

## UPGRADING GROWTH INDUSTRIES

## Address skills gap, low-tech SMEs to move up FDI value chain



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COVID-19 has stemmed the flow of foreign direct investments (FDIs) worldwide. FDIs will decline by as much as 40 per cent in 2020. Malaysia may lose as much as half of the flows of last year.

For Malaysia, therefore, it is not so much the quantity but the quality of FDIs that should matter. Accordingly, in its quest to attract the desired investments, the government has designated three catalytic and two high-growth sub-sectors in manufacturing.

Manufacturing still retains the nation's focus despite its shrinking contribution to the gross domestic product (GDP).

Its share of GDP fell from 32 per

cent in the 1990s to 20 per cent this decade.

This is because of the inherent competitive advantage that we have built in manufacturing since the development of the electrical and electronics (E&E) industry in the 1970s.

And when it comes to employment, manufacturing beats the services sector hands down.

The E&E, chemicals and chemical products, and machinery and equipment are the catalytic sub-sectors as they are entrusted with propelling Malaysia's industrial transformation.

These sub-sectors have gained global prominence given their mature clusters.

We have designated medical devices and aerospace as growth areas in line with the government's stance to diversify into high-tech and high value-added industries.

These industries will help move the country higher up on the production value chain. And

just as the catalytic industries, these growth industries will profit from the development of their clusters. But there are challenges to this upgrade.

For one, skills gap remains. These clusters should have ready pools of skilled labour so that new investors can hit the ground running.

Universities could have long ago revamped their engineering and medical faculties to produce these skills. It is never too late.

In the aerospace industry, for example, surface engineering is among the areas that have much potential to accelerate Malaysia's industrial transformation.

Such advanced skills planning is even more critical as the government encourages FDIs in Industry 4.0 technologies. AI specialists and data scientists are, among others, in high demand. Universities are looked upon to churn out such talent just as they are expected to spearhead research and development in those

focus industries.

Second, as supporting and related industries, SMEs are an integral part of the medical devices and aerospace clusters. They are instrumental in ensuring the long-term survival of these industries.

The medical-devices cluster is the more fortunate given its proximity to the E&E ecosystem in Penang.

As for the aerospace cluster, it is home to over 200 companies. These companies require hundreds of suppliers and sub-contractors to manufacture complicated components and offer specialised services.

Doubtless, such work is a boon to our SMEs. When SMEs upgrade through technological development, they too will move up the value chain and enhance their competitiveness.

For that, SMEs would need to produce their supplies to exacting standards demanded by these companies. And they have to do so while keeping costs down.

Digitalisation is one way to go. But it also requires learning and innovation on the shop floor.

Sadly, our SMEs are not there

yet. Undoubtedly, they are making progress in earnest in automating their operations.

Still, many of them are essentially low-tech.

As the E&E cluster bears out, SMEs lack the capital, technology and the burning desire to upgrade their supplies to the rigorous standards of manufacturers.

In the medical-devices cluster especially, SMEs have limited capacity to scale up their operations for economies of scale.

The government, therefore, needs to be unrelenting in its efforts to upgrade SMEs if it wants them to benefit from the spillover effects from these high-tech investments and help them and the nation to move up the value chain.

It also needs to prod universities to quickly develop the talent needed by industry.

That is, if the government is serious in wanting to achieve its vision for Malaysia to be the number one aerospace nation in Southeast Asia by 2030.

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