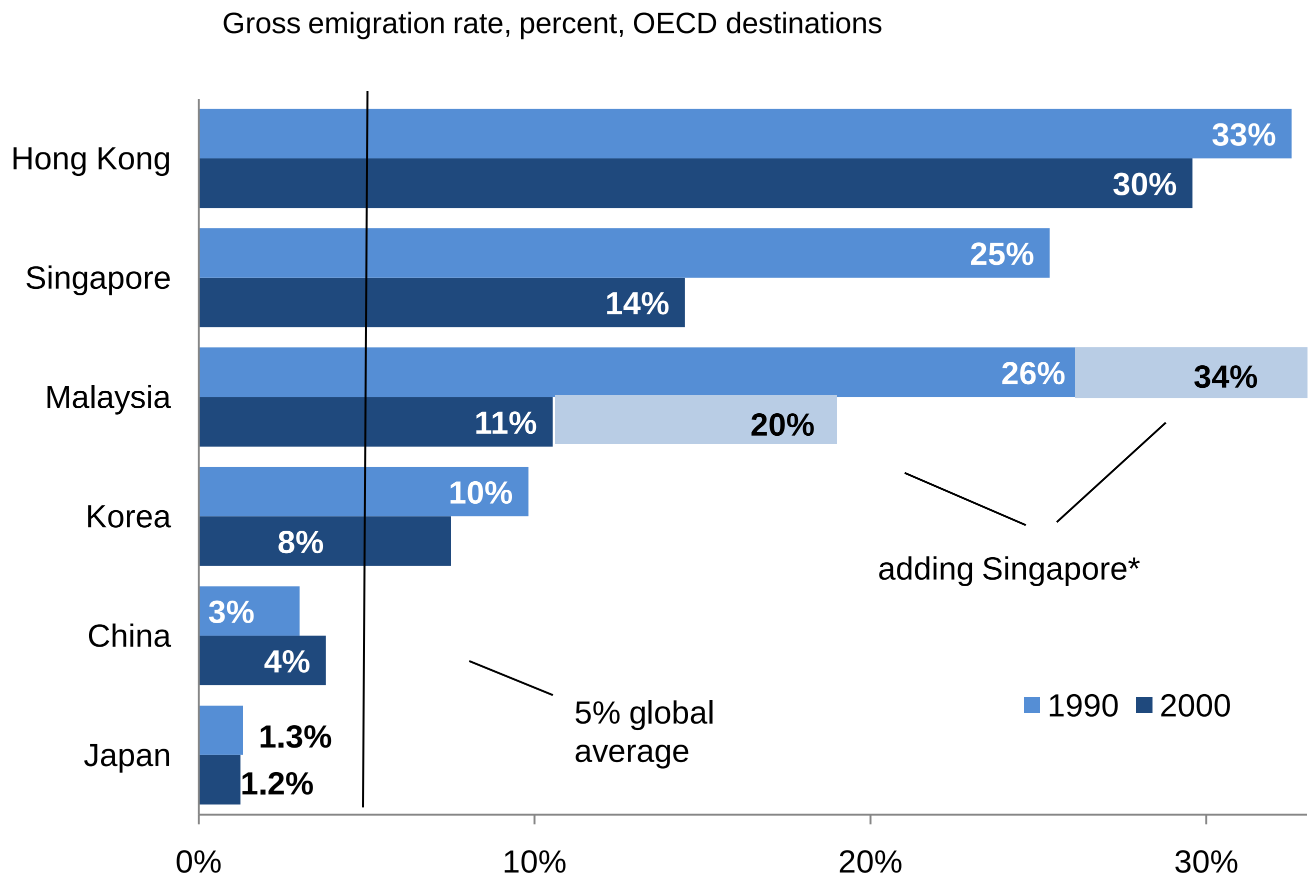
.... because migration to Singapore is becoming primarily skilled migration



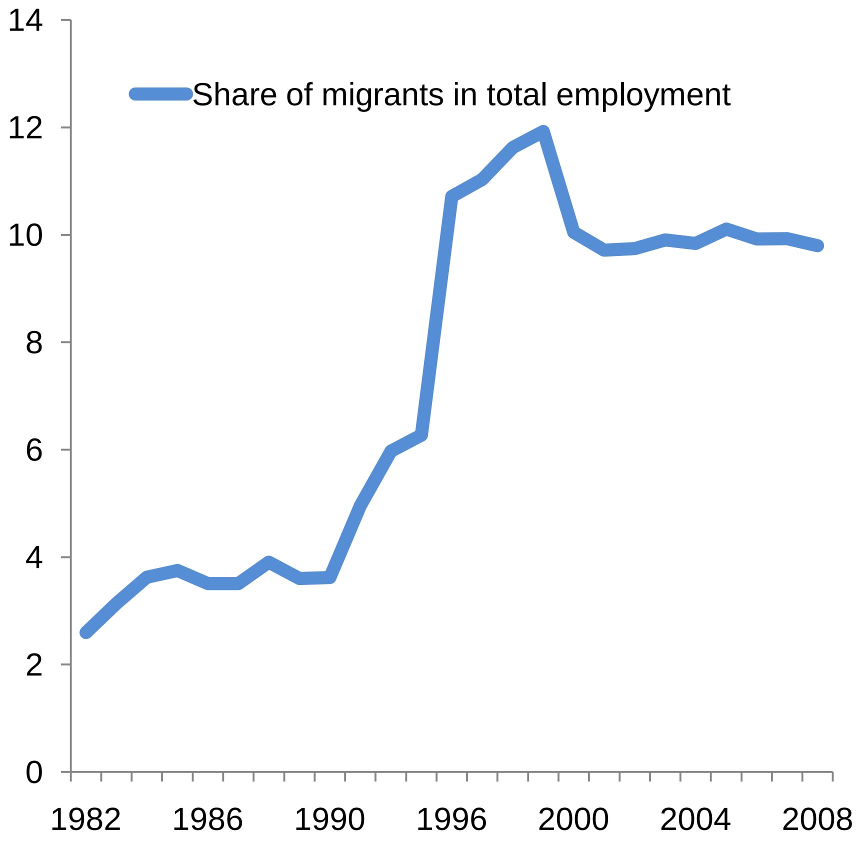
(2) What is the economic impact of brain drain?

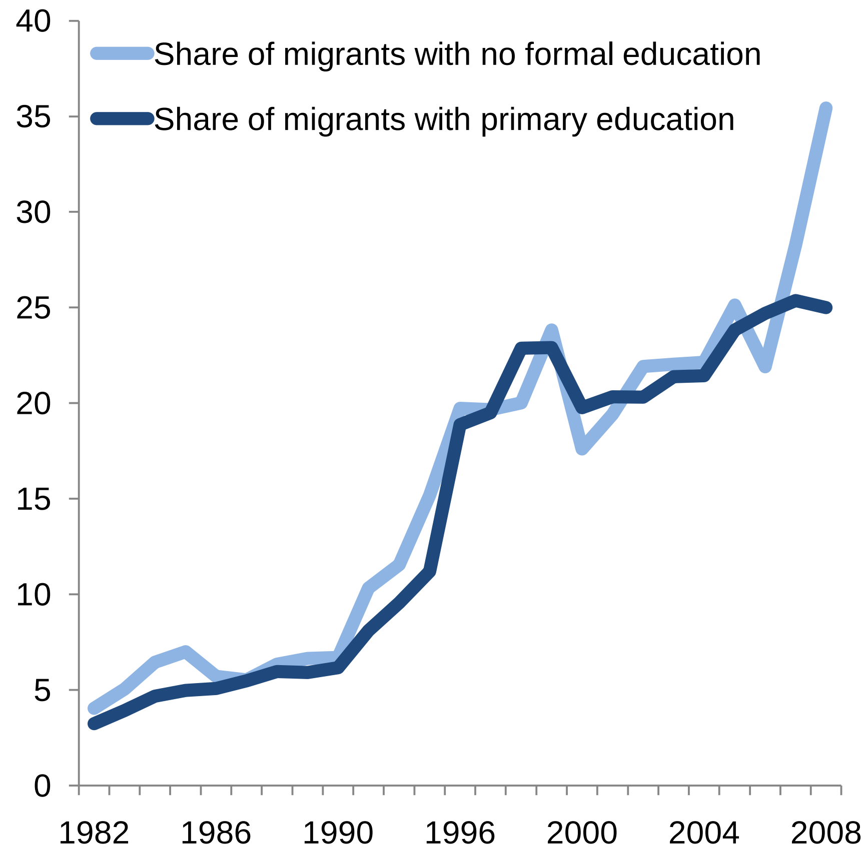
- Brain drain is aggravated by a narrow skill base and a lack of compensating inflows
- Brain drain imposes costs, but can also bring benefits
- Brain drain has likely contributed to an erosion of the already narrow skill base

Brain drain is intense relative to a narrow skill base



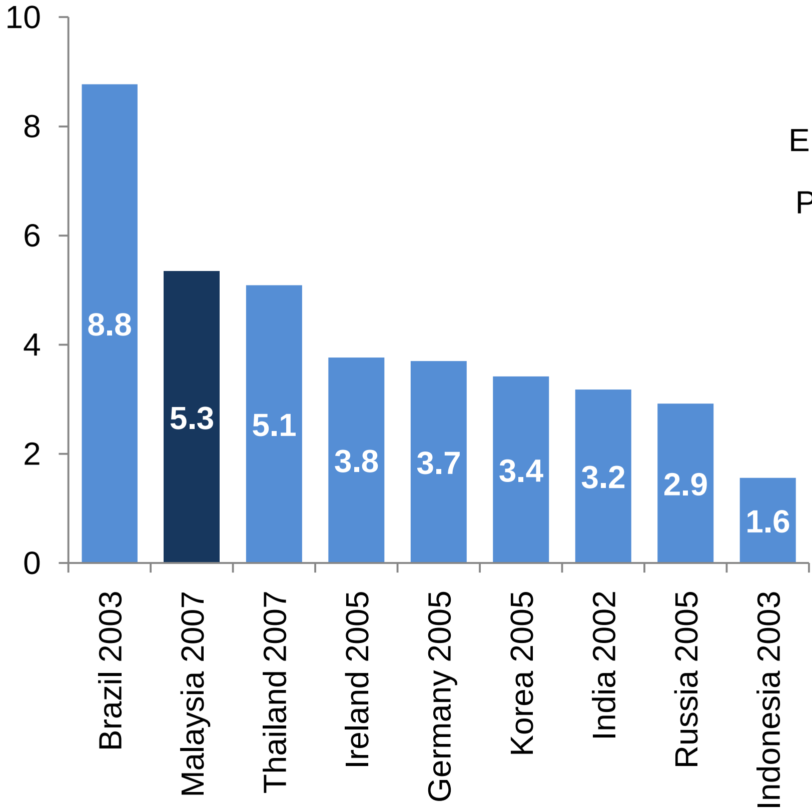
Brain drain is not alleviated by compensating inflow of skilled migrants



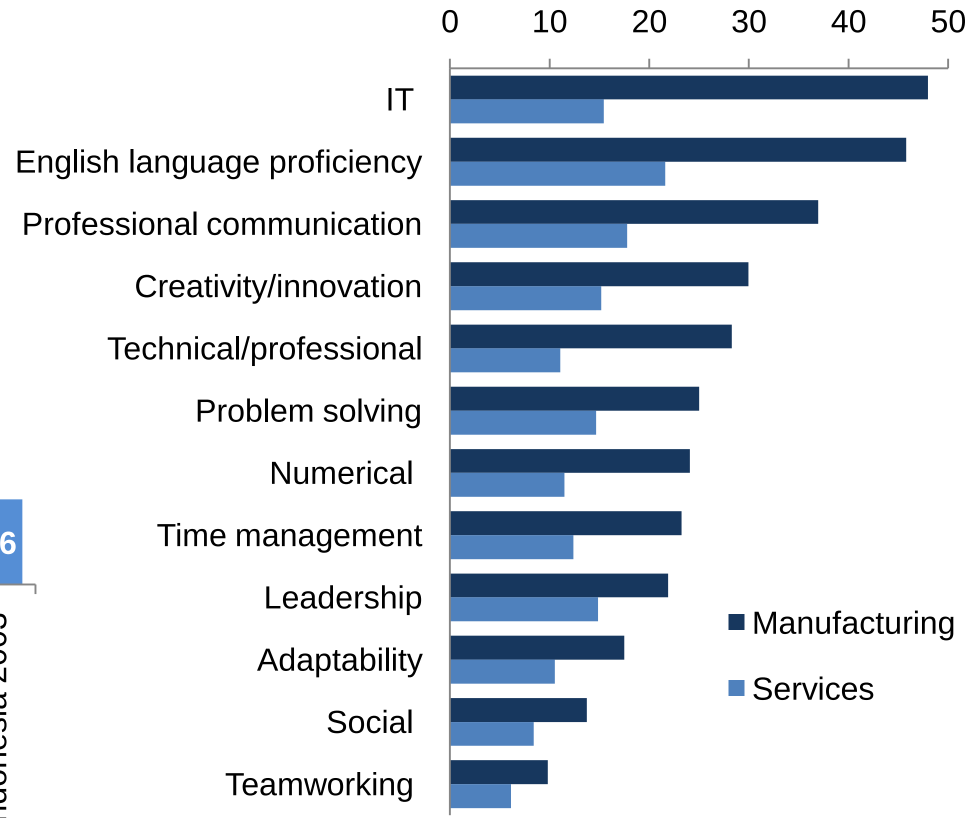


Brain drain has likely eroded the quality of the skill base

Number of weeks to fill vacancy for skilled technician



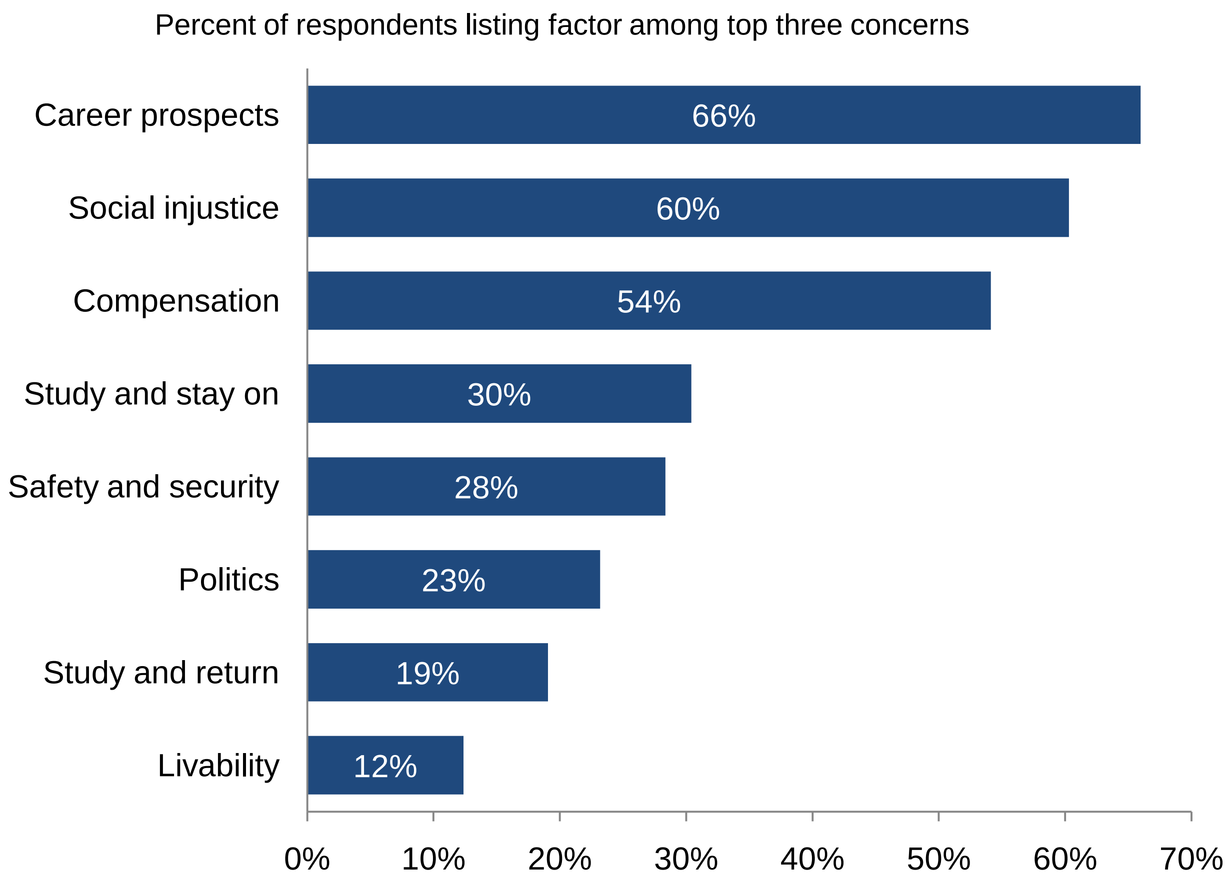
Percent of managers considering skill set of local skilled production workers ‘poor’ or ‘very poor’.



(3) How can policies address brain drain?

- Brain drain is a wave to be ridden, not a tide to be turned
- It is a symptom of underlying factors, not a problem in itself
- To address the brain drain at its root, the productivity and inclusiveness agendas are key
- Targeted policies to facilitate the flow of talent can complement but not substitute

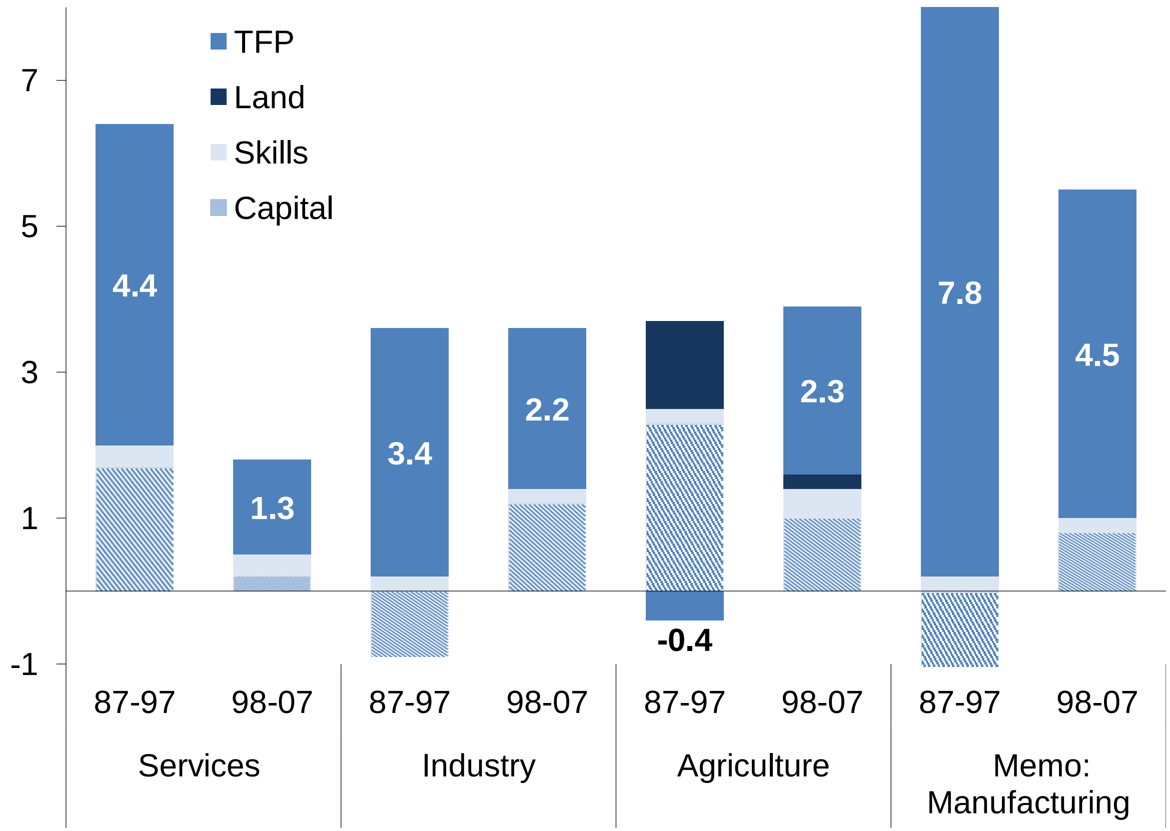
Brain drain is a symptom of underlying factors… productivity and inclusiveness are key



Source: Survey of the diaspora

Brain drain requires a comprehensive approach: (a) Boosting productivity to raise wages....

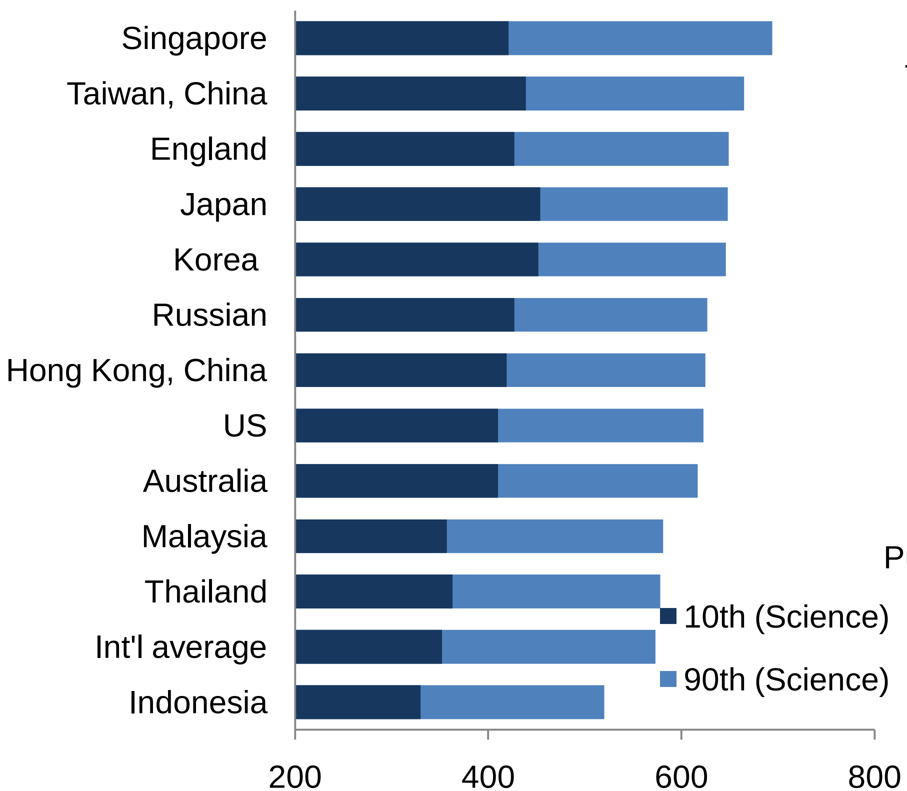
Contribution to labor productivity growth, percentage points



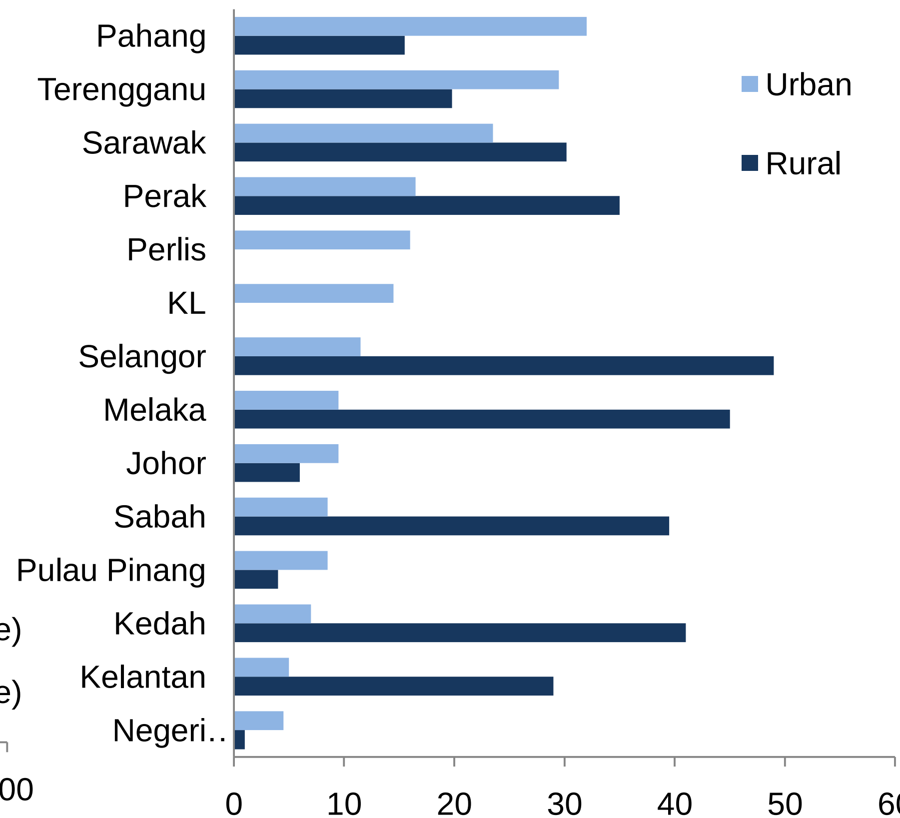
Note: TFP = total factor productivity

....by addressing the supply side (improving education system)

TIMMS score of 13-year olds in science, by percentile

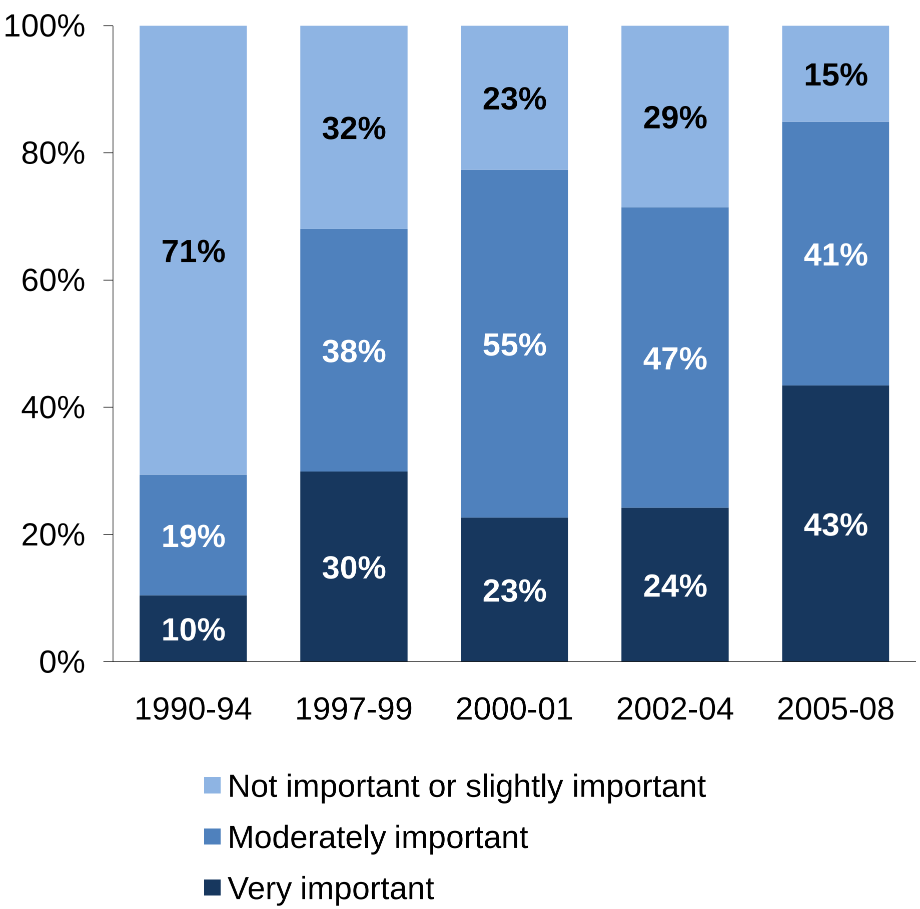


Share of 14 year old with math score below 400, TIMMS

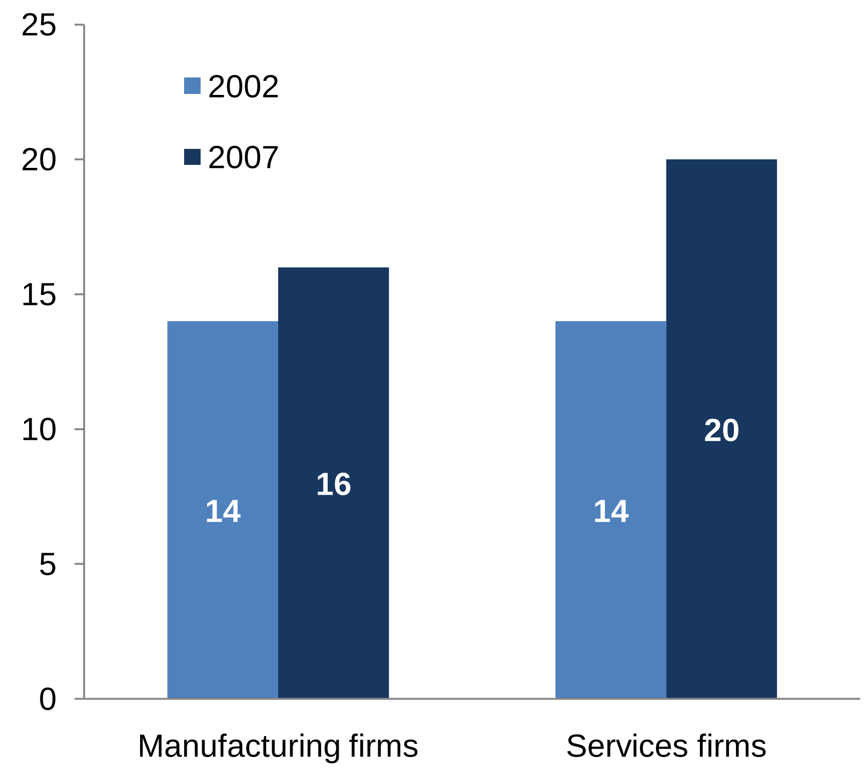


....and addressing the demand side (promoting innovation and competition)

Share of firms considering 'lack of appropriate source of finance' as factor hampering innovation activities, according to importance

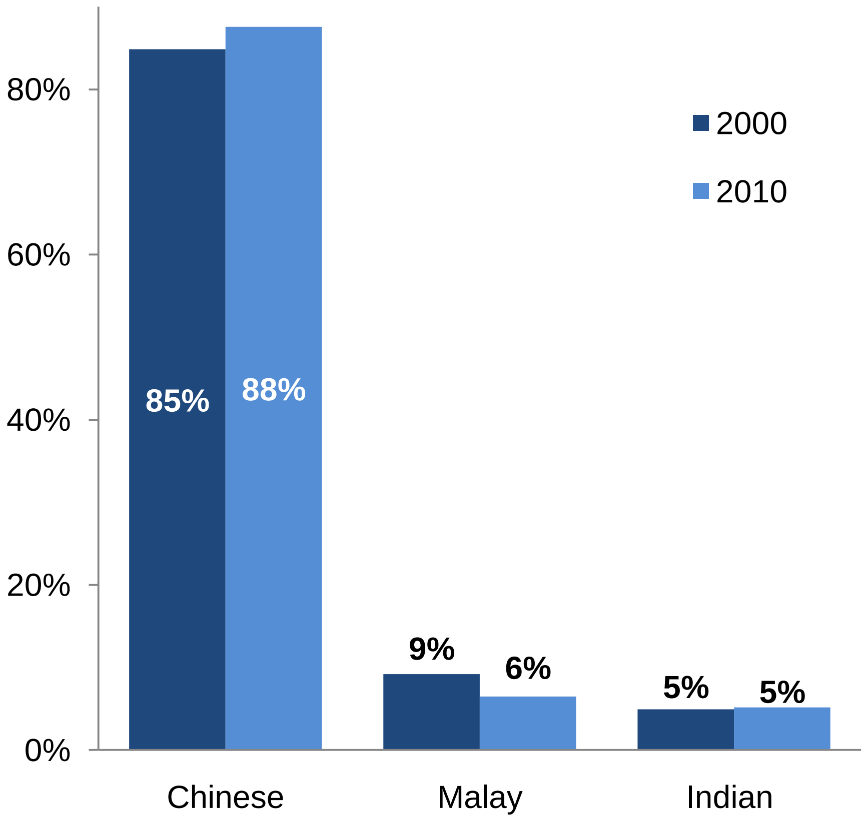


Share of firms indicating 'anti-competitive practices' as 'severe' of 'very severe' problem, 2002-2007, percentage points

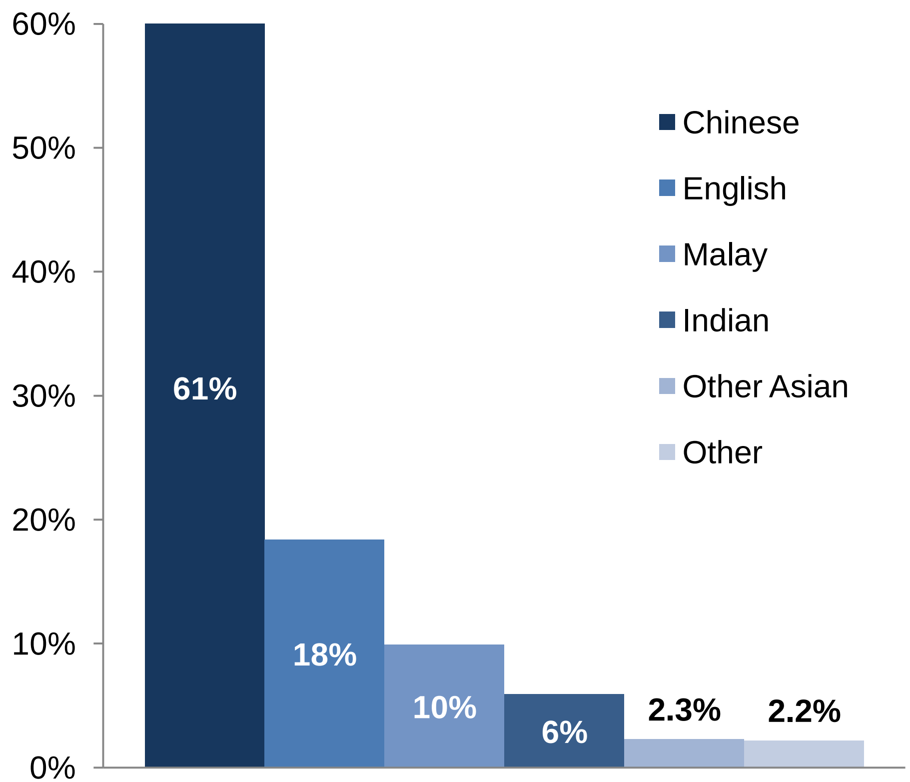


Brain drain requires a comprehensive approach: (b) Enhancing inclusiveness to leverage on all talent

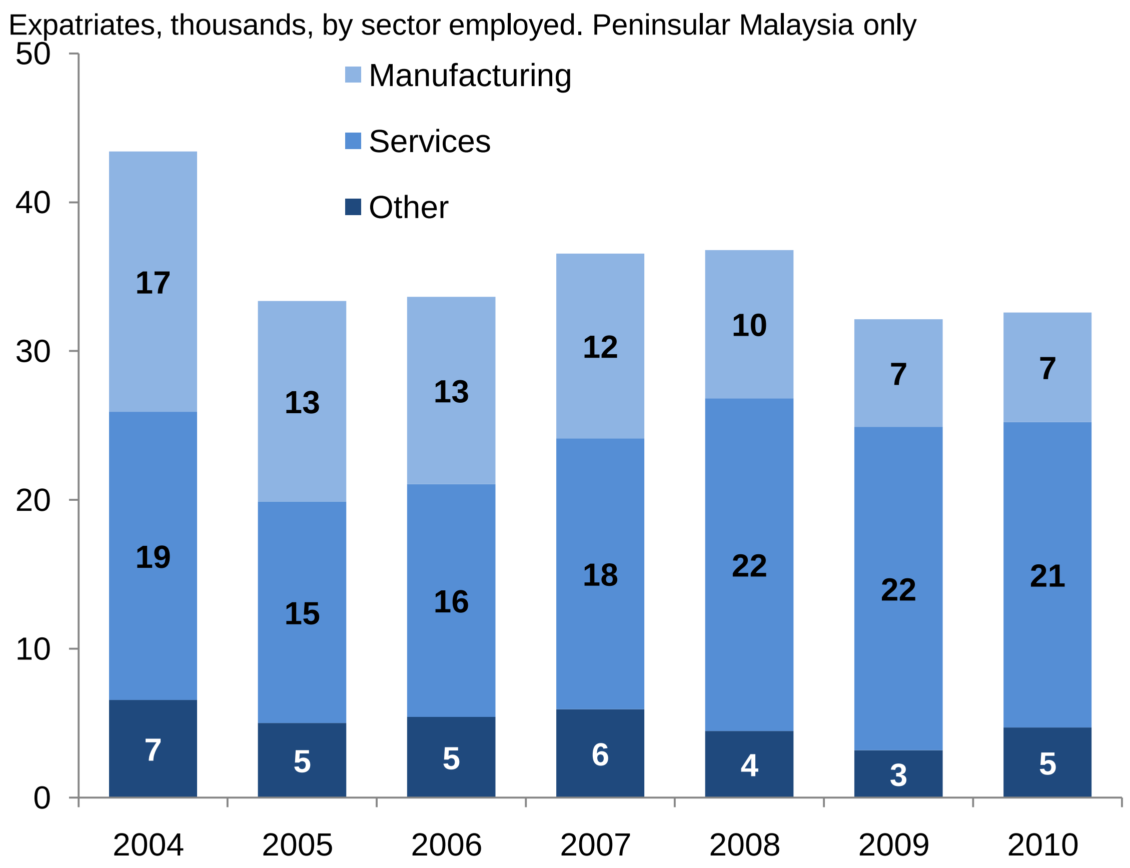
Share in Malaysian resident diaspora in Singapore, by ethnicity,



Share of Malaysian adults in US by language group, 2000



With enabling conditions in place, talent management and diaspora engagement can complement

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Thank you