Malaysia Population Is “Older” Than Japan?

We’re used to writing off Japan as a population that is not only aging but shrinking. At the other end of the spectrum, Malaysia, with a fertility rate of 2.58 is supposed to have all the wonderful demographics.

But consider this perspective – economic output is not generated by the size of the population, but by the number of people who are actually in employment or self-employed.

On this score, Malaysia is shockingly deficient.

There are only 13.2m employed people in Malaysia out of a total population of 29.9m or 44%. These figures include the official foreigner population of 2.6m.

In contrast, there are 63.5m employed people in Japan out of a total population of 127.1m or 50%. These figures also include the official foreigner population of 2.1m.

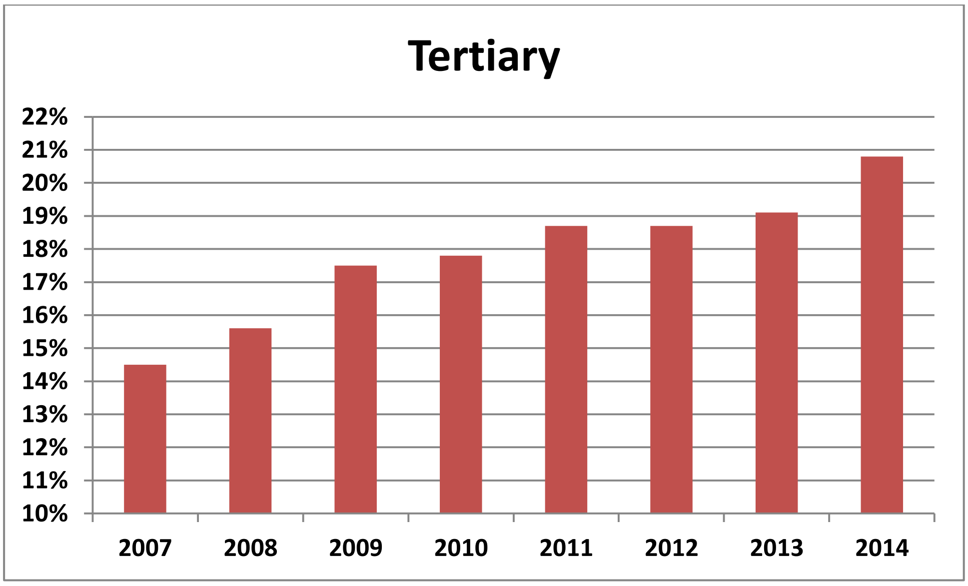
Just for comparison, there are 2.1m employed residents of Singapore out of a total resident population of 3.87m or 54%.

If one defines the challenges of an aging population by the percentage of the population that is generating economic output, then the economy of Malaysia is “older” than Japan and Singapore.

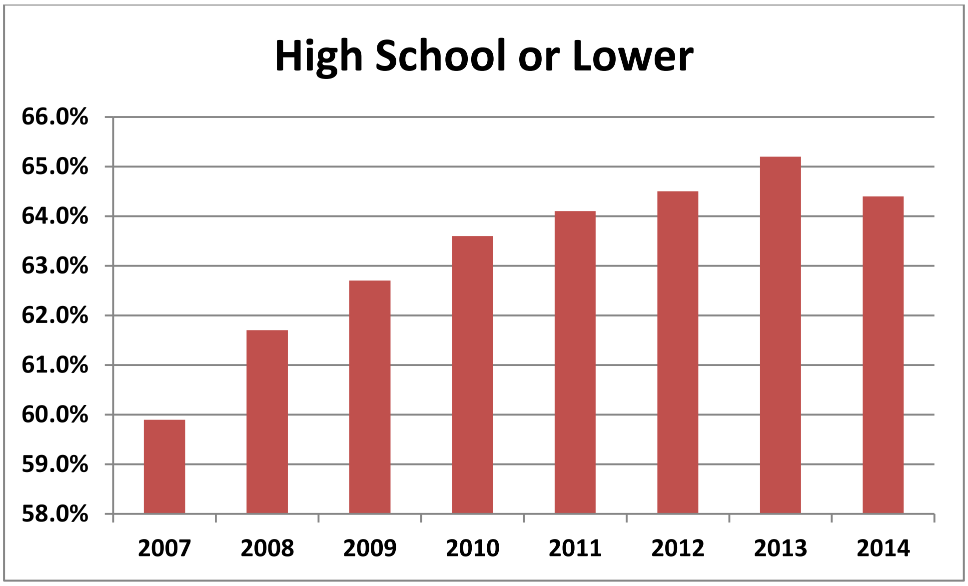
Of course, this approach ignores the fact that there are 8.5m Malaysians aged 0-14 waiting to enter the workforce over the next 15 years. This is 28.4% of the population. The percentage of young people waiting to join the labour force is far smaller in Japan (13.2%) and Singapore (15.7%).

Unfortunately, the education profile of the Malaysian Workforce is not particularly encouraging.

Although the percentage of Malaysian workforce with tertiary education (diploma, degree or higher) has been rising steadily,



the percentage of Malaysian workforce with only high school or lower education has also been rising.



In the Malaysian education system, there is 6 years of elementary school, 3 years of middle school, 2 years of high school and 2 years of senior high school. These stages are also known as Primary School, SRP, SPM (O Levels) and STPM (A Levels).

But what this means is nearly 65% of the workforce have just 11 years of general education at best and the ratio has been rising.

In contrast, more than 45% of Japan's labour force has tertiary education.

Singapore is even more extreme. Among the resident labour force, 52% have tertiary education.

Malaysia aspires to become a developed nation but its workforce development is stunted. Although the percentage with tertiary education is rising, it will be several decades before the tertiary end of the workforce resembles that of a developed nation. Meanwhile, the proportion of ill equipped workers is massive and rising - reflecting a general failure of the education system.

In summary, the Malaysian economy is supported by a surprisingly small percentage of working people, far smaller than Japan or Singapore. There are large numbers of young people waiting to enter the workforce over the next 15 years but most of them are poorly educated and the proportion of tertiary educated is just too small and growing too slowly.

Of course, Malaysia has a secret. The economy isn't just sustained by the 27.3m citizens, it is also bolstered by 2.1m officially registered foreigners as well as possibly 3-5m illegal or undocumented foreign workers. I wrote about this in my essay dated 21 May 2015.

If one adds the illegals to the labour force, then the percentage of employed to total population is circa 50%, more like Japan and Singapore.

The top 5 countries of origin of Malaysia's foreign labour force in descending order of numbers are :

1. Bangladesh
2. Indonesia
3. Nepal
4. India
5. Philippines

But look what has happened to the Ringgit – Taka exchange rate since early 2012. (Taka is the Bangladesh currency)

The Bangladesh workers are now sending 30% fewer Taka for every Ringgit that they earn. Malaysia is fast becoming uninteresting as a destination for work for Bangladeshis.

A similar thing is playing out with the Indian Rupee and Nepalese Rupee – the ringgit has fallen against both currencies by 20% since 2013.

Even against a very weak Indonesian Rupiah, the Ringgit is down by 5-10%.

So, an economy that is sustained by a huge pool of illegal foreigners is suddenly finding that the wages it pays is no longer attractive to these foreigners unless there is a massive pay rise.

But a massive pay rise would cascade into huge inflationary pressures which would then have to be mitigated with higher interest rates.

However, Malaysian households have one of the highest leverage ratios in the world i.e. household debt to GDP is among the world's highest. Higher interest rates could bring the real estate market and consumption to its knees.

Increasingly, Malaysia looks like it has no way out of its bind.

It certainly doesn't help that the entire country is currently gridlocked in political intrigue and turmoil.

What on earth were you thinking, Fitch???