

Brain drain = FDI drought ¹

By Quah Boon Huat

A recent article in a local newspaper titled, "Why we are losing our top students to Singapore," bemoaned the fact that Singapore is increasingly successful at wooing Malaysian Chinese independent school leavers with scholarships, university entrance examination waivers, permanent residency or even citizenship. It went on to say that Malaysia is not making any effort to keep these talents after having nurtured them for 12 years.

From the perspective of a parent, I have a slightly different take on this.

Even if Malaysia is working hard to keep her top academic talents, there is no guarantee that they will not leave. People will leave, whether there are attractive overseas scholarship offers or not.

And that's a good thing. Why's that?

The free market, with its competitive forces, can be very effective in stimulating the production of very high quality goods and services. In the case of education, which is a service, we can expect the free market to improve its quality. Students crossing borders freely to study will foster the competitive conditions of the free market. They will in turn benefit from higher-quality educational products.

It is only natural that parents want to give their children a good start in life. I would encourage mine to study overseas for the following reasons:

1. The sub-prime standard of education in Malaysia.
2. A global education is a plus when competing in the global marketplace, as well as for would-be global problem-solvers.
3. Studying overseas is an enriching experience.

As such, rather than bemoaning Singapore's success at wooing our top students, I think we should, from the perspective of a parent (and a global citizen), in fact be congratulating the lucky ones who got the offers.

But while it is a good thing that young ambitious Malaysians seek further education overseas, it becomes a problem when they decide not to return home after graduation.

A lot has been written about brain drain and the large community of educated Malaysians working abroad, people who could be back home contributing towards national development efforts.

According to an estimate by the Ministry of Human Resources in 2008, some 350,000 Malaysian adults are working abroad, and over half have been educated at the tertiary level. In the same vein, the National Economic Advisory Council's NEM (Part 1) Report launched in March this year lamented the fact that Malaysia suffers from an exodus of talent and that the lack of talent would hamper R&D and innovation in Malaysia.

¹ This article appeared in The Star newspaper on 17 August 2010 under the title "Will brain drain lead to a drought in FDIs?"

But, even from the viewpoint of concerned home country policymakers, is brain drain really bad? Is it a zero-sum game between nations?

It certainly looks like a zero-sum game, with clear winners and losers. For the winners, it could enhance their regional or global economic and political dominance; for the losers, it could mean being relegated to the economic and political sidelines.

The results of some studies however suggest that there are positive effects even for losers in the fight for global talent. For example, brain drain can encourage others to aspire to similar education.

India is a case in point. There was little reason for Indian students to learn computer coding before there was a software industry in India to employ them. But without computer engineers, a software industry could not take root. A dream job in Silicon Valley USA was however enough to lure many of India's bright students into computer coding, and that helped hatch an indigenous software industry where none had existed before.

Also, there is brain gain when some brains return to stay, start businesses, etc., bringing with them new ideas and skills, ingredients that are crucial to economic development.

So, while brain drain is not exactly a zero-sum game, national competitiveness does suffer when there is a net loss of talent. The problem is compounded when the losers are not developing talent. It's happening here.

According to the NEM (Part 1) Report, "the education system, despite high fiscal outlays through several reform efforts, is not effectively delivering the skills needed" and that "industry players often lament the absence of the right skills in the market." It also pointed out that "data from the Ministry of Higher Education show that about a quarter of graduates from local public universities remained unemployed six months upon completion of study in 2008" and that "even for those who secured jobs, almost one third were in jobs at a lower skill level."

The implication of all this is that even if we have the best strategies and policies aimed at building national economic competitiveness, they would count for nothing if a skilled work force were missing from the equation. This is especially true if we hope to build a knowledge-based creative innovation economy.

A 2008 study by the United Nations Educational, Scientific and Cultural Organization (UNESCO) showed that Malaysia had 367 full-time equivalent researchers and engineers per million populations in 2006; Singapore had 5713, South Korea 4162 and Taiwan 4159. Interestingly, Malaysia had more researchers and engineers per million populations in 2004, i.e. 503, compared to 367 in 2006.

Judging from these figures, it is easy to conclude that it is unlikely that knowledge-based foreign direct investments (FDI) will give Malaysia first preference as an investment destination.

According to the latest United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2010, FDI flows into Malaysia in 2009 fell 81%

when compared to 2008. That's a massive fall considering that FDI flows into South-East Asia fell only 22%.

And during the same period, Singapore saw inward FDI increase 54% year-on-year. What's totally unexpected is that the Philippines also saw inward FDI increase 26%. More importantly, for the first time ever, the Philippines managed to attract more FDI than Malaysia; they attracted USD1.948 billion while we only managed USD1.381 billion.

Some might argue that this is an inopportune time to make comparisons. In fact, it is easy to give in to the argument that the 81% year-on-year drop in FDI inflow into Malaysia in 2009 is just a 'statistical blip' caused by the global financial and economic crisis.

But comparisons during such 'inopportune times' may be precisely what we need to get a better perspective of things.

The comparison with Singapore suggests what we already know: Malaysia is not yet ready to attract the types of sophisticated knowledge-based FDI further up the value chain that we hope can help take our economy where we want it to go. The comparison with the Philippines meanwhile suggests that assembly-type low-tech FDI now find the Philippines a more attractive investment destination than Malaysia.

So, is Malaysia in no man's land in terms of FDI, as some are already claiming? Is the massive drop in FDI in 2009 a possible sign of an impending FDI drought caused in part by our brain drain problem?

These are scary thoughts. If we can't attract enough FDI higher up the value chain, Malaysia's New Economic Model won't work and she won't be able to escape the middle-income trap. That's because Malaysia still doesn't have the homegrown technological capabilities needed to build a creative innovation economy that can take us out of middle-income.

It is thus crucial that the government plugs brain drain by making Malaysia an attractive home, career-wise and otherwise, for Malaysians graduating from foreign universities to return to. The government also needs to do what's necessary to develop human resource talent and at the same time ensure that they do not leave. Let's also not forget that skilled Malaysians based overseas could be an important resource we can draw on. The same can be said of skilled foreign talent who could be tempted to move here.

Of course there are other important issues that also need to be tackled if we want to attract the right types of FDI as well as move the Malaysian economy to a higher plane. The NEAC's NEM (Part 1) Report mentions many.

Malaysia's economic development is at a crossroads. Our economic future depends very much on how well NEAC's concerns as spelt out in their report are addressed. There is a lot to do.

The writer is a research fellow at the Malaysian Institute of Economic Research (MIER). The opinions expressed in this article are his personal views, and should not be attributed to MIER.