Productivity Gains Crucial for Growth

Government servants are now working five days a week. As the Prime Minister said, even with a five-day per week, the performance of the public sector will not be compromised, as productivity will be maintained to ensure that the same level of services will be delivered to customers. No doubt, productivity is becoming the key word when it comes to performance.

Our obsession used to be about producing at the lowest cost, but we have since passed that stage. Now, it is about increasing productivity, by delivering better quality products and services in the most efficient way by using less labour and capital resources. A commitment towards high productivity will reduce wastages and increase efficiency.

Analysts usually measure productivity by the amount of output a worker produces within a time period. A highly productive company will generate high revenue/profit per worker. Obviously, there are other explainations such as a monopolistic market that makes a firm profitable, but generally, highly productive firms are those that have high revenue per worker. When we add up the diverse firms in the various sectors in the economy, we can deduce that nations having highly productive firms are also nations with high output per worker. That is why high productivity growth is crucial for the long-term growth of the nation.

The National Productivity Report 2004, released in June 2005, reported that Malaysia's labour productivity, or output per worker, grew 3.4 per cent in 2004, up from 2.7 per cent in 2003. Interestingly, the report mentioned that Malaysia's labour productivity growth was faster than US (3.3%), Japan (2.4%), and Germany (1.0%). However, when it comes to the value of output per worker, we still have plenty of catching up to do. For every ringgit a Malaysian worker produces, a highly productive Japanese worker can generate RM7.00, a Singaporean can produce RM4.50, and a Korean worker can make RM2.50.

On sectoral basis, it was reported that in 2004, the manufacturing sector posted the highest productivity growth of 6.1 per cent, followed by mining (3.6%), and government services (3.3%). Buoyed by external demand and faced with foreign competition, the manufacturing sector has become increasingly productive. A higher productivity in the agriculture sector, at a growth rate of 2.5 per cent in 2004, could raise production and help mitigate the worrisome rise in food prices.

The total factor productivity, TFP, which is a more complete measure of the efficiency in the usage of both capital and labour, contributed 35.7 per cent to Malaysia's GDP during 1999-2004, an improvement from a contribution of 27.0 per cent during 1994-1999. This has led to some views saying that the Malaysian economy is become less input-driven and more productivity-driven in recent years. However, giving a different picture, the rise in the incremental capital output ratio (ICOR) to 4.35 in 2003, from 4.04 in 1999-2000, suggests some degree of erosion in the efficiency of capital.

Arguably, there are two distinct forces driving up productivity in Malaysia. One is the rise in consumer demand for better goods and services. Consumers are becoming relatively more demanding in getting the most for their money in an increasingly liberal environment. Another powerful force pressuring productivity higher is competition, either internally induced or from foreign firms and imported substitutes.

In the case of monopolies such as electricity and water utilities, there is nothing much the consumer can do, but the revamping of government-linked companies (GLCs) can force such companies to buckle up. It is quite clear that the introduction of competition in many sectors have forced companies to increase productivity and efficiency. In the case of the auto industry, the gradual opening up of the market to foreign imports has pushed local brands to improve for survival. An alternative budget airline is giving more choices for consumers and is making the airline industry more competitive. With fairly strong rivalry in the telecommunications industry, consumers can shift from one service provider to another, depending on their preference. There is a firm link whereby stronger competition leads to higher business productivity. This is good not only for the consumers but also for the economy as a whole.

Besides external pressure, productivity-enhancing forces can also be internally induced if there is strong will driving the changes. The on-going revamping of the GLCs is expected to lead to higher efficiency and subsequently more profits through better management. Personnel has been hired and shifted to get better managers to run these companies. The government is also striving to improve its delivery system. This can be seen in a number of government-provided services. For example, it takes less than a week to get a passport nowadays, while tax collection has become more efficient. Certainly, there are other services that can be improved upon.

The productivity level of the nation has greatly improved with the introduction of competition in the various sectors. The gradual opening up of the domestic market to foreign firms and foreign imports has been an effective channel for increasing competition, leading to rising efficiency and higher productivity. This does not mean that the plight of local firms is disappearing from the government's radar screen. On the ground level, fussy consumers are dictating the markets to give them more choices and offer better deals. Consumers are becoming less tolerant of substandard goods and services and are willing to fork out for quality and satisfaction. With forces like these at work, productivity could improve further. To survive the global competition, it is imperative that national productivity improves.

The writer is a research fellow with the Malaysian Institute of Economic Research (MIER)