

Youth Unemployment in Malaysia: Developments and Policy Considerations

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Introduction

In the aftermath of the Global Financial Crisis (GFC), the global youth population has been negatively affected by the deep recession, the ensuing environment of prolonged and shallow economic recovery and lacklustre job growth¹. The global youth unemployment rate² rose from a pre-crisis rate of 11.7% in 2007 to 13.1% in 2009, reaching a historic peak of 13.2% in 2013, and is estimated to remain high at 13.1% in 2016. The global youth unemployment rate is approximately three times the unemployment rate of adults, and more than two times the overall global unemployment rate. These figures amount to more than 70 million young people around the world who are experiencing difficulty finding meaningful employment. The International Labour Organisation (ILO) reported that youth unemployment is on the rise again in 2017, particularly in emerging market economies, after improving slightly between 2012 and 2015. The ILO also cited studies which find that early youth unemployment has serious long-term negative effects on future incomes and future risk of unemployment, particularly for youth who were immediately afflicted by unemployment upon graduation from universities³.

This article seeks to shed light on the state of youth unemployment in Malaysia, and provide an overview of immediate and long-term measures to address these issues. Part I of this article discusses developments surrounding youth unemployment in Malaysia, particularly with regard to graduate unemployment. Part II attempts to offer an explanation of these trends, and Part III offers some policy recommendations, drawing lessons from success stories in other countries.

Part I: The State of Youth Unemployment and Increasing Concerns over Graduate Unemployment in Malaysia

Youth in Malaysia have not been spared from these global trends

The youth unemployment rate in Malaysia was estimated to have reached 10.7% in 2015, more than three times higher than the national unemployment rate of 3.1%. Malaysia is among regional economies⁴ with an incidence of youth unemployment in the double-digits, despite a low overall unemployment rate (Charts 1 and 2).

Chart 1

**Youth Unemployment Across the Region in 2015
(% of youth labour force)**



Chart 2

Ratio of Youth Unemployment to National Unemployment in 2015 (times)



Note: Showing 2013 data for Indonesia and Thailand, and 2014 data for Vietnam. Unemployment data for Singapore includes 25-29 year olds. Unemployment data for Indonesia includes discouraged jobseekers.

Source: International Labour Organisation and Bank Negara Malaysia estimates

¹ Scarpetta et.al 2010. Rising Youth Unemployment during the Crisis: How to Prevent Negative Long-term Consequences on a Generation?

² In this article, 'youth' refers to the population, labour force, and employed and unemployed workers between the ages of 15 to 24.

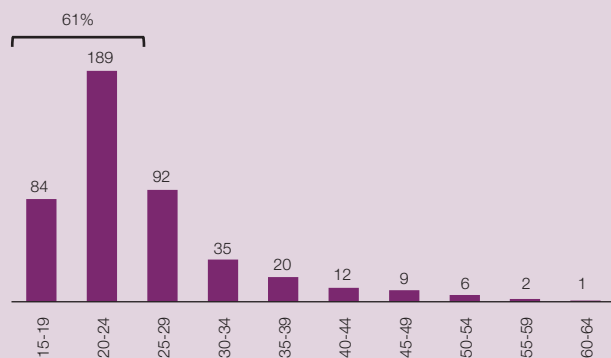
³ ILO 2016. World Employment and Social Outlook: Youth.

⁴ For ASEAN economies, youth unemployment rates hover at around 12.8% in 2013, roughly similar to the global average.

Youth represents more than half of total unemployed workers, despite only making up a third of the labour force (Chart 3). In 2015, the youth unemployment rate increased by 1.2 percentage points from an estimated 9.5% to 10.7%, while the national unemployment rate increased by only 0.2 percentage points (2.9% to 3.1%) during the same period (Chart 4). Youth unemployment has been on the rise in the recent period, as the growth in hiring has slowed since late 2014. Cautious business sentiments and moderating economic performance have restrained businesses from expanding their workforce. The youth are the most vulnerable to these trends; they are likely to be the last to be hired and the first to be made redundant⁵, due to their lack of experience, higher information asymmetry on the labour market, and poor ability to communicate their skills effectively to employers. While a lot of media attention has been focused on the plight of retrenched workers, slower hiring has had a wider impact on the economy, affecting particularly youth and new jobseekers.

Chart 3

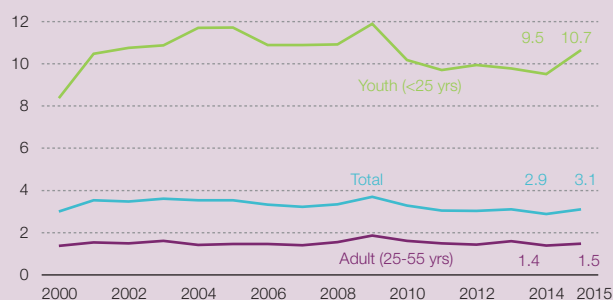
Unemployment by Age Groups, 2015 ('000 people)



Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Chart 4

Historical Unemployment Rates, 2000-2015 (% of labour force in respective age groups)



Graduate employability is a rising concern for Malaysia and a few countries in the region

The youth labour force tends to be more skewed towards youth with lower educational attainment⁶. Among 15 - 24 year-olds, only 16% have tertiary educational attainment, while the highest level of schooling attained by the remaining 84% is secondary education (Profile for overall labour force: Tertiary education: 28%; Primary, Secondary, and No formal education: 72%). Notably, youth with tertiary education make up a relatively larger share of unemployed youth (23% of total unemployed youth, Chart 5). Of concern, among those with tertiary educational attainment, the unemployment rate is higher at 15.3% (Youth without tertiary education: 9.8%) (Chart 6; See Information Box on 'Key Findings from the 2015 Graduate Tracer Study Report').

Interestingly, this trend does not appear to be unique to Malaysia. Among regional economies, unemployment rates for young graduates also tend to be higher than non-graduates (Chart 7). This observation appears to be counter-intuitive to the economic wisdom of increasing returns to educational attainment, and seems to be the opposite of the experience in the advanced economies. These trends are likely to be related to the nature of global supply chains and ensuing patterns of job creation in the emerging economies, vis-à-vis the advanced economies. Thus far, research on factors driving comparative trends on graduate vs. non-graduate youth unemployment in advanced and emerging economies have been scant. These developments in graduate unemployment has raised several key policy questions for emerging economies, regarding enhancing the quality and relevance of education systems to prepare for rapidly evolving industries, the types of jobs being created and the readiness of the human capital base, and measures to enhance matching in the labour market and alleviate information asymmetry on industry skill needs.

⁵ OECD 2008. OECD Employment Outlook. Off to a Good Start? Youth Labour Market Transitions in OECD Countries.

⁶ The labour force is divided into four main categories of educational attainment: Primary educational attainment, secondary educational attainment, tertiary educational attainment, and no formal education. In this article, tertiary-educated workers are also called graduates.

Chart 5

Profile of Youth Labour Force and Unemployed Youth by Educational Attainment, 2015

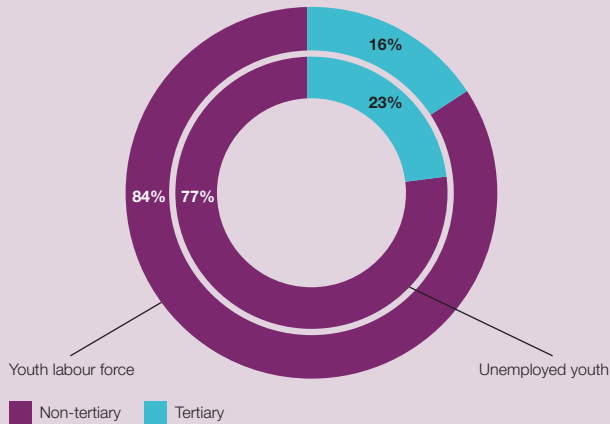
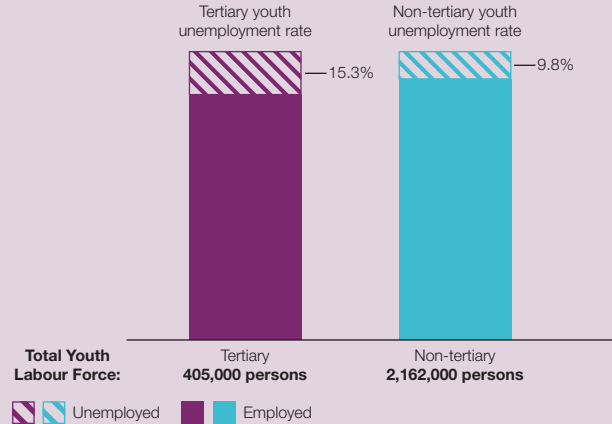


Chart 6

Unemployment Rates by Educational Attainment, 2015



Source: The International Labour Organisation, Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Chart 7

Country Comparison of Youth Unemployment Rates by Educational Attainment



Source: The International Labour Organisation and Bank Negara Malaysia estimates

Part II: Factors Underlying High Youth and Graduate Unemployment

Labour market mismatches arising from both limited high-skilled job creation and inadequate supply of industry-ready graduates

Despite the workforce increasingly becoming more educated, job creation in the Malaysian economy has remained concentrated in the low and mid-skilled jobs⁷ (Chart 8), as domestic industries stay in low-value added activities that emphasise cost efficiency and dependence on cheap labour, rather than pursuing innovation as a source of growth. The Malaysian economy also continues to face the challenge of attracting high-quality investments that would create more high-paying, high skilled jobs for the local workforce⁸. In the meantime, firms point to skills shortage as a key factor which prevents them from making investments to move up the value chain⁹. This mismatch between the changes in educational

⁷ Lim P. J. 2016. Malaysia's Labour Market and Job Creation under the Economic Transformation Plan (ETP) 2011 to 2015.

⁸ Nixon et. al 2017. Fostering inclusive growth in Malaysia.

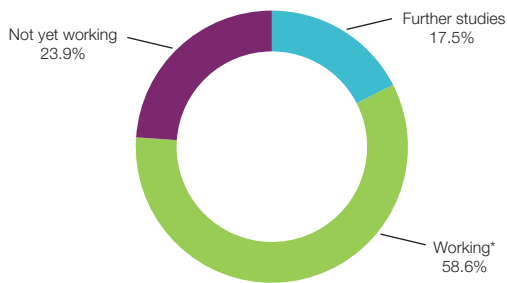
⁹ OECD 2013. Investment Policy Review on Malaysia.

Key Findings from the 2015 Graduate Tracer Study Report

The Ministry of Education's Graduate Tracer Study tracks the status of graduates of higher learning institutions six months after graduation to ascertain whether they have started working, are continuing their studies, or are still looking for employment. Observations are gathered from graduates of public and private universities, university colleges, polytechnics, and community colleges. Of the 273,373 graduates in 2015, a large number hold Bachelor's Degree and Diploma, 45% and 43% of all graduates, respectively. Among all graduates, 53% were reported to have started working, 18% chose to pursue further studies, and 24% of graduates were still unemployed (Chart 1). Bachelor's degree-holders recorded the highest unemployment rate amongst graduates of all qualifications at 27.9% (Chart 2). By fields of study, graduates from the *Sciences*, and *Literature and Social Sciences* tend to have higher rates of unemployment (Chart 3). By household income brackets, graduates from lower-income households also tend to have higher unemployment rates. This observation holds true across qualifications (Chart 4). Empirical evidence elsewhere point to a multitude of reasons, including the readiness of graduates for the world of work, insufficient job creation for some fields, and the lasting implications of socioeconomic backgrounds on learning and social progression. In terms of earnings, 54% of graduates earn less than RM2,000 a month. Starting salaries for graduates have remained largely stagnant since 2007 (Charts 5 and 6), despite certain sectors, namely the financial services and oil and gas industries, offering higher salaries at the entry level. These observations invite further questions for academics and policymakers, and more research is warranted to uncover the root causes of these observations, and to design appropriate policy responses.

Chart 1

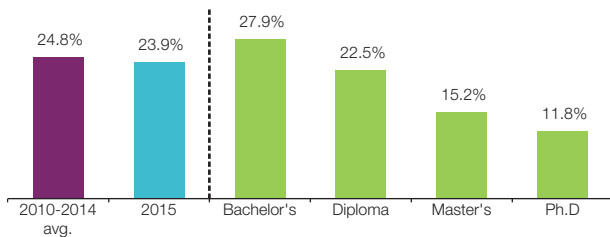
Distribution of Graduates by Employment Status



*Note: Includes graduates waiting for placement and undergoing upskilling
Source: Ministry of Higher Education and Bank Negara Malaysia estimates

Chart 2

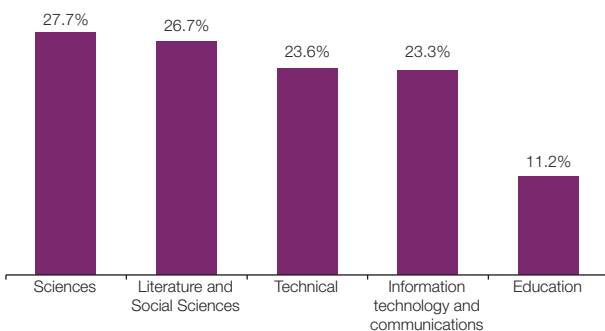
Unemployment Rates of Graduates, and by Qualification*



*Note: Unemployment rates are expressed as a percentage of respective group categories
Source: Ministry of Higher Education and Bank Negara Malaysia estimates

Chart 3

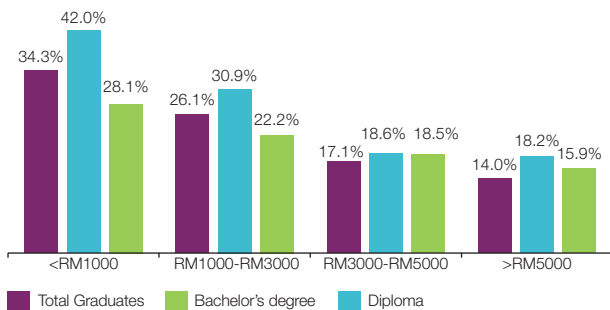
Unemployment Rate by Field of Study*



*Note: Unemployment rates are expressed as a percentage of respective group categories
Source: Ministry of Higher Education and Bank Negara Malaysia estimates

Chart 4

Unemployment Rate of Graduates by Monthly Family Income Brackets*

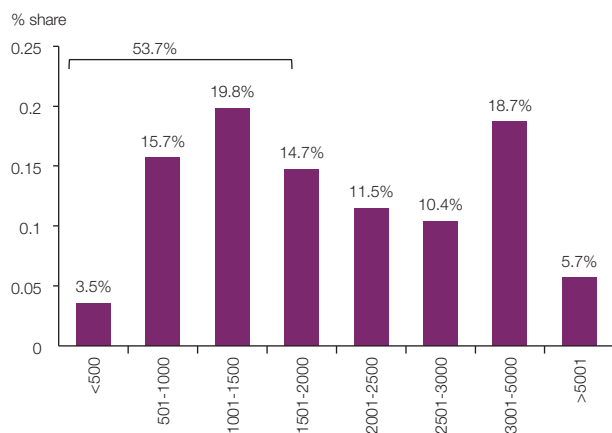


*Note: Unemployment rates are expressed as a percentage of respective group categories
Source: Ministry of Higher Education dan Bank Negara Malaysia estimates

More than half of all graduates earn less than RM2,000 upon graduation

Chart 5

Distribution of Monthly Salary of Graduates

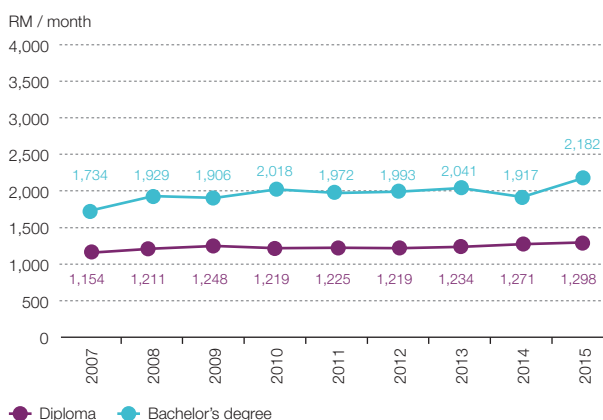


Source: Ministry of Higher Education and Bank Negara Malaysia estimates

Starting salaries of first degree graduates have been stagnant

Chart 6

Weighted Average Monthly Salary for First Degree Graduates, 2007-2015



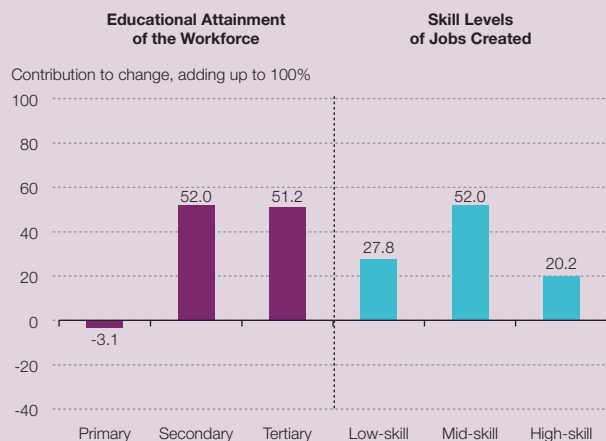
Source: Ministry of Higher Education and Bank Negara Malaysia estimates

attainment of the workforce and the types of jobs created is also manifested to some extent in anaemic demand for fresh graduates, as online job postings for entry-level positions for graduates have remained largely stagnant since 2012 (Chart 9).

Employers continue to cite significant skill gaps among new recruits. A survey conducted by the World Bank and Talent Corporation¹⁰ found that 90% of companies believe that university graduates should have more industrial training by the time they graduate, and 81% of companies surveyed rated communication skills as a major deficit among graduates. Concerns on the marketability and adaptability of graduates to the labour market are frequently attributed to the state of

Chart 8

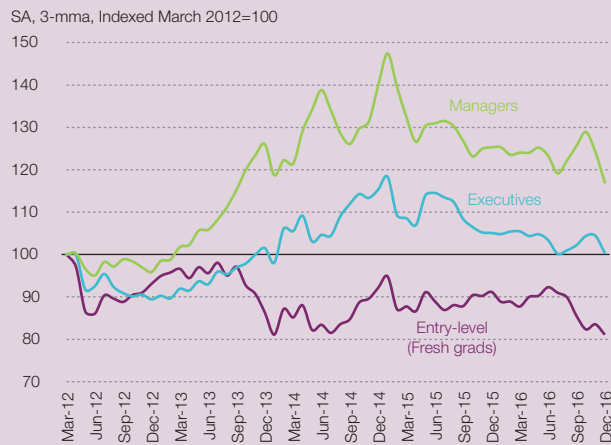
Employment Gains by Educational Attainment and Skill Levels, 2001-2015



Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Chart 9

New Jobs Posted on JobStreet.com by Position, 2012-2016



Source: JobStreet.com and Bank Negara Malaysia estimates

¹⁰ World Bank 2014. Malaysian Economic Monitor: Boosting Trade Competitiveness.

the national education and technical and vocational education and training (TVET) systems¹¹. However, lack of industry involvement in human capital development has also contributed to the dearth of truly effective training programmes for workers. The same TalentCorp survey found that 53% of firms have never engaged career centres in their recruitment efforts. Thus, even though youth may lack requisite skills, effective, meaningful training programmes which would prepare them for work have also not been forthcoming (Chart 10).

Chart 10

Findings from the World Bank and TalentCorp Survey



Source: The World Bank-TalentCorp Survey on Graduate Employability

Part III: Policy must be attuned to equip the younger generation to meet future challenges

Globally, the problem of youth unemployment is not new. However, socioeconomic developments in the past few years have dramatically exacerbated the situation. Going forward, the twin developments of persistent high youth unemployment and rising income inequality may constrain social mobility, and lead to increasing dissatisfaction among the populace¹². In Malaysia, this has already contributed, in part, to brain drain – the flight of high-skilled talent to advanced economies and neighbouring countries, in search of better jobs and pay¹³. Left unattended, a generation of economically disenfranchised youth could have negative and far-reaching ramifications on the economic and social landscape. In the near future, the youth will have to contend with more self-reliant economic arrangements and even more job displacements, with the advent of the wider interconnectedness, alongside rapid technological advancement. Thus, policy must be orientated towards preparing the younger generation to meet these challenges head-on.

Firstly, addressing the root cause of the problem must be a permanent national agenda. Quality education, including an effective TVET sector is important towards building human capital. These goals are highlighted in the Malaysian Education Blueprint (2015 - 2025), which outlines meaningful strategies to transform the national education system, empower institutions of higher learning with greater autonomy and accountability, develop technologically savvy, well-rounded graduates, and improve the quality of the national TVET sector. For youth in particular, research has shown that more access to effective vocational training is linked to lower rates of youth unemployment¹⁴. In Germany, the Dual Vocational Technical Training System pairs “apprentices” from vocational schools with companies to incorporate work-based learning experiences to prepare them for employment. It has been widely credited with keeping youth unemployment low in the country.

Secondly, promoting meaningful industry collaboration in education and training is key in community-building and nurturing a vibrant workforce, which serves the immediate and future needs of industry. A well-funded and effective platform is

¹¹ OECD 2013. Structural Policy Country Notes on Malaysia.

¹² OECD 2011. Social Cohesion in Southeast Asia.

¹³ World Bank 2011. Malaysian Economic Monitor: Brain Drain.

¹⁴ Banerji et. al 2014. Youth Unemployment in Europe: Searching for Solutions.

needed towards offering high-quality training and promoting workforce development. Such a platform would serve as an avenue in which the Government, industry, and education and training sectors could i) consult and develop curriculum and training to fulfil industry skill needs, and ii) actively support implementation and continuous enhancement efforts. In Australia, the Industry and Skills Committee serves as a formal platform for industry leaders to play an active role in policy direction and decision-making for the TVET sector, including development of “training packages” which are informed by both labour market skill gaps and industry requirements.

Third, a comprehensive social security infrastructure needs to be built, including designing active labour market policies (ALMP) which are specifically targeted towards youth, as well as displaced workers. The objective of ALMPs is two-pronged, i) to increase employment opportunities, and ii) to improve the matching of workers to jobs. While still in its infancy, Malaysia is making positive gains in this respect, with the Employment Insurance Scheme (EIS), which was announced in Budget 2015. The EIS is envisioned to be a holistic programme, with ALMP measures as a main feature, including career counselling services and training schemes. Globally, ALMPs specifically targeted towards improving employability of youth are lacking, despite this group’s vulnerability to economic downturns and crisis. Nevertheless, a few countries, notably Sweden and Finland, have widened the social safety infrastructure by experimenting with policy measures such as Youth Guarantee Schemes. In these schemes, Public Employment Services provide personalised needs assessment and employment plans, and guarantee placements for youth by matching them to employment, academic or vocational study, or training to enhance employability and entrepreneurship. The job-matching process may be further facilitated by leveraging on technology, as evidenced by popular smartphone-based career applications and websites such as Switch and LinkedIn, which have become one of the primary avenues for jobseekers to signal their skills to potential employers, and for employers to search for talent¹⁵.

Fourth, conscientious implementation of various blueprints and programmes is key, along with a functional governance structure, effective monitoring and active enhancements to initiatives. A critical piece of the puzzle is reliable information and statistics on the progress of specific programmes, training schemes and grants, and performance of education and training institutions. Currently, gaps in labour market statistics, particularly on job creation, labour turnover, and hiring trends, present a significant challenge for policymakers. Towards this end, the Government’s recognition of the need to establish the Malaysian Bureau of Labour Statistics¹⁶ will go a long way towards ensuring development of high-frequency, reliable indicators on labour market and macroeconomic trends. This is key to planning and monitoring the progress of human capital development and labour market policies and facilitate responsive, evidence-based, and timely policy-making.

Finally, and over the longer-term horizon, policies to tackle youth unemployment need to be reviewed from time to time. Policy-making needs to be flexible and agile, responsive to the rapidly evolving job market of the future. This will include policies and programmes to specifically inculcate a culture of entrepreneurship and innovation, promote lifelong learning and improve workforce adaptability to changing industrial tides. The newly-announced National Transformation plan (TN50) maps the direction of the country in the next 30 years after 2020 and sets a new vision for the nation, with an eye on the aspirations of the youth.

¹⁵ Thomas 2016. Huffington Post. 2016 Best Career Apps and Websites to Land Your Dream Job.

¹⁶ Ministry of Finance 2016. Touch Points: 2017 Budget.

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