Human Capital and Innovation Output in Malaysia's Economic Development

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Introduction

For a number of decades, Malaysia was heralded as a model of economic development for other countries to emulate (World Bank, 1993). Since the late 1990s, however, the onset of premature deindustrialisation has cast a different light on the Malaysian experience. While some economists have focused on a rapidly cooling manufacturing sector others have pointed to the lack of human capital as the prime reason for the slowdown.

The aggressive promotion of export processing zones since 1972, assisted industrialisation to stimulate structural change in Malaysia, with manufacturing overtaking agriculture to become Malaysia's leading sectoral contributor to GDP since 1984 (Malaysia, 2001). Foreign direct investment (FDI) helped make Malaysia a major exporter of the light manufactured goods of electronics and clothing since the 1980s. Domestic firms became the prime driver of processed vegetable oils and fats exports from the 1980s.

Massive inflows of FDI into the manufacturing sector also caused serious tightening of the labour market by the mid-1990s (Ariff 1991; Rasiah 1995). The focus of industrial policy shifted towards industrial deepening as the government attempted to take advantage of low unemployment levels (which reached 2.7% in